UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2011

Commission File Number	Name of Registrant, State of Incorporation, Address of Principal Executive Offices, and Telephone Number	I.R.S. Employer Identification Number
001-31403	**PEPCO HOLDINGS, INC.** (Pepco Holdings or PHI), a Delaware corporation 701 Ninth Street, N.W. Washington, D.C. 20068 Telephone: (202)872-2000	52-2297449
001-01072	**POTOMAC ELECTRIC POWER COMPANY** (Pepco), a District of Columbia and Virginia corporation 701 Ninth Street, N.W. Washington, D.C. 20068 Telephone: (202)872-2000	53-0127880
001-01405	**DELMARVA POWER & LIGHT COMPANY** (DPL), a Delaware and Virginia corporation 500 North Wakefield Drive Newark, DE 19702 Telephone: (202)872-2000	51-0084283
001-03559	**ATLANTIC CITY ELECTRIC COMPANY** (ACE), a New Jersey corporation 500 North Wakefield Drive Newark, DE 19702 Telephone: (202)872-2000	21-0398280

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Pepco Holdings	Yes ☒ No ☐	Pepco	Yes ☒ No ☐
DPL	Yes ☒ No ☐	ACE	Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Pepco Holdings	Yes ☒ No ☐	Pepco	Yes ☐ No ☐
DPL	Yes ☐ No ☐	ACE	Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	**Accelerated Filer**	**Non-Accelerated Filer**	**Smaller Reporting Company**
Pepco Holdings	☒	☐	☐	☐
Pepco	☐	☐	☒	☐
DPL	☐	☐	☒	☐
ACE	☐	☐	☒	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Pepco Holdings	Yes ☐ No ☒	Pepco	Yes ☐ No ☒
DPL	Yes ☐ No ☒	ACE	Yes ☐ No ☒

Pepco, DPL, and ACE meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing this Form 10-Q with reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

Registrant	**Number of Shares of Common Stock of the Registrant Outstanding at July 31, 2011**
Pepco Holdings	226,395,875 ($.01 par value)
Pepco	100 ($.01 par value)(a)
DPL	1,000 ($2.25 par value)(b)
ACE	8,546,017 ($3.00 par value)(b)

(a) All voting and non-voting common equity is owned by Pepco Holdings.
(b) All voting and non-voting common equity is owned by Conectiv, a wholly owned subsidiary of Pepco Holdings.

THIS COMBINED FORM 10-Q IS SEPARATELY FILED BY PEPCO HOLDINGS, PEPCO, DPL, AND ACE. INFORMATION CONTAINED HEREIN RELATING TO ANY INDIVIDUAL REGISTRANT IS FILED BY SUCH REGISTRANT ON ITS OWN BEHALF. EACH REGISTRANT MAKES NO REPRESENTATION AS TO INFORMATION RELATING TO THE OTHER REGISTRANTS.

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GLOSSARY OF TERMS

Term	Definition
ACE	Atlantic City Electric Company
ACE Funding	Atlantic City Electric Transitional Funding LLC
ADITC	Accumulated deferred investment tax credits
AMI	Advanced metering infrastructure
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
BGS	Basic Generation Service (the supply of electricity by ACE to retail customers in New Jersey who have not elected to purchase electricity from a competitive supplier)
Bondable Transition Property	The principal and interest payments on the Transition Bonds and related taxes, expenses and fees
BSA	Bill Stabilization Adjustment
Budget Support Act	Fiscal year 2012 Budget Support Act of 2011 approved by the DC Council
Calpine	Calpine Corporation
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act of 1980
Conectiv	A wholly owned subsidiary of PHI and the parent of DPL and ACE
CSA	Credit Support Annex
DC Council	Council for the District of Columbia
DCPSC	District of Columbia Public Service Commission
DDOE	District of Columbia Department of the Environment
Default Electricity Supply	The supply of electricity by PHI’s electric utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive supplier, and which, depending on the jurisdiction, is also known as Standard Offer Service or BGS
Default Electricity Supply Revenue	Revenue primarily from Default Electricity Supply
DOE	U.S. Department of Energy
DPL	Delmarva Power & Light Company
DPSC	Delaware Public Service Commission
EDCs	Electric distribution companies
EDIT	Excess Deferred Income Taxes
EmPower Maryland	A Maryland demand-side management program for Pepco and DPL
Energy Services	Energy savings performance contracting services provided principally to federal, state and local government customers, and designing, constructing and operating combined heat and power, and central energy plants by Pepco Energy Services
EPA	U.S. Environmental Protection Agency
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FHACA	Flood Hazard Area Control Act
GAAP	Accounting principles generally accepted in the United States of America
GCR	Gas Cost Rate
GWh	Gigawatt hour
IRS	Internal Revenue Service
ISDA	International Swaps and Derivatives Association
ISRA	New Jersey’s Industrial Site Recovery Act
MAPP	Mid-Atlantic Power Pathway
Market Transition Charge Tax	Revenue ACE receives and pays to ACE Funding to recover income taxes associated with Transition Bond Charge revenue
MDC	MDC Industries, Inc.
MFVRD	Modified fixed variable rate design

Term	Definition
Mirant	Mirant Corporation
MMBtu	One Million British Thermal Units
MPSC	Maryland Public Service Commission
MSCG	Morgan Stanley Capital Group, Inc.
MWh	Megawatt hours
New Jersey Societal Benefit Charge	Charge to ACE customers, included in revenue, to recover costs associated with New Jersey Societal Benefit Programs
New Jersey Societal Benefit Programs	Various NJBPU - mandated social programs for which ACE receives revenues to recover costs
NJBPU	New Jersey Board of Public Utilities
NJDEP	New Jersey Department of Environmental Protection
Non-Utility Generation Change	Charge to ACE customers, included in revenue, to recover costs associated with utility purchase power contracts with non-utility generators, net of any revenue received from the sale of energy and capacity
Normalization provisions	Sections of the Internal Revenue Code and related regulations that dictate how excess deferred income taxes resulting from the corporate income tax rate reduction enacted by the Tax Reform Act of 1986 and accumulated deferred investment tax credits should be treated for ratemaking purposes
NPL	National Priorities list, which, among other things, serves as a guide to EPA in determining which sites warrant further investigation to assess the nature and extent of the human health and environmental risks associated with a site
NUGs	Non-utility generators
NYMEX	New York Mercantile Exchange
PCB	Polychlorinated biphenyls
PCI	Potomac Capital Investment Corporation and its subsidiaries
Pepco	Potomac Electric Power Company
Pepco Energy Services	Pepco Energy Services, Inc. and its subsidiaries
Pepco Holdings or PHI	Pepco Holdings, Inc.
PHI Retirement Plan	PHI’s noncontributory retirement plan
PJM	PJM Interconnection, LLC
PJM RTO	PJM regional transmission organization
Power Delivery	PHI’s Power Delivery Business
PPA	Power purchase agreement
PRP	Potentially responsible party
PUHCA 2005	Public Utility Holding Company Act of 2005
RECs	Renewable energy credits
Regulated T&D Electric Revenue	Revenue from the transmission and the distribution of electricity to PHI’s customers within its service territories at regulated rates
RI/FS	Remedial investigation and feasibility study
ROE	Return on equity
RPM	Reliability pricing model
RPS	Renewable Energy Portfolio Standards
SEC	Securities and Exchange Commission
SERP	Supplemental Executive Retirement Plan
SOCAs	Standard Offer Capacity Agreements required to be entered into by ACE pursuant to a New Jersey law enacted to promote the construction of qualified electric generation facilities in New Jersey
SPCC	Spill Prevention, Control, and Countermeasure plans, required pursuant to federal regulations requiring plans for facilities using oil-containing equipment in proximity to surface waters
Transition Bond Charge	Revenue ACE receives, and pays to ACE Funding, to fund the principal and interest payments on Transition Bonds and related taxes, expenses and fees

Term	Definition
Transition Bonds	Transition Bonds issued by ACE Funding
Treasury rate lock	A hedging transaction that allows a company to "lock in" a specific interest rate corresponding to the rate of a designated Treasury bond for a determined period of time
VADEQ	Virginia Department of Environmental Quality
VaR	Value at Risk

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Listed below is a table that sets forth, for each registrant, the page number where the information is contained herein.

Item	Registrants: Pepco Holdings	Pepco*	DPL*	ACE
Consolidated Statements of Income (Loss)	2	51	69	88
Consolidated Statements of Comprehensive Income (Loss)	3	N/A	N/A	N/A
Consolidated Balance Sheets	4	52	70	89
Consolidated Statements of Cash Flows	6	54	72	91
Notes to Consolidated Financial Statements	7	55	73	92

* Pepco and DPL have no subsidiaries and, therefore, their financial statements are not consolidated.

PEPCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(millions of dollars, except per share data)			
Operating Revenue				
Power Delivery	$ 1,093	$ 1,149	$2,342	$2,411
Pepco Energy Services	308	476	681	1,023
Other	8	11	20	21
Total Operating Revenue	1,409	1,636	3,043	3,455
Operating Expenses				
Fuel and purchased energy	809	1,077	1,804	2,364
Other services cost of sales	43	35	86	60
Other operation and maintenance	209	196	443	410
Depreciation and amortization	105	93	210	182
Other taxes	109	105	220	197
Gain on early termination of finance leases held in trust	(39)	—	(39)	—
Deferred electric service costs	(29)	(63)	(32)	(82)
Total Operating Expenses	1,207	1,443	2,692	3,131
Operating Income	202	193	351	324
Other Income (Expenses)				
Interest expense	(63)	(89)	(125)	(172)
Loss from equity investments	—	—	(1)	(1)
Other income	10	5	20	11
Total Other Expenses	(53)	(84)	(106)	(162)
Income from Continuing Operations Before Income Tax Expense	149	109	245	162
Income Tax Expense Related to Continuing Operations	54	33	88	58
Net Income from Continuing Operations	95	76	157	104
(Loss) Income from Discontinued Operations, Net of Income Taxes	(1)	(130)	1	(122)
Net Income (Loss)	94	(54)	158	(18)
Retained Earnings at Beginning of Period	1,062	1,244	1,059	1,268
Dividends paid on common stock (Note 15)	(61)	(60)	(122)	(120)
Retained Earnings at End of Period	$ 1,095	$ 1,130	$1,095	$1,130
Basic and Diluted Share Information				
Weighted average shares outstanding (millions)	226	223	226	223
Earnings per share of common stock from Continuing Operations	$ 0.42	$ 0.34	$ 0.69	$ 0.47
(Loss) earnings per share of common stock from Discontinued Operations	—	(0.58)	0.01	(0.55)
Basic and diluted earnings (loss) per share	$ 0.42	$ (0.24)	$ 0.70	$ (0.08)

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PEPCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Net Income (Loss)	$ 94	$ (54)	$ 158	$ (18)
Other Comprehensive Income (Loss) from Continuing Operations				
Gain (losses) from continuing operations on commodity derivatives designated as cash flow hedges:				
Gains (losses) arising during period	3	12	2	(78)
Amount of losses reclassified into income	19	38	46	87
Net gains on commodity derivatives	22	50	48	9
Losses on treasury rate locks reclassified into income	—	2	—	3
Amortization of (gains) losses for prior service costs	(5)	4	(4)	4
Other comprehensive income from continuing operations, before income taxes	17	56	44	16
Income tax expense related to other comprehensive income from continuing operations	7	23	18	7
Other comprehensive income from continuing operations, net of income taxes	10	33	26	9
Other Comprehensive Income from Discontinued Operations, Net of Income Taxes	—	113	—	71
Comprehensive Income	$ 104	$ 92	$ 184	$ 62

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PEPCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 58	$ 20
Restricted cash equivalents	11	11
Accounts receivable, less allowance for uncollectible accounts of $52 million and $51 million, respectively	958	1,027
Inventories	130	126
Derivative assets	22	45
Prepayments of income taxes	98	276
Deferred income tax assets, net	89	90
Prepaid expenses and other	128	51
Conectiv Energy assets held for sale	4	111
Total Current Assets	1,498	1,757
INVESTMENTS AND OTHER ASSETS		
Goodwill	1,407	1,407
Regulatory assets	1,848	1,915
Investment in finance leases held in trust	1,329	1,423
Income taxes receivable	89	114
Restricted cash equivalents	9	5
Assets and accrued interest related to uncertain tax positions	9	11
Other	170	169
Conectiv Energy assets held for sale	1	6
Total Investments and Other Assets	4,862	5,050
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	12,431	12,120
Accumulated depreciation	(4,553)	(4,447)
Net Property, Plant and Equipment	7,878	7,673
TOTAL ASSETS	$14,238	$ 14,480

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PEPCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars, except shares)	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term debt	$ 395	$ 534
Current portion of long-term debt and project funding	111	75
Accounts payable and accrued liabilities	553	587
Capital lease obligations due within one year	8	8
Taxes accrued	143	96
Interest accrued	47	45
Liabilities and accrued interest related to uncertain tax positions	3	3
Derivative liabilities	47	66
Other	254	321
Liabilities associated with Conectiv Energy assets held for sale	3	62
Total Current Liabilities	1,564	1,797
DEFERRED CREDITS		
Regulatory liabilities	525	528
Deferred income taxes, net	2,749	2,714
Investment tax credits	23	26
Pension benefit obligation	214	332
Other postretirement benefit obligations	412	429
Income taxes payable	—	2
Liabilities and accrued interest related to uncertain tax positions	41	148
Derivative liabilities	9	21
Other	180	175
Liabilities associated with Conectiv Energy assets held for sale	—	10
Total Deferred Credits	4,153	4,385
LONG-TERM LIABILITIES		
Long-term debt	3,795	3,629
Transition bonds issued by ACE Funding	314	332
Long-term project funding	14	15
Capital lease obligations	82	86
Total Long-Term Liabilities	4,205	4,062
COMMITMENTS AND CONTINGENCIES (NOTE 15)		
EQUITY		
Common stock, $.01 par value – authorized 400,000,000 shares, 226,314,924 and 225,082,252 shares outstanding, respectively	2	2
Premium on stock and other capital contributions	3,299	3,275
Accumulated other comprehensive loss	(80)	(106)
Retained earnings	1,095	1,059
Total Shareholders' Equity	4,316	4,230
Non-controlling interest	—	6
Total Equity	4,316	4,236
TOTAL LIABILITIES AND EQUITY	$ 14,238	$ 14,480

The accompanying Notes are an integral part of these Consolidated Financial Statements.

PEPCO HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2011	2010
	(millions of dollars)	
OPERATING ACTIVITIES		
Net income (loss)	$ 158	$ (18)
(Income) loss from discontinued operations	(1)	122
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	210	182
Non-cash rents from cross-border energy lease investments	(28)	(26)
Gain on early termination of finance leases held in trust	(39)	—
Deferred income taxes	61	53
Other	(10)	(7)
Changes in:		
Accounts receivable	63	(20)
Inventories	(4)	(6)
Prepaid expenses	(34)	(28)
Regulatory assets and liabilities, net	(40)	(105)
Accounts payable and accrued liabilities	(71)	74
Pension contributions	(110)	—
Pension benefit obligation, excluding contributions	26	34
Cash collateral related to derivative activities	44	4
Taxes accrued	34	50
Other assets and liabilities	33	50
Conectiv Energy net assets held for sale	42	140
Net Cash From Operating Activities	334	499
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(387)	(364)
Department of Energy capital reimbursement awards received	16	—
Proceeds from early termination of finance leases held in trust	161	—
Changes in restricted cash equivalents	(3)	3
Net other investing activities	(7)	(1)
Investment in property, plant and equipment associated with Conectiv Energy assets held for sale	—	(111)
Net Cash Used By Investing Activities	(220)	(473)
FINANCING ACTIVITIES		
Dividends paid on common stock	(122)	(120)
Common stock issued for the Dividend Reinvestment Plan and employee-related compensation	25	25
Redemption of preferred stock of subsidiaries	(6)	—
Issuances of long-term debt	235	102
Reacquisition of long-term debt	(52)	(482)
(Repayments) issuances of short-term debt, net	(139)	458
Cost of issuances	(2)	(7)
Net other financing activities	(16)	(18)
Net financing activities associated with Conectiv Energy assets held for sale	—	6
Net Cash Used By Financing Activities	(77)	(36)
Net Increase (Decrease) in Cash and Cash Equivalents	37	(10)
Cash and Cash Equivalents at Beginning of Period	21	44
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 58	$ 34
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash received for income taxes, net	$ 2	$ 1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PEPCO HOLDINGS, INC.

(1) ORGANIZATION

Pepco Holdings, Inc. (PHI or Pepco Holdings), a Delaware corporation incorporated in 2001, is a holding company that, through the following regulated public utility subsidiaries, is engaged primarily in the transmission, distribution and default supply of electricity and the distribution and supply of natural gas (Power Delivery):

- Potomac Electric Power Company (Pepco), which was incorporated in Washington, D.C. in 1896 and became a domestic Virginia corporation in 1949,
- Delmarva Power & Light Company (DPL), which was incorporated in Delaware in 1909 and became a domestic Virginia corporation in 1979, and
- Atlantic City Electric Company (ACE), which was incorporated in New Jersey in 1924.

PHI and each of its utility subsidiaries is registered and files periodic reports with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934, as amended. Together the three utilities constitute a single segment for financial reporting purposes.

Through Pepco Energy Services, Inc. and its subsidiaries (collectively, Pepco Energy Services), PHI provides energy savings performance contracting services, primarily to commercial, industrial and government customers. Pepco Energy Services is in the process of winding down its competitive electricity and natural gas retail supply business. Pepco Energy Services constitutes a separate segment for financial reporting purposes.

PHI Service Company, a subsidiary service company of PHI, provides a variety of support services, including legal, accounting, treasury, tax, purchasing and information technology services to PHI and its operating subsidiaries. These services are provided pursuant to a service agreement among PHI, PHI Service Company, and the participating operating subsidiaries. The expenses of the PHI Service Company are charged to PHI and the participating operating subsidiaries in accordance with cost allocation methodologies set forth in the service agreement.

Power Delivery

Pepco, DPL and ACE are each regulated public utilities in the jurisdictions that comprise its service territory. Each utility owns and operates a network of wires, substations and other equipment that is classified as transmission facilities, distribution facilities or common facilities (which are used for both transmission and distribution). Transmission facilities are high-voltage systems that carry wholesale electricity into, or across, the utility's service territory. Distribution facilities are low-voltage systems that carry electricity to end-use customers in the utility's service territory.

Each utility is responsible for the distribution of electricity, and in the case of DPL, natural gas, in its service territory for which it is paid tariff rates established by the applicable local public service commissions. Each company also supplies electricity at regulated rates to retail customers in its service territory who do not elect to purchase electricity from a competitive energy supplier. The regulatory term for this supply service is Standard Office Service in Delaware, the District of Columbia and Maryland, and Basic Generation Service in New Jersey. In these Notes to the Consolidated Financial Statements, these supply service obligations are referred to generally as Default Electricity Supply.

Pepco Energy Services

Pepco Energy Services is engaged in the following businesses:

- retail supply of electricity and natural gas under its remaining contractual obligations,
- providing energy efficiency services principally to federal, state and local government customers, and designing, constructing and operating combined heat and power and central energy plants, and
- providing high voltage electric construction and maintenance services to customers throughout the United States and low voltage electric construction and maintenance services and streetlight construction and asset management services to utilities, municipalities and other customers in the Washington, D.C. metropolitan area.

Pepco Energy Services also owns and operates two oil-fired generation facilities that are scheduled for deactivation in May 2012.

In December 2009, PHI announced the wind down of the retail energy supply component of the Pepco Energy Services business. Pepco Energy Services is implementing this wind down by not entering into any new supply contracts, while continuing to perform under its existing supply contracts through their expiration dates. The retail energy supply business has historically generated a substantial portion of the operating revenues and net income of the Pepco Energy Services segment. Operating revenues related to the retail energy supply business for the three months ended June 30, 2011 and 2010 were $231 million and $401 million, respectively, while operating income for the same periods was $4 million and $10 million, respectively. Operating revenues related to the retail energy supply business for the six months ended June 30, 2011 and 2010 were $536 million and $898 million, respectively, while operating income for the same periods was $16 million and $31 million, respectively.

In connection with the operation of the retail energy supply business, Pepco Energy Services provided letters of credit of $62 million and posted cash collateral of $76 million as of June 30, 2011. These collateral requirements, which are based on existing wholesale energy purchase and sale contracts and current market prices, will decrease as the contracts expire, with the collateral expected to be fully released by June 1, 2014. The energy services business will not be affected by the wind down of the retail energy supply business.

Other Business Operations

Through its subsidiary Potomac Capital Investment Corporation (PCI), PHI maintains a portfolio of cross-border energy lease investments. This activity constitutes a third operating segment for financial reporting purposes, which is designated as “Other Non-Regulated.” For a discussion of PHI’s cross-border energy lease investments, see Note (7), “Leasing Activities,” and Note (15), “Commitments and Contingencies – Regulatory and Other Matters – PHI’s Cross-Border Energy Lease Investments.”

Discontinued Operations

In April 2010, the Board of Directors of PHI approved a plan for the disposition of PHI’s competitive wholesale power generation business conducted through subsidiaries of Conectiv Energy Holding Company (Conectiv Energy). On July 1, 2010, PHI completed the sale of Conectiv Energy’s wholesale power generation business to Calpine Corporation (Calpine) for $1.64 billion. The disposition of all of Conectiv Energy’s remaining assets and businesses, consisting of its load service supply contracts, energy hedging portfolio, certain tolling agreements and other assets not included in the Calpine sale, is substantially complete. The operations of Conectiv Energy are being accounted for as a discontinued operation and no longer constitute a separate segment for financial reporting purposes. Substantially all of the information in these Notes to the Consolidated Financial Statements with respect to the operations of the former Conectiv Energy segment has been consolidated in Note (16), “Discontinued Operations.”

(2) SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Pepco Holdings' unaudited Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with the annual financial statements included in PHI's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of PHI's management, the Consolidated Financial Statements contain all adjustments (which all are of a normal recurring nature) necessary to present fairly Pepco Holdings' financial condition as of June 30, 2011, in accordance with GAAP. The year-end December 31, 2010 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Interim results for the three and six months ended June 30, 2011 may not be indicative of PHI's results that will be realized for the full year ending December 31, 2011, since its Power Delivery business and the retail energy supply business of Pepco Energy Services are seasonal.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the Consolidated Financial Statements and accompanying notes. Although Pepco Holdings believes that its estimates and assumptions are reasonable, they are based upon information available to management at the time the estimates are made. Actual results may differ significantly from these estimates.

Significant matters that involve the use of estimates include the assessment of goodwill and long-lived assets for impairment, fair value calculations for certain derivative instruments, the costs of providing pension and other postretirement benefits, evaluation of the probability of recovery of regulatory assets, accrual of storm restoration costs, accrual of self-insurance reserves for general and auto liability claims, accrual of interest related to income taxes, accrual of restructuring charges, recognition of changes in network service transmission rates for prior service year costs, and the recognition of income tax benefits for investments in finance leases held in trust associated with PHI's portfolio of cross-border energy lease investments. Additionally, PHI is subject to legal, regulatory, and other proceedings and claims that arise in the ordinary course of its business. PHI records an estimated liability for these proceedings and claims, when it is probable that a loss has been incurred and the loss is reasonably estimable.

Network Service Transmission Rates

In May 2011, PHI's utility subsidiaries filed their network service transmission rates with the Federal Energy Regulatory Commission to be effective for the service year beginning June 1, 2011. The new rates include an adjustment for costs incurred in the service year ended May 31, 2011 that were not reflected in the rates charged to customers for that service year. In the second quarter of 2011, PHI's utility subsidiaries recorded a $3 million decrease in transmission revenues as a change to the estimates recorded in previous periods primarily due to a decrease in actual rate base versus estimated rate base.

General and Auto Liability

During the second quarter of 2011, PHI's utility subsidiaries reduced their self-insurance reserves for general and auto liability claims by approximately $4 million, based on obtaining an actuarial estimate of the unpaid loss attributed to general and auto liability claims for each of PHI's utility subsidiaries at June 30, 2011.

Consolidation of Variable Interest Entities

In accordance with the provisions of the Financial Accounting Standards Board (FASB) guidance on the consolidation of variable interest entities (Accounting Standards Codification (ASC) 810), Pepco Holdings consolidates variable interest entities with respect to which Pepco Holdings or a subsidiary is the primary beneficiary. The guidance addresses conditions under which an entity should be consolidated based upon variable interests rather than voting interests. The subsidiaries of Pepco Holdings have contractual arrangements with several entities to which the guidance applies.

ACE Power Purchase Agreements

PHI, through its ACE subsidiary, is a party to three power purchase agreements (PPAs) with unaffiliated, non-utility generators (NUGs). PHI was unable to obtain sufficient information to determine whether these three entities were variable interest entities or if ACE was the primary beneficiary and as a result has applied the scope exemption from the consolidation guidance for enterprises that have not been able to obtain such information.

Net purchase activities with the NUGs for the three months ended June 30, 2011 and 2010, were approximately $55 million and $67 million, respectively, of which approximately $51 million and $62 million, respectively, consisted of power purchases under the PPAs. Net purchase activities with the NUGs for the six months ended June 30, 2011 and 2010, were approximately $112 million and $140 million, respectively, of which approximately $104 million and $129 million, respectively, consisted of power purchases under the PPAs. The power purchase costs are recoverable from ACE's customers through regulated rates.

DPL Renewable Energy Transactions

PHI, through its DPL subsidiary, has entered into three land-based wind PPAs and one offshore wind PPA in the aggregate amount of 350 megawatts as of June 30, 2011 and one solar PPA with a 10 megawatt facility. As the wind facilities become operational, DPL is obligated to purchase energy and renewable energy credits (RECs) in amounts generated and delivered by the facilities at rates that are primarily fixed under these agreements. Under one of the PPAs, DPL is also obligated to purchase the capacity associated with the facility at rates that are generally fixed. If a wind facility does not become operational by a specified date, DPL has the right to terminate that PPA.

One of the land-based facilities is operational and DPL is obligated to purchase energy and RECs from this facility through 2024 in amounts not to exceed 50.25 megawatts. The other two land-based wind agreements each have a 20-year term and are currently expected to become operational during 2011. DPL's purchases under the operational wind PPAs totaled $4 million and $3 million for the three months ended June 30, 2011 and 2010, respectively, and $9 million and $6 million for the six months ended June 30, 2011 and 2010, respectively. In July 2011, the Delaware Public Service Commission (DPSC) approved amendments to one of the land-based wind PPAs to change the location of the facility and to reduce the maximum generation capacity from 60 megawatts to 38 megawatts.

The offshore wind PPA is expected to become operational during 2016. If the offshore wind facility developer is unable to obtain all necessary permits and financing commitments, this could result in delays in the construction schedule and the operational start date of the offshore wind facility.

The term of the agreement with the solar facility is 20 years and DPL is obligated to purchase RECs in an amount up to 70 percent of the energy output at a fixed price once the facility is operational, which is expected to be in the third quarter of 2011.

DPL concluded that consolidation is not required for any of these agreements under FASB guidance on the consolidation of variable interest entities.

Atlantic City Electric Transitional Funding LLC

Atlantic City Electric Transitional Funding LLC (ACE Funding) was established in 2001 by ACE solely for the purpose of securitizing authorized portions of ACE's recoverable stranded costs through the issuance and sale of bonds (Transition Bonds). The proceeds of the sale of each series of Transition Bonds have been transferred to ACE in exchange for the transfer by ACE to ACE Funding of the right to collect non-bypassable transition bond charges (the Transition Bond Charges) from ACE customers pursuant to bondable stranded costs rate orders issued by the New Jersey Board of Public Utilities (NJBPU) in an amount sufficient to fund the principal and interest payments on the Transition Bonds and related taxes, expenses and fees (Bondable Transition Property). ACE collects the Transition Bond Charges from its customers on behalf of ACE Funding and the holders of the Transition Bonds. The assets of ACE Funding, including the Bondable Transition Property, and the Transition Bond Charges collected from ACE's customers, are not available to creditors of ACE. The holders of the Transition Bonds have recourse only to the assets of ACE Funding. ACE owns 100 percent of the equity of ACE Funding and PHI consolidates ACE Funding in its financial statements as ACE is the primary beneficiary of ACE Funding under the variable interest entity consolidation guidance.

ACE Standard Offer Capacity Agreements

On April 28, 2011, ACE entered into three Standard Offer Capacity Agreements (SOCAs) by order of the NJBPU, each with a different generation company. The SOCAs were established under a New Jersey law enacted to promote the construction of qualified electric generation facilities in New Jersey. The SOCAs are 15-year, financially settled transactions approved by the NJBPU that allow generators to receive payments from, or make payments to, ACE based on the difference between the fixed price in the SOCAs and the price for capacity that clears PJM Interconnection, LLC (PJM). Each of the other electricity distribution companies (EDCs) in New Jersey has entered into SOCAs having the same terms with the same generation companies. The annual share of payments or receipts for ACE and the other EDCs is based upon each company's annual proportion of the total New Jersey load attributable to all EDCs. ACE and the other EDCs entered the SOCAs under protest based on concerns about the potential cost to distribution customers. On May 16, 2011, the NJBPU denied a joint motion for reconsideration of its order requiring each of the EDCs to enter into the SOCAs. On June 24, 2011, ACE and the other EDCs filed appeals from the NJBPU orders with the Appellate Division of the New Jersey Superior Court.

The SOCAs are associated with the construction of three distinct combined cycle, natural gas generation facilities with an aggregate capacity of 1,949 megawatts of which ACE's share would be approximately 15 percent, or 292 megawatts. The obligation to make payments is conditioned upon the clearance of capacity from a generation facility through PJM, and the earliest capacity auction would be in May 2012 based upon the estimated June 1, 2015 operational date for two of the facilities followed by a capacity auction in May 2013 for the third facility that has an estimated June 1, 2016 operational date. Payments would begin after a facility is operational. The NJBPU has approved full recovery from distribution customers of payments made by ACE and the other EDCs, and distribution customers would be entitled to any payments received by ACE and the other EDCs.

Currently, PHI believes that FASB guidance on derivative accounting and the accounting for regulated operations would apply to a SOCA once capacity has cleared a PJM auction. Once cleared, the gain (loss) associated with the fair value of a derivative would be offset by the establishment of a regulatory liability (asset).

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the net assets acquired at the acquisition date. Substantially all of Pepco Holdings' goodwill was generated by Pepco's acquisition of Conectiv in 2002 and is allocated entirely to Pepco Holdings' Power Delivery reporting unit for purposes of impairment testing based on the aggregation of its components. Pepco Holdings tests its goodwill for impairment annually as of November 1 and whenever an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Factors that may result in an interim impairment test include, but are not limited to: a change in the identified reporting units; an adverse change in business conditions; a decline in PHI's stock price causing market capitalization to fall further below book value; an adverse regulatory action; or an impairment of long-lived assets in the reporting unit. PHI concluded that an interim impairment test was not required during the three months ended June 30, 2011 as described in Note (6), "Goodwill."

Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions

Taxes included in Pepco Holdings' gross revenues were $94 million and $88 million for the three months ended June 30, 2011 and 2010, respectively, and $190 million and $162 million for the six months ended June 30, 2011 and 2010, respectively.

Reclassifications and Adjustments

Certain prior period amounts have been reclassified in order to conform to the current period presentation. The following adjustments have been recorded and are not considered material either individually or in the aggregate:

DPL Default Electricity Supply Revenue and Costs Adjustments

During the second quarter of 2011, DPL recorded adjustments to correct certain errors associated with the accounting for Default Electricity Supply revenue and costs. These adjustments primarily arose from the under-recognition of allowed returns on the cost of working capital and resulted in a pre-tax decrease in "Other operation and maintenance" expense of $8 million.

Pepco Energy Services Derivative Accounting Adjustments

During the first quarter of 2011, PHI recorded an adjustment associated with an increase in the value of certain derivatives from October 1, 2010 to December 31, 2010, which had been erroneously recorded in other comprehensive income at December 31, 2010. This adjustment resulted in an increase in revenue and pre-tax earnings of $2 million.

Income Tax Adjustments

During the first quarter of 2011, Pepco recorded an adjustment to correct certain income tax errors related to prior periods associated with the interest on uncertain tax positions. The adjustment resulted in an increase in income tax expense of $1 million.

During the second quarter of 2010, PHI recorded an adjustment to correct certain income tax errors associated with casualty loss claims, which resulted in a decrease to income tax expense of $1 million for the three and six months ended June 30, 2010.

During the first quarter of 2010, ACE recorded an adjustment to correct certain income tax errors related to prior periods. The adjustment resulted in an increase in income tax expense of $6 million for the quarter ended March 31, 2010. The adjustment represents the reversal of erroneously recorded interest income for state income tax purposes related to uncertain and effectively settled tax positions, including $2 million, $3 million and $1 million recorded in 2009, 2008 and 2007, respectively.

(3) NEWLY ADOPTED ACCOUNTING STANDARDS

Fair Value Measurements and Disclosures (ASC 820)

The FASB issued new disclosure requirements that require significant items within the reconciliation of the Level 3 valuation category to be presented in separate categories for purchases, sales, issuances and settlements. The guidance was effective beginning with PHI's March 31, 2011 financial statements. PHI has included the new disclosure requirements in Note (14), "Fair Value Disclosures," to its financial statements.

Goodwill (ASC 350)

The FASB issued new guidance on performing goodwill impairment tests that was effective beginning January 1, 2011 for PHI. Under the new guidance, the carrying value of the reporting unit must include the liabilities that are part of the capital structure of the reporting unit. PHI already allocates liabilities to the reporting unit when performing its goodwill impairment test, so the new guidance did not change PHI's goodwill impairment test methodology.

Revenue Recognition (ASC 605)

The FASB issued new guidance to help determine separate units of accounting for multiple-deliverables within a single contract that was effective beginning January 1, 2011 for PHI. The energy services contracts of Pepco Energy Services are primarily impacted by this guidance because they often have multiple elements, which could include design, installation, operation and maintenance and measurement and verification services. PHI and its subsidiaries adopted the new guidance, effective January 1, 2011, and it did not have a material impact on Pepco Energy Services' revenue recognition methods or results of operations nor did it have a material impact on PHI's overall financial condition, results of operations or cash flows.

(4) RECENTLY ISSUED ACCOUNTING STANDARDS, NOT YET ADOPTED

Fair Value Measurements and Disclosures (ASC 820)

In May 2011, the FASB issued new guidance on fair value measurement and disclosures that will be effective beginning with PHI's March 31, 2012 financial statements. The new guidance would change how fair value is measured in specific instances and expand disclosures about fair value measurements. PHI is evaluating the impact of this new guidance on its financial statements.

Comprehensive Income (ASC 220)

In June 2011, the FASB issued new guidance that requires entities to report comprehensive income in one of two ways: (i) one single continuous statement that combines the income statement with the statement of other comprehensive income and totals to a comprehensive income amount; or (ii) in two separate but consecutive statements of income and other comprehensive income. PHI already applies the second option in its financial statements, so PHI expects that the guidance will have minimal impact. The new guidance is effective beginning with PHI's March 31, 2012 financial statements.

(5) SEGMENT INFORMATION

Pepco Holdings' management has identified its operating segments at June 30, 2011 as Power Delivery, Pepco Energy Services and Other Non-Regulated. In the tables below, the Corporate and Other column is included to reconcile the segment data with consolidated data and includes unallocated Pepco Holdings' (parent company) capital costs, such as acquisition financing costs. Segment financial information for continuing operations for the three and six months ended June 30, 2011 and 2010 is as follows:

	Three Months Ended June 30, 2011 (millions of dollars)				
	Power Delivery	Pepco Energy Services	Other Non-Regulated	Corporate and Other (a)	PHI Consolidated
Operating Revenue	$ 1,093	$ 308	$ 14	$ (6)	$ 1,409
Operating Expenses (b)	957	295	(38)(c)	(7)	1,207
Operating Income	136	13	52	1	202
Interest Income	—	—	1	(1)	—
Interest Expense	52	1	4	6	63
Other Income	8	1	—	1	10
Income Tax Expense (Benefit) (d)	20	5	30	(1)	54
Net Income (Loss) from Continuing Operations	72	8	19(c)	(4)	95
Total Assets (excluding Assets Held For sale)	10,803	615	1,461	1,354	14,233
Construction Expenditures	$ 204	$ 6	$ —	$ 6	$ 216

(a) Total Assets in this column includes Pepco Holdings' goodwill balance of $1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of $(6) million for Operating Revenue, $(4) million for Operating Expense, $(5) million for Interest Income and $(5) million for Interest Expense.

(b) Includes depreciation and amortization of $105 million, consisting of $97 million for Power Delivery, $5 million for Pepco Energy Services, $1 million for Other Non-Regulated, and $2 million for Corporate and Other.

(c) Includes $39 million pre-tax ($3 million after-tax) gain from the early termination of finance leases held in trust.

(d) Includes tax benefits of $14 million for Power Delivery primarily associated with an interest benefit related to federal tax liabilities and a $22 million reversal of previously recognized tax benefits for Other Non-Regulated associated with the early termination of finance leases held in trust.

	Three Months Ended June 30, 2010 (millions of dollars)				
	Power Delivery	Pepco Energy Services	Other Non-Regulated	Corporate and Other (a)	PHI Consolidated
Operating Revenue	$ 1,149	$ 476	$ 13	$ (2)	$ 1,636
Operating Expenses (b)	996	453	2	(8)	1,443
Operating Income	153	23	11	6	193
Interest Income	1	—	1	(2)	—
Interest Expense	53	5	3	28	89
Other Income	5	—	—	—	5
Income Tax Expense (Benefit)	41	8	3	(19)(c)	33
Net Income (Loss) from Continuing Operations	65	10	6	(5)	76
Total Assets (excluding Assets Held For Sale)	10,429	653	1,462	1,442	13,986
Construction Expenditures	$ 194	$ —	$ —	$ 12	$ 206

(a) Total Assets in this column includes Pepco Holdings' goodwill balance of $1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are place in service. Additionally, Corporate and Other includes intercompany amounts of $(2) million for Operating Revenue, $(1) million for Operating Expense, $(13) million for Interest Income and $(13) million for Interest Expense.
(b) Includes depreciation and amortization of $93 million, consisting of $85 million for Power Delivery, $5 million for Pepco Energy Services, $1 million for Other Non-Regulated and $2 million for Corporate and Other.
(c) Includes $8 million state tax benefit from changed apportionment arising from the restructuring of certain PHI subsidiaries.

	Six Months Ended June 30, 2011 (millions of dollars)				
	Power Delivery	Pepco Energy Services	Other Non-Regulated	Corporate and Other (a)	PHI Consolidated
Operating Revenue	$ 2,342	$ 681	$ 28	$ (8)	$ 3,043
Operating Expenses (b)	2,088	652	(36)(c)	(12)	2,692
Operating Income	254	29	64	4	351
Interest Income	—	—	2	(2)	—
Interest Expense	102	2	7	14	125
Other Income (Expenses)	16	2	(1)	2	19
Preferred Stock Dividends	—	—	1	(1)	—
Income Tax Expense (Benefit) (d)	49	11	32	(4)	88
Net Income (Loss) from Continuing Operations	119	18	25(c)	(5)	157
Total Assets (excluding Assets Held For Sale)	10,803	615	1,461	1,354	14,233
Construction Expenditures	$ 364	$ 7	$ —	$ 16	$ 387

(a) Total Assets in this column includes Pepco Holdings' goodwill balance of $1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of $(8) million for Operating Revenue, $(6) million for Operating Expense, $(10) million for Interest Income, $(9) million for Interest Expense, and $(1) million for Preferred Stock Dividends.
(b) Includes depreciation and amortization of $210 million, consisting of $194 million for Power Delivery, $9 million for Pepco Energy Services, $1 million for Other Non-Regulated, and $6 million for Corporate and Other.
(c) Includes $39 million pre-tax ($3 million after-tax) gain from the early termination of finance leases held in trust.
(d) Includes tax benefits of $14 million for Power Delivery primarily associated with an interest benefit related to federal tax liabilities and a $22 million reversal of previously recognized tax benefits for Other Non-Regulated associated with the early termination of finance leases held in trust.

	Six Months Ended June 30, 2010 (millions of dollars)				
	Power Delivery	Pepco Energy Services	Other Non-Regulated	Corporate and Other (a)	PHI Consolidated
Operating Revenue	$ 2,411	$1,023	$ 26	$ (5)	$ 3,455
Operating Expenses (b)	2,165	975	3	(12)	3,131
Operating Income	246	48	23	7	324
Interest Income	1	—	2	(3)	—
Interest Expense	104	10	7	51	172
Other Income (Expenses)	9	1	(1)	1	10
Preferred Stock Dividends	—	—	1	(1)	—
Income Tax Expense (Benefit)	67(c)	16	6	(31)(d)	58
Net Income (Loss) from Continuing Operations	85	23	10	(14)	104
Total Assets (excluding Assets Held For Sale)	10,429	653	1,462	1,442	13,986
Construction Expenditures	$ 345	$ 1	$ —	$ 18	$ 364

(a) Total Assets in this column includes Pepco Holdings' goodwill balance of $1.4 billion, all of which is allocated to the Power Delivery segment for purposes of assessing impairment. Total assets also include capital expenditures related to certain hardware and software expenditures which primarily benefit the Power Delivery business. These expenditures are recorded as incurred in the Corporate and Other segment and are allocated to Power Delivery once the assets are placed in service. Additionally, Corporate and Other includes intercompany amounts of $(5) million for Operating Revenue, $(5) million for Operating Expense, $(25) million for Interest Income, $(25) million for Interest Expense, and $(1) million for Preferred Stock Dividends.

(b) Includes depreciation and amortization of $182 million, consisting of $167 million for Power Delivery, $9 million for Pepco Energy Services, $1 million for Other Non-Regulated and $5 million for Corporate and Other.

(c) Includes $8 million reversal of accrued interest income on uncertain and effectively settled state income tax positions.

(d) Includes $8 million state tax benefit from changed apportionment arising from the restructuring of certain PHI subsidiaries and the release of $8 million of valuation allowances on deferred tax assets related to state net operating losses, partially offset by a charge of $4 million to write off a deferred tax asset related to the Medicare Part D subsidy.

(6) GOODWILL

PHI's goodwill balance of $1.4 billion was unchanged during the three and six months ended June 30, 2011. Substantially all of PHI's goodwill was generated by Pepco's acquisition of Conectiv in 2002 and is allocated entirely to the Power Delivery reporting unit based on the aggregation of its regulated public utility company components for purposes of assessing impairment under FASB guidance on goodwill and other intangibles (ASC 350).

PHI's annual impairment test as of November 1, 2010 indicated that goodwill was not impaired. As of June 30, 2011, PHI concluded that there were no events requiring it to perform an interim goodwill impairment test. PHI will continue to monitor for indicators of goodwill impairment.

(7) LEASING ACTIVITIES

Investment in Finance Leases Held in Trust

PHI has a portfolio of cross-border energy lease investments (the lease portfolio) consisting of hydroelectric generation facilities, coal-fired electric generation facilities and natural gas distribution networks located outside of the United States. Each lease investment is comprised of a number of leases as of June 30, 2011 and December 31, 2010, the lease portfolio consisted of seven investments with an aggregate book value of $1.3 billion and eight investments with an aggregate book value of $1.4 billion, respectively.

During the second quarter of 2011, PHI entered into early termination agreements with two lessees involving all of the leases comprising one of the eight lease investments and a small portion of the leases comprising a second lease investment. The early terminations of the leases were negotiated at the request of the lessees and were completed in June 2011. PHI received net cash proceeds of $161 million (net of a termination payment of $423 million used to retire the non-recourse debt associated with the terminated leases) and recorded a pre-tax gain of $39 million, representing the excess of the net cash proceeds over the carrying value of the lease investments.

With respect to the terminated leases, PHI had previously made certain business assumptions regarding foreign investment opportunities available at the end of the full lease terms. Because the leases were terminated earlier than full term, management decided not to pursue these opportunities and certain income tax benefits recognized previously were reversed in the amount of $22 million. As part of the negotiations with the lessees, the company required an early termination payment sufficient to provide a gain on the early termination of the leases. The after-tax gain on the lease terminations was $3 million, reflecting an income tax provision at the statutory federal rate of $14 million and the income tax benefit reversal. PHI has no intent to terminate early any other leases in the lease portfolio. With respect to certain of these remaining leases, management's assumption continues to be that the foreign earnings recognized at the end of the lease term will remain invested abroad.

The components of the cross-border energy lease investments at June 30, 2011 and at December 31, 2010 are summarized below:

	June 30, 2011	December 31, 2010
	(millions of dollars)	
Scheduled lease payments to PHI, net of non-recourse debt	$2,119	$ 2,265
Less: Unearned and deferred income	(790)	(842)
Investment in finance leases held in trust	1,329	1,423
Less: Deferred income tax liabilities	(725)	(816)
Net investment in finance leases held in trust	$ 604	$ 607

Income recognized from cross-border energy lease investments, excluding the gain on the terminated leases discussed above, was comprised of the following for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Pre-tax income from PHI's cross-border energy lease investments (included in "Other Revenue")	$ 14	$ 13	$ 28	$ 26
Income tax expense related to cross-border energy lease investments	7	3	10	7
Net income from PHI's cross-border energy lease investments	$ 7	$ 10	$ 18	$ 19

PHI regularly monitors the financial performance and condition of the lessees under its cross-border energy lease investments. Changes in credit quality are assessed to determine if they should be reflected in the carrying value of the leases. PHI reviews each lessee's performance versus annual compliance requirements set by the terms and conditions of the leases. This includes a comparison of published credit ratings to minimum credit rating requirements in the leases for lessees with public credit ratings. In addition, PHI routinely meets with senior executives of the lessees to discuss the lessee company and asset performance. If the annual compliance requirements or minimum credit ratings are not met, remedies are available under the leases. PHI believes that all lessees were in compliance with the terms and conditions of their lease agreements at June 30, 2011.

The table below shows PHI's net investment in these leases by the published credit ratings of the lessees as of June 30, 2011 and December 31, 2010:

Lessee Rating (a)	June 30, 2011	December 31, 2010
	(millions of dollars)	
Rated Entities		
AA/Aa and above	$ 723	$ 709
A	438	549
Total	1,161	1,258
Non Rated Entities	168	165
Total	$1,329	$ 1,423

(a) Excludes the credit ratings of collateral posted by the lessees in these transactions.

(8) PENSION AND OTHER POSTRETIREMENT BENEFITS

The following Pepco Holdings information is for the three months ended June 30, 2011 and 2010:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(millions of dollars)			
Service cost	$ 7	$ 7	$ 1	$ 1
Interest cost	27	25	9	9
Expected return on plan assets	(33)	(25)	(4)	(4)
Amortization of prior service cost	(1)	—	(1)	(1)
Amortization of net actuarial loss	11	10	2	3
Plan amendment	—	1	—	—
Termination benefits	—	—	1	5
Net periodic benefit cost	$ 11	$ 18	$ 8	$ 13

The following Pepco Holdings information is for the six months ended June 30, 2011 and 2010:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	2011	2010
	(millions of dollars)			
Service cost	$ 17	$ 18	$ 3	$ 3
Interest cost	53	55	18	19
Expected return on plan assets	(64)	(58)	(9)	(8)
Amortization of prior service cost	(1)	—	(2)	(2)
Amortization of net actuarial loss	24	21	6	6
Plan amendment	—	1	—	—
Termination benefits	—	—	1	5
Net periodic benefit cost	$ 29	$ 37	$ 17	$ 23

Pension and Other Postretirement Benefits

Net periodic benefit cost related to continuing operations is included in "Other operation and maintenance" expense, net of the portion of the net periodic benefit cost that is capitalized as part of the cost of labor for internal construction projects. PHI's pension and other postretirement net periodic benefits cost for the three and six months ended June 30, 2010, includes one-time charges in the aggregate amount of $6 million related to the sale of Conectiv Energy. After intercompany allocations, the three utility subsidiaries are responsible for substantially all of the total PHI net periodic pension and other postretirement benefit costs related to continuing operations.

Pension Contributions

PHI's funding policy with regard to PHI's non-contributory retirement plan (the PHI Retirement Plan) is to maintain a funding level that is at least equal to the funding target level under the Pension Protection Act of 2006. Under the Pension Protection Act, if a plan incurs a funding shortfall in the preceding plan year, there can be required minimum quarterly contributions in the current and following plan years. Although PHI had no minimum funding requirement under the Pension Protection Act guidelines, Pepco, ACE and DPL, in the first quarter of 2011, made discretionary tax-deductible contributions to the PHI Retirement Plan in the amounts of $40 million, $30 million and $40 million, respectively. The $110 million in contributions brought the PHI Retirement Plan assets to the funding target level for 2011 under the Pension Protection Act. During 2010, PHI Service Company made discretionary tax-deductible contributions totaling $100 million to the PHI Retirement Plan, which brought plan assets to the funding target level for 2010 under the Pension Protection Act. Pepco, ACE and DPL did not make contributions to the PHI Retirement Plan in 2010.

Benefit Plan Modifications Subsequent to June 30, 2011

On July 28, 2011, PHI's Board of Directors approved revisions to certain of PHI's existing benefit programs, including the PHI Retirement Plan. The changes to the PHI Retirement Plan were effected by PHI in order to establish a more unified approach to PHI's retirement programs and to further align the benefits offered under PHI's retirement programs. The changes to the PHI Retirement Plan will be effective on or after January 1, 2012 and will affect the retirement benefits payable to approximately 750 of PHI's employees. All full time employees of PHI and certain subsidiaries are eligible to participate in the PHI Retirement Plan. Retirement benefits for all other employees remain unchanged.

On July 28, 2011, PHI's Board also approved a new, non-tax-qualified Supplemental Executive Retirement Plan (SERP) which will replace PHI's two pre-existing supplemental retirement plans, effective August 1, 2011. Following the effective date of the SERP, pursuant to amendments to such plans, the Conectiv SERP Plan and the PHI Combined SERP Plan will be closed to new participants. The establishment of the new SERP is consistent with PHI's efforts to align retirement benefits for PHI and its subsidiaries with current market practices and to provide similarly situated participants with retirement benefits that are the same or similar in value as compared to the benefits provided under the existing SERPs.

PHI does not believe that the benefit plan modifications will have a material impact on its overall financial condition, results of operations, or cash flows.

(9) DEBT

Credit Facilities

The principal credit source for PHI and its utility subsidiaries is an unsecured $1.5 billion syndicated credit facility, which can be used to borrow funds, obtain letters of credit and support the issuance of commercial paper. As of June 30, 2011, PHI's credit limit under the facility was $875 million and the credit limit for each of Pepco, DPL and ACE was the lesser of $500 million and the maximum amount of debt each company was permitted to have outstanding by its regulatory authorities, except that the aggregate amount of credit used by Pepco, DPL and ACE collectively, at any given time, could not exceed $625 million. On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of the credit agreement with respect to the facility, which among other changes extends the expiration date of the facility from May 2, 2012, to August 1, 2016. The facility, as amended and restated is more fully described below under the heading "Financing Activities Subsequent to June 30, 2011." PHI also has two bi-lateral 364 day unsecured credit agreements totaling $200 million. Under each of the credit agreements, PHI has access to revolving and floating rate loans over the terms of the agreements. Neither agreement provides for the issuance of letters of credit. Both agreements expire on October 26, 2011.

The absence of a material adverse change in PHI's business, property and results of operations or financial condition is not a condition to the availability of credit under the $1.5 billion credit facility or either of the bi-lateral credit agreements. Neither the credit facility nor the bi-lateral credit agreements include any rating triggers.

The $1.5 billion credit facility and the two bi-lateral credit agreements are referred to herein collectively as PHI's "primary credit facilities." As of June 30, 2011, each borrower was in compliance with its covenants under the primary credit facilities to which it is a party.

At June 30, 2011 and December 31, 2010, the amount of cash plus unused borrowing capacity under the primary credit facilities available to meet the future liquidity needs of PHI and its utility subsidiaries on a consolidated basis totaled $1.4 billion and $1.2 billion, respectively. PHI's utility subsidiaries had combined cash and unused borrowing capacity under the $1.5 billion credit facility of $595 million and $462 million at June 30, 2011 and December 31, 2010, respectively.

Financing Activities

In April 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

On April 5, 2011, ACE issued $200 million of 4.35% first mortgage bonds due April 1, 2021. The net proceeds were used to repay short-term debt and for general corporate purposes.

On June 1, 2011, DPL resold approximately $35 million of 0.75% Delaware Economic Development Authority tax-exempt bonds due May 1, 2026. The bonds were originally issued for the benefit of DPL in 2001 and were purchased by DPL on May 2, 2011 pursuant to a mandatory repurchase obligation triggered by the expiration of the original interest period for the bonds. The bonds are subject to mandatory purchase by DPL on June 1, 2012.

Financing Activities Subsequent to June 30, 2011

In July 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-2 and A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of their $1.5 billion credit facility to extend the expiration date to August 1, 2016, and to make various other changes. As amended and restated, all or any portion of the facility may be used to obtain revolving loans and up to $500 million may be used to obtain letters of credit. PHI's credit sublimit under the facility is $750 million and the sublimit of each of Pepco, DPL and ACE is $250 million. The borrowers may increase or decrease their respective sublimits during the term of the facility, except that (i) the sum of all of the borrower sublimits following any such increase or decrease must equal the total amount of the facility and (ii) the aggregate amount of credit used at any given time by (a) PHI may not exceed $1.25 billion and (b) each of Pepco, DPL or ACE may not exceed the lesser of $500 million and the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of sublimit reallocations cannot exceed eight per fiscal year during the term of the agreement.

The interest rate payable by each company on utilized funds is, at the borrowing company's election, (i) the greater of the prevailing prime rate, the federal funds effective rate plus 0.5% and one month LIBOR plus 1.0%, or (ii) the prevailing Eurodollar rate, plus a margin that varies according to the credit rating of the borrower. The facility also includes a "swingline loan sub-facility," pursuant to which each company may make same day borrowings in an aggregate amount not to exceed 10% of the total amount of the facility. Any swingline loan must be repaid by the borrower within fourteen days of receipt thereof. All indebtedness incurred under the facility is unsecured.

<u>Collateral Requirements of Pepco Energy Services</u>

In the ordinary course of its retail energy supply business which is in the process of winding down, Pepco Energy Services enters into various contracts to buy and sell electricity, fuels and related products, including derivative instruments, designed to reduce its financial exposure to changes in the value of its assets and obligations due to energy price fluctuations. These contracts typically have collateral requirements. Depending on the contract terms, the collateral required to be posted by Pepco Energy Services can be of varying forms, including cash and letters of credit.

During periods of declining energy prices, Pepco Energy Services has been exposed to the asymmetrical risk of having to post collateral under its wholesale purchase contracts without receiving a corresponding amount of collateral from its retail customers. To partially address these asymmetrical collateral obligations, Pepco Energy Services, in the first quarter of 2009, entered into a credit intermediation arrangement with Morgan Stanley Capital Group, Inc. (MSCG). Under this arrangement, MSCG, in consideration for the payment to MSCG of certain fees, (i) assumed, by novation, the electricity purchase obligations of Pepco Energy Services in years 2009 through 2011 under several wholesale purchase contracts, and (ii) agreed to supply electricity to Pepco Energy Services on the same terms as the novated transactions, but without imposing on Pepco Energy Services any obligation to post collateral based on changes in electricity prices. The upfront fees incurred by Pepco Energy Services in 2009 in the amount of $25 million are being amortized into expense in declining amounts over the life of the arrangement based on the fair value of the underlying contracts at the time of the novation. For the three months ended June 30, 2011 and 2010, Pepco Energy Services recognized less than $1 million and approximately $3 million, respectively, of the fees in "Interest expense." For the six months ended June 30, 2011 and 2010, Pepco Energy Services recognized less than $1 million and approximately $5 million, respectively, of the fees in "Interest expense."

As of June 30, 2011, Pepco Energy Services had posted net cash collateral of $76 million and provided letters of credit of $62 million. At December 31, 2010, Pepco Energy Services had posted net cash collateral of $117 million and provided letters of credit of $113 million. As its retail energy supply business is wound down, Pepco Energy Services' collateral requirements will be further reduced.

At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus unused borrowing capacity under the credit facilities available to meet the combined future liquidity needs of Pepco Energy Services totaled $827 million and $728 million, respectively.

(10) INCOME TAXES

A reconciliation of PHI's consolidated effective income tax rate from continuing operations is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	(millions of dollars)							
Income tax at federal statutory rate	$ 52	35.0%	$ 38	35.0%	$ 86	35.0%	$ 57	35.0%
Increases (decreases) resulting from:								
State income taxes, net of federal effect	6	4.0	5	5.0	11	4.5	9	5.6
Depreciation	—	—	2	1.4	(1)	(0.4)	3	1.7
Cross-border energy lease investments	21	14.1	(1)	(1.2)	20	8.2	(2)	(1.5)
Change in estimates and interest related to uncertain and effectively settled tax positions	(17)	(11.4)	1	1.0	(15)	(6.1)	10	6.2
Tax credits	(1)	(0.7)	(1)	(0.9)	(2)	(0.8)	(2)	(1.2)
Medicare Part D subsidy	—	—	—	—	—	—	4	2.2
Release of valuation allowance	—	—	—	—	—	—	(8)	(4.8)
Change in state deferred tax balances as a result of corporate restructuring	—	—	(8)	(7.8)	—	—	(8)	(5.2)
State tax benefit related to prior years' asset dispositions	(4)	(2.7)	—	—	(4)	(1.6)	—	—
Other, net	(3)	(2.1)	(3)	(2.2)	(7)	(2.9)	(5)	(2.2)
Consolidated income tax expense related to continuing operations	$ 54	36.2%	$ 33	30.3%	$ 88	35.9%	$ 58	35.8%

PHI's consolidated effective tax rates from continuing operations for the three months ended June 30, 2011 and 2010 were 36.2% and 30.3%, respectively. The increase in the effective tax rate was primarily due to the impact of the early termination of certain cross border energy leases and the non-recurring tax benefit of the 2010 corporate restructuring. This increase was partially offset by interest benefits associated with the settlement with the Internal Revenue Service (IRS) discussed below (included in changes in estimates and interest related to uncertain and effectively settled tax positions) and a state tax benefit related to prior years' asset dispositions.

As discussed further in Note (7), "Leasing Activities," during the second quarter of 2011, PHI terminated early its interest in certain cross-border energy leases. As a result of the early terminations, PHI reversed $22 million of previously recognized income tax benefits associated with those leases which will not be realized due to the early termination.

In the second quarter of 2010, PHI recorded a non-recurring benefit related to the April 1, 2010 corporate restructuring. As a result of the restructuring, PHI recorded an $8 million decrease to its state deferred tax balances resulting from a change in state apportionment factors.

In the second quarter of 2011, PHI reached a settlement with the IRS with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that had been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, PHI has recorded an additional tax benefit in the amount of $17 million (after-tax). This additional interest income was recorded in the second quarter of 2011.

Also in the second quarter of 2011, PHI received refunds of approximately $5 million and recorded tax benefits of approximately $4 million (after-tax) related to the filing of amended state tax returns. These amended returns reduced state taxable income due to an increase in tax basis reported on certain prior years' asset dispositions.

PHI's consolidated effective tax rates from continuing operations for the six months ended June 30, 2011 and 2010 were 35.9% and 35.8%, respectively. While the effective tax rate was substantially unchanged between the two periods, the rate was affected by several offsetting items.

The effective tax rate increased in 2011 as a result of the negative impact of the June 2011 early termination of certain cross-border energy leases of $22 million discussed above, however, this increase was substantially offset by the $17 million benefit PHI recorded during the six months ended June 30, 2011, primarily resulting from the settlement with the IRS on interest due on its 1996 through 2002 audit settlement also discussed above, and the $4 million state tax benefit related to prior years' asset dispositions.

The 2010 effective tax rate included the non-recurring impact of the April 2010 corporate restructuring. As a result of this restructuring, PHI recorded approximately $16 million of non-recurring tax benefits in 2010 including approximately $8 million resulting from a change in state apportionment factors and the release of $8 million of valuation allowances on deferred tax assets related to state net operating losses.

The effective tax rate in 2010 was also affected by changes in estimates and interest related to uncertain and effectively settled tax positions, primarily consisting of a non-recurring $2 million reversal of accrued interest income on state income tax positions in 2010 that PHI concluded was no longer more likely than not to be realized and the reversal of $6 million of erroneously accrued interest income in 2010 on uncertain and effectively settled state income tax positions, as discussed in Note (2), "Significant Accounting Policies." The 2010 rate was further affected by the change in taxation of the Medicare Part D subsidy that increased PHI's effective tax rate for the six months ended June 30, 2010. This change increased PHI's first quarter 2010 tax expense by $4 million, which was partially offset through a reduction in Operating Expenses resulting in a $2 million decrease to net income.

(11) NON-CONTROLLING INTEREST

On February 25, 2011, ACE redeemed all of its outstanding cumulative preferred stock for approximately $6 million.

(12) EARNINGS PER SHARE

Reconciliations of the numerator and denominator for basic and diluted earnings per share (EPS) of common stock calculations are shown below:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
	(millions of dollars, except per share data)	
Income (Numerator):		
Net income from continuing operations	$ 95	$ 76
Net loss from discontinued operations	(1)	(130)
Net income (loss)	$ 94	$ (54)
Shares (Denominator) (in millions):		
Weighted average shares outstanding for basic computation:		
Average shares outstanding	226	223
Adjustment to shares outstanding	—	—
Weighted Average Shares Outstanding for Computation of Basic Earnings Per Share of Common Stock	226	223
Net effect of potentially dilutive shares (a)	—	—
Weighted Average Shares Outstanding for Computation of Diluted Earnings Per Share of Common Stock	226	223
Basic and diluted earnings per share of common stock from continuing operations	$ 0.42	$ 0.34
Basic and diluted loss per share of common stock from discontinued operations	—	(0.58)
Basic and diluted earnings (loss) per share	$ 0.42	$ (0.24)

(a) The number of options to purchase shares of common stock that were excluded from the calculation of diluted EPS because they were anti-dilutive was 14,900 and 280,266 for the three months ended June 30, 2011 and 2010, respectively.

	For the Six Months Ended June 30, 2011	2010
	(millions of dollars, except per share data)	
Income (Numerator):		
Net income from continuing operations	$ 157	$ 104
Net income (loss) from discontinued operations	1	(122)
Net income (loss)	$ 158	$ (18)
Shares (Denominator) (in millions):		
Weighted average shares outstanding for basic computation:		
Average shares outstanding	226	223
Adjustment to shares outstanding	—	—
Weighted Average Shares Outstanding for Computation of Basic Earnings Per Share of Common Stock	226	223
Net effect of potentially dilutive shares (a)	—	—
Weighted Average Shares Outstanding for Computation of Diluted Earnings Per Share of Common Stock	226	223
Basic and diluted earnings per share of common stock from continuing operations	$ 0.69	$ 0.47
Basic and diluted earnings (loss) per share of common stock from discontinued operations	0.01	(0.55)
Basic and diluted earnings (loss) per share	$ 0.70	$ (0.08)

(a) The number of options to purchase shares of common stock that were excluded from the calculation of diluted EPS as they are considered to be anti-dilutive was 119,766 and 280,266 for the six months ended June 30, 2011 and 2010, respectively.

(13) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are used by the Pepco Energy Services and Power Delivery segments to hedge commodity price risk, as well as by PHI, from time to time, to hedge interest rate risk.

The retail energy supply component of Pepco Energy Services, which is in the process of winding down, purchases energy commodity contracts in the form of electricity and natural gas futures, swaps, options and forward contracts to hedge commodity price risk in connection with the purchase of physical natural gas and electricity for distribution to customers. The primary risk management objective is to manage the spread between retail sales commitments and the cost of supply used to service those commitments to ensure stable cash flows and lock in favorable prices and margins when they become available.

Pepco Energy Services' commodity contracts that are not designated for hedge accounting, do not qualify for hedge accounting, or do not meet the requirements for normal purchase and normal sale accounting are marked to market through current earnings. Forward contracts that meet the requirements for normal purchase and normal sale accounting are accounted for using accrual accounting.

In the Power Delivery business, DPL uses derivative instruments in the form of swaps and over-the-counter options primarily to reduce gas commodity price volatility and to limit its customers' exposure to increases in the market price of natural gas. DPL also manages commodity risk with physical natural gas and capacity contracts that are not classified as derivatives. All premiums paid and other transaction costs incurred as part of DPL's natural gas hedging activity, in addition to all gains and losses related to hedging activities, are deferred under FASB guidance on regulated operations (ASC 980) until recovered from its customers through a fuel adjustment clause approved by the DPSC.

PHI also uses derivative instruments from time to time to mitigate the effects of fluctuating interest rates on debt issued in connection with the operation of their businesses. In June 2002, PHI entered into several treasury rate lock transactions in anticipation of the issuance of several series of fixed-rate debt commencing in August 2002. Upon issuance of the fixed-rate debt in August 2002, the treasury rate locks were terminated at a loss. The loss has been deferred in Accumulated Other Comprehensive Loss (AOCL) and is being recognized in income over the life of the debt issued as interest payments are made.

The tables below identify the balance sheet location and fair values of derivative instruments as of June 30, 2011 and December 31, 2010:

	As of June 30, 2011				
Balance Sheet Caption	**Derivatives Designated as Hedging Instruments**	**Other Derivative Instruments**	**Gross Derivative Instruments**	**Effects of Cash Collateral and Netting**	**Net Derivative Instruments**
			(millions of dollars)		
Derivative Assets (current assets)	$ 30	$ 20	$ 50	$ (28)	$ 22
Derivative Assets (non-current assets)	—	2	2	(2)	—
Total Derivative Assets	30	22	52	(30)	22
Derivative Liabilities (current liabilities)	(92)	(38)	(130)	83	(47)
Derivative Liabilities (non-current liabilities)	(24)	(10)	(34)	25	(9)
Total Derivative Liabilities	(116)	(48)	(164)	108	(56)
Net Derivative (Liability) Asset	$ (86)	$ (26)	$ (112)	$ 78	$ (34)

	As of December 31, 2010				
Balance Sheet Caption	**Derivatives Designated as Hedging Instruments**	**Other Derivative Instruments**	**Gross Derivative Instruments**	**Effects of Cash Collateral and Netting**	**Net Derivative Instruments**
			(millions of dollars)		
Derivative Assets (current assets)	$ 40	$ 43	$ 83	$ (38)	$ 45
Derivative Assets (non-current assets)	16	3	19	(19)	—
Total Derivative Assets	56	46	102	(57)	45
Derivative Liabilities (current liabilities)	(125)	(63)	(188)	122	(66)
Derivative Liabilities (non-current liabilities)	(68)	(10)	(78)	57	(21)
Total Derivative Liabilities	(193)	(73)	(266)	179	(87)
Net Derivative (Liability) Asset	$ (137)	$ (27)	$ (164)	$ 122	$ (42)

Under FASB guidance on the offsetting of balance sheet accounts (ASC 210-20), PHI offsets the fair value amounts recognized for derivative instruments and the fair value amounts recognized for related collateral positions executed with the same counterparty under master netting agreements. The amount of cash collateral that was offset against these derivative positions is as follows:

	June 30, 2011	**December 31, 2010**
	(millions of dollars)	
Cash collateral pledged to counterparties with the right to reclaim (a)	$ 78	$ 122

(a) Includes cash deposits on commodity brokerage accounts

As of June 30, 2011 and December 31, 2010, all PHI cash collateral pledged related to derivative instruments accounted for at fair value was entitled to offset under master netting agreements.

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

Pepco Energy Services

For energy commodity contracts that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCL and is reclassified into income in the same period or periods during which the hedged transactions affect income. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in income. Effective January 1, 2011, Pepco Energy Services elected to no longer apply cash flow hedge accounting to its natural gas derivatives. Amounts included in AOCL for natural gas cash flow hedges will be reflected in earnings as the hedge transactions are completed.

Cash flow hedge activity during the three and six months ended June 30, 2011 and 2010 is provided in the tables below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Amount of net pre-tax gain (loss) arising during the period included in accumulated other comprehensive loss	$ 3	$ 12	$ 2	$ (78)
Amount of net pre-tax loss reclassified into income:				
Effective portion:				
Fuel and Purchased Energy	19	39	46	85
Ineffective portion: (a) (b)				
Revenue	—	(1)	—	2
Total net pre-tax loss reclassified into income	19	38	46	87
Net pre-tax gain on commodity derivatives included in accumulated other comprehensive loss	$ 22	$ 50	$ 48	$ 9

(a) For the three months ended June 30, 2011 and 2010, amounts of zero and less than $1 million, respectively, were reclassified from AOCL to income because the forecasted hedged transactions were deemed probable not to occur.

(b) For the six months ended June 30, 2011 and 2010, amounts of zero and less than $1 million, respectively, were reclassified from AOCL to income because the forecasted hedged transactions were deemed probable not to occur.

As of June 30, 2011 and December 31, 2010, Pepco Energy Services had the following types and quantities of outstanding energy commodity contracts employed as cash flow hedges of forecasted purchases and forecasted sales.

Commodity	Quantities June 30, 2011	December 31, 2010
Forecasted Purchases Hedges		
Natural gas (One Million British Thermal Units (MMBtu))	—	8,597,106
Electricity (Megawatt hours (MWh))	2,417,760	2,677,640
Electricity Capacity (MW-Days)	—	34,730
Forecasted Sales Hedges		
Electricity (MWh)	1,356,480	2,517,200

Power Delivery

All premiums paid and other transaction costs incurred as part of DPL's natural gas hedging activity, in addition to all of DPL's gains and losses related to hedging activities, are deferred under FASB guidance on regulated operations until recovered from customers through a fuel adjustment clause approved by the DPSC. The following table indicates the amounts of the net unrealized derivative gain (loss) deferred as a regulatory liability (regulatory asset) and the realized loss recognized in the Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)		(millions of dollars)	
Net Unrealized Gain Deferred as a Regulatory Liability (Asset)	$ 2	$ 5	$ 3	$ —
Net Realized Loss Recognized in Fuel and Purchased Energy Expense	(1)	(3)	(3)	(5)

As of June 30, 2011 and December 31, 2010, DPL had the following outstanding commodity forward contracts that were entered into to hedge forecasted transactions:

Commodity	Quantities June 30, 2011	December 31, 2010
Forecasted Purchases Hedges		
Natural Gas (MMBtu)	765,000	1,670,000

Cash Flow Hedges Included in Accumulated Other Comprehensive Loss

The tables below provide details regarding effective cash flow hedges included in PHI's Consolidated Balance Sheet as of June 30, 2011 and 2010. Cash flow hedges are marked to market on the balance sheet with corresponding adjustments to AOCL. The data in the tables indicate the cumulative net loss after-tax related to effective cash flow hedges by contract type included in AOCL, the portion of AOCL expected to be reclassified to income during the next 12 months, and the maximum hedge or deferral term:

Contracts	As of June 30, 2011 Accumulated Other Comprehensive Loss After-tax (a)	As of June 30, 2011 Portion Expected to be Reclassified to Income during the Next 12 Months	Maximum Term
	(millions of dollars)		
Energy Commodity (b)	$ 49	$ 35	35 months
Interest Rate	11	1	254 months
Total	$ 60	$ 36	

(a) AOCL on PHI's Consolidated Balance Sheet as of June 30, 2011, includes a $20 million balance related to minimum pension liability. This balance is not included in this table as the minimum pension liability is not a cash flow hedge.
(b) The unrealized derivative losses recorded in AOCL are largely offset by forecasted natural gas and electricity physical purchases for delivery to retail customers that are in gain positions and subject to accrual accounting. These forward purchase contracts are exempted from mark-to-market accounting because they either qualify as normal purchases under FASB guidance on derivatives and hedging or they are not derivative contracts. Under accrual accounting, no asset is recorded on the balance sheet for these contracts, and the purchase cost is not recognized until the period of distribution. Although Pepco Energy Services no longer designates its natural gas derivatives as cash flow hedges effective January 1, 2011, gains or losses previously deferred in AOCL as of December 31, 2010 would remain in AOCL unless it is probable that the hedged forecasted transaction will not occur. At June 30, 2011, the amount remaining in AOCL associated with natural gas derivatives was $41 million.

Contracts	As of June 30, 2010 Accumulated Other Comprehensive Loss After-tax (a)	As of June 30, 2010 Portion Expected to be Reclassified to Income during the Next 12 Months	Maximum Term
	(millions of dollars)		
Energy Commodity (b)	$ 94	$ 55	47 months
Interest Rate	20	3	266 months
Total	$ 114	$ 58	

(a) AOCL on PHI's Consolidated Balance Sheet as of June 30, 2010, includes a $15 million balance related to minimum pension liability and a $32 million balance related to Conectiv Energy. These balances are not included in this table as the minimum pension liability is not a cash flow hedge and Conectiv Energy is reported as a discontinued operation.
(b) The unrealized derivative losses recorded in AOCL are largely offset by forecasted natural gas and electricity physical purchases for delivery to retail customers that are in gain positions and subject to accrual accounting. These forward purchase contracts are exempted from mark-to-market accounting because they either qualify as normal purchases under FASB guidance on derivatives and hedging or they are not derivative contracts. Under accrual accounting, no asset is recorded on the balance sheet for these contracts, and the purchase cost is not recognized until the period of distribution.

Other Derivative Activity

Pepco Energy Services

Pepco Energy Services holds certain derivatives that are not in hedge accounting relationships nor are they designated as normal purchases or normal sales. These derivatives are recorded at fair value on the balance sheet with changes in fair value recorded through income.

For the three and six months ended June 30, 2011 and 2010, the amount of the derivative gain (loss) for Pepco Energy Services recognized in income is provided in the table below:

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Revenue	Fuel and Purchased Energy Expense	Total	Revenue	Fuel and Purchased Energy Expense	Total
			(millions of dollars)			
Realized mark-to-market gains (losses)	$ 2	$ —	$ 2	$ 1	$ —	$ 1
Unrealized mark-to-market gains (losses)	(5)	—	(5)	—	—	—
Total net mark-to-market gains (losses)	$ (3)	$ —	$ (3)	$ 1	$ —	$ 1

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Revenue	Fuel and Purchased Energy Expense	Total	Revenue	Fuel and Purchased Energy Expense	Total
			(millions of dollars)			
Realized mark-to-market gains (losses)	$ (2)	$ —	$ (2)	$ 1	$ —	$ 1
Unrealized mark-to-market gains (losses)	(5)	—	(5)	—	—	—
Total net mark-to-market gains (losses)	$ (7)	$ —	$ (7)	$ 1	$ —	$ 1

As of June 30, 2011 and December 31, 2010, Pepco Energy Services had the following net outstanding commodity forward contract quantities and net position on derivatives that did not qualify for hedge accounting:

	June 30, 2011		December 31, 2010	
Commodity	Quantity	Net Position	Quantity	Net Position
Financial transmission rights (MWh)	619,226	Long	381,215	Long
Electric Capacity (MW–Days)	28,560	Long	2,265	Short
Electric (MWh)	1,106,232	Long	1,455,800	Short
Natural gas (MMBtu)	36,003,000	Long	45,889,486	Short

Power Delivery

DPL holds certain derivatives that are not in hedge accounting relationships nor are they designated as normal purchases or normal sales. These derivatives are recorded at fair value on the Consolidated Balance Sheets with the gain or loss for the change in fair value recorded in income. In accordance with FASB guidance on regulated operations, offsetting regulatory liabilities or regulatory assets are recorded on the Consolidated Balance Sheets and the recognition of the derivative gain or loss is deferred because of the DPSC-approved fuel adjustment clause. For the three and six months ended June 30, 2011 and 2010, the net amount of the unrealized derivative gain (loss) deferred as a regulatory liability (regulatory asset) and the net realized loss recognized in the Consolidated Statements of Income is provided in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
		(millions of dollars)		
Net Unrealized Gain (Loss) Deferred as a Regulatory Liability (Asset)	$ 2	$ 7	$ 9	$ 1
Net Realized Loss Recognized in Fuel and Purchased Energy Expense	(4)	(6)	(11)	(13)

As of June 30, 2011 and December 31, 2010, DPL had the following net outstanding natural gas commodity forward contracts that did not qualify for hedge accounting:

	June 30, 2011		December 31, 2010	
Commodity	**Quantity**	**Net Position**	**Quantity**	**Net Position**
Natural Gas (MMBtu)	5,892,432	Long	7,827,635	Long

Contingent Credit Risk Features

The primary contracts used by the Pepco Energy Services and Power Delivery segments for derivative transactions are entered into under the International Swaps and Derivatives Association Master Agreement (ISDA) or similar agreements that closely mirror the principal credit provisions of the ISDA. The ISDAs include a Credit Support Annex (CSA) that governs the mutual posting and administration of collateral security. The failure of a party to comply with an obligation under the CSA, including an obligation to transfer collateral security when due or the failure to maintain any required credit support, constitutes an event of default under the ISDA for which the other party may declare an early termination and liquidation of all transactions entered into under the ISDA, including foreclosure against any collateral security. In addition, some of the ISDAs have cross default provisions under which a default by a party under another commodity or derivative contract, or the breach by a party of another borrowing obligation in excess of a specified threshold, is a breach under the ISDA.

Under the ISDA or similar agreements, the parties establish a dollar threshold of unsecured credit for each party in excess of which the party would be required to post collateral to secure its obligations to the other party. The amount of the unsecured credit threshold varies according to the senior, unsecured debt rating of the respective parties or that of a guarantor of the party's obligations. The fair values of all transactions between the parties are netted under the master netting provisions. Transactions may include derivatives accounted for on-balance sheet as well as those designated as normal purchases and normal sales that are accounted for off-balance sheet. If the aggregate fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The obligations of Pepco Energy Services are usually guaranteed by PHI. The obligations of DPL are stand-alone obligations without the guaranty of PHI. If PHI's or DPL's credit rating were to fall below "investment grade," the unsecured credit threshold would typically be set at zero and collateral would be required for the entire net loss position. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder.

The gross fair value of PHI's derivative liabilities, excluding the impact of offsetting transactions or collateral under master netting agreements, with credit risk-related contingent features on June 30, 2011 and December 31, 2010, was $90 million and $156 million, respectively, before giving effect to the impact of a credit rating downgrade that would increase these amounts or offsetting transactions that are encompassed within master netting agreements that would alter these amounts. As of those dates, PHI had not posted any cash collateral against the gross derivative liability. PHI's net settlement amount in the event of a downgrade of PHI's and DPL's senior unsecured debt rating to below "investment grade" as of June 30, 2011 and December 31, 2010, would have been approximately $143 million and $176 million, respectively, after taking into consideration the master netting agreements. At June 30, 2011 and December 31, 2010, normal purchase and normal sale contracts in a loss position increased PHI's obligation.

PHI's primary sources for posting cash collateral or letters of credit are its credit facilities. At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus borrowing capacity under the primary credit facilities available to meet the future liquidity needs of PHI and its subsidiaries totaled $1.4 billion and $1.2 billion, respectively, of which $827 million and $728 million, respectively, was available to Pepco Energy Services.

(14) FAIR VALUE DISCLOSURES

Financial Instruments Measured at Fair Value on a Recurring Basis

PHI has adopted FASB guidance on fair value measurement and disclosures (ASC 820) that established a framework for measuring fair value and expanded disclosures about fair value measurements. As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). PHI utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. Accordingly, PHI utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). PHI classifies its fair value balances in the fair value hierarchy based on the observability of the inputs used in the fair value calculation as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis, such as the New York Mercantile Exchange (NYMEX).

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable data. Level 2 also includes those financial instruments that are valued using internally developed methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

PHI's level 2 derivative instruments primarily consist of electricity derivatives at June 30, 2011. Level 2 power swaps are priced at liquid trading hub prices or valued using the liquid hub prices plus a congestion adder that is calculated using historical regression analysis.

Executive deferred compensation plan assets consist of life insurance policies that are categorized as level 2 assets because they are priced based on the assets underlying the policies, which consist of short-term cash equivalents and fixed income securities that are priced using observable market data. The level 2 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance sub-accounts. The sub-accounts are designed to mirror existing mutual funds and money market funds that are observable and actively traded.

Level 3 – Pricing inputs include significant inputs that are generally less observable than those from objective sources. Level 3 includes those financial instruments that are valued using models or other valuation methodologies.

Derivative instruments categorized as Level 3 include natural gas options purchased by DPL as part of a natural gas hedging program approved by the DPSC and natural gas physical basis contracts held by Pepco Energy Services. The valuation of the options is based, in part, on internal volatility assumptions extracted from historical NYMEX prices over a certain period of time. The physical basis contracts are valued using liquid hub prices plus a congestion adder that is calculated using historical regression analysis.

Executive deferred compensation plan assets and liabilities that are classified as level 3 include certain life insurance policies that are valued using the cash surrender value of the policies, net of loans against those policies, which does not represent a quoted price in an active market.

The following tables set forth, by level within the fair value hierarchy, PHI's financial assets and liabilities (excluding Conectiv Energy assets and liabilities held for sale) that were accounted for at fair value on a recurring basis as of June 30, 2011 and December 31, 2010. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. PHI's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value Measurements at June 30, 2011			
Description	**Total**	**Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)**	**Significant Other Observable Inputs (Level 2) (a)**	**Significant Unobservable Inputs (Level 3)**
		(millions of dollars)		
ASSETS				
Derivative instruments (b)				
Electricity (c)	$ 11	$ —	$ 11	$ —
Cash equivalents				
Treasury Fund	62	62	—	—
Executive deferred compensation plan assets				
Money Market Funds	16	16	—	—
Life Insurance Contracts	64	—	45	19
	$153	$ 78	$ 56	$ 19
LIABILITIES				
Derivative instruments (b)				
Electricity (c)	$ 55	$ —	$ 55	$ —
Natural Gas (d)	68	47	—	21
Executive deferred compensation plan liabilities				
Life Insurance Contracts	30	—	30	—
	$153	$ 47	$ 85	$ 21

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.
(b) The fair value of derivative assets and liabilities reflect netting by counterparty before the impact of collateral.
(c) Represents wholesale electricity futures and swaps that are used mainly as part of Pepco Energy Service's retail energy supply business.
(d) Level 1 instruments represent wholesale gas futures and swaps that are used mainly as part of Pepco Energy Service's retail energy supply business and level 3 instruments represent natural gas options purchased by DPL as part of a natural gas hedging program approved by the DPSC.

Description	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3)
	Fair Value Measurements at December 31, 2010 (millions of dollars)			
ASSETS				
Derivative instruments (b)				
Electricity (c)	$ 22	$ —	$ 22	$ —
Cash equivalents				
Treasury Fund	17	17	—	—
Executive deferred compensation plan assets				
Money Market Funds	9	9	—	—
Life Insurance Contracts	66	—	47	19
	$114	$ 26	$ 69	$ 19
LIABILITIES				
Derivative instruments (b)				
Electricity (c)	$ 88	$ —	$ 88	$ —
Natural Gas (d)	98	75	—	23
Executive deferred compensation plan liabilities				
Life Insurance Contracts	30	—	30	—
	$216	$ 75	$ 118	$ 23

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.
(b) The fair value of derivative assets and liabilities reflect netting by counterparty before the impact of collateral.
(c) Represents wholesale electricity futures and swaps that are used mainly as part of Pepco Energy Service's retail energy supply business.
(d) Level 1 instruments represent wholesale gas futures and swaps that are used mainly as part of Pepco Energy Service's retail energy supply business and level 3 instruments represent natural gas options purchased by DPL as part of a natural gas hedging program approved by the DPSC.

Reconciliations of the beginning and ending balances of PHI's fair value measurements using significant unobservable inputs (level 3) for the six months ended June 30, 2011 and 2010 are shown below:

	Six Months Ended June 30, 2011 Natural Gas	Six Months Ended June 30, 2011 Life Insurance Contracts
	(millions of dollars)	
Beginning balance as of January 1	$ (23)	$ 19
Total gains or (losses) (realized and unrealized)		
Included in income	—	5
Included in accumulated other comprehensive loss	—	—
Included in regulatory liabilities	(2)	—
Purchases	—	—
Issuances	—	(1)
Settlements	8	(4)
Transfers in (out) of level 3	(4)	—
Ending balance as of June 30	$ (21)	$ 19

	Six Months Ended June 30, 2010	
	Natural Gas	Life Insurance Contracts
	(millions of dollars)	
Beginning balance as of January 1	$ (29)	$ 19
Total gains or (losses) (realized and unrealized)		
Included in income	—	2
Included in accumulated other comprehensive loss	—	—
Included in regulatory liabilities	(10)	—
Purchases	—	—
Issuances	—	(1)
Settlements	10	—
Transfers in (out) of level 3	—	—
Ending balance as of June 30	$ (29)	$ 20

The breakdown of realized and unrealized gains or (losses) on level 3 instruments included in income as a component of "Other income" or "Other operation and maintenance" expense for the periods below were as follows:

	Six Months Ended June 30,	
	2011	2010
	(millions of dollars)	
Total gains included in income for the period	$ 5	$ 2
Change in unrealized gains relating to assets still held at reporting date	$ 2	$ 2

Other Financial Instruments

The estimated fair values of PHI's issued debt and equity instruments at June 30, 2011 and December 31, 2010 are shown below:

	June 30, 2011		December 31, 2010	
	(millions of dollars)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ 3,866	$4,317	$ 3,665	$4,045
Transition Bonds issued by ACE Funding	350	390	367	406
Long-Term Project Funding	18	18	19	19
Redeemable Serial Preferred Stock	—	—	6	5

The fair value of Long-Term Debt issued by PHI and its utility subsidiaries was based on actual trade prices as of June 30, 2011 and December 31, 2010. Where trade prices were not available, PHI used a discounted cash flow model to estimate fair value. The fair value of Transition Bonds issued by ACE Funding, including amounts due within one year, were derived based on bid prices obtained from brokers and validated by PHI because actual trade prices were not available.

The fair value of the Redeemable Serial Preferred Stock was derived based on quoted market prices.

The carrying amounts of all other financial instruments in the accompanying financial statements approximate fair value.

(15) COMMITMENTS AND CONTINGENCIES

Regulatory and Other Matters

District of Columbia Divestiture Case

In June 2000, the District of Columbia Public Service Commission (DCPSC) approved a divestiture settlement under which Pepco is required to share with its District of Columbia customers the net proceeds realized by Pepco from the sale of its generation-related assets in 2000. This approval left unresolved issues of (i) whether Pepco should be required to share with customers the excess deferred income taxes (EDIT) and accumulated deferred investment tax credits (ADITC) associated with the sold assets and, if so, whether such sharing would violate the normalization provisions of the Internal Revenue Code and its implementing regulations and (ii) whether Pepco was entitled to deduct certain costs in determining the amount of proceeds to be shared.

In May 2010, the DCPSC issued an order addressing all of the remaining issues related to the sharing of the proceeds of Pepco's divestiture of its generating assets. In the order, the DCPSC ruled that Pepco is not required to share EDIT and ADITC with customers. However, the order also disallowed certain items that Pepco had included in the costs deducted from the proceeds of the sale of the generation assets. The disallowance of these costs, together with interest on the disallowed amount, increased the aggregate amount Pepco was required to distribute to customers, pursuant to the sharing formula, by approximately $11 million, which PHI recognized as an expense in 2010 and refunded the amounts to its customers. In June 2010, Pepco filed an application for reconsideration of the DCPSC's order, contesting (i) approximately $5 million of the total of $6 million in disallowances and (ii) approximately $4 million of the $5 million in interest to be credited to customers (reflecting a difference in the period of time over which interest was calculated as well as the balance to which interest would be applied). In July 2010, the DCPSC denied Pepco's application for reconsideration. In September 2010, Pepco filed an appeal of the DCPSC's decision with the District of Columbia Court of Appeals. On April 12, 2011, the Court of Appeals affirmed the DCPSC order. Pepco does not intend to appeal this decision.

Maryland Public Service Commission Reliability Investigation

In August 2010, following the major storm events that occurred in July and August 2010, the Maryland Public Service Commission (MPSC) initiated a proceeding for the purpose of investigating the reliability of the Pepco distribution system and the quality of distribution service Pepco is providing its customers. On February 10, 2011, the MPSC issued a notice expanding the scope of issues on which it requested testimony to include suggested remedies for the MPSC to consider imposing if the MPSC finds that Pepco has failed to meet its public service obligations. The possible remedies identified in the notice were the imposition of civil penalties, changes in the manner of Pepco's operations, modification of Pepco's service territory and revocation of Pepco's authority to exercise its public utility franchise. On March 2, 2011, an independent consultant retained by the MPSC to review and make recommendations regarding the reliability of Pepco's distribution system and the quality of its service filed its report with the MPSC. Pepco and the other parties submitted written testimony and the MPSC held four days of hearings in mid-June 2011. The parties filed their initial briefs on July 20, 2011. Pepco's position in this proceeding is that while it is implementing a comprehensive program that will improve the reliability of its distribution system and its planning for, and response to, adverse weather events, there is no evidentiary support to impose sanctions for past performance. The other parties, including the staff of the MPSC, the Maryland Office of People's Counsel, the Maryland Energy Administration, and Montgomery County, Maryland, contend that Pepco's service reliability has not met an acceptable level. The other parties have recommended a variety of sanctions, including, but not limited to, the imposition of significant fines, the denial of rate recovery for reliability improvement costs, a reduction in Pepco's return on equity (ROE), restrictions on dividends to PHI in order to fund reliability improvement costs, compliance with enhanced reliability requirements within a specified period and various reporting requirements. While Pepco is committed to improving the reliability of its electric service, it is vigorously opposing the imposition of the sanctions requested by the other parties, which Pepco believes are unsupported by the record in this case. Pepco is unable to predict the outcome of this proceeding at this time.

Rate Proceedings

Over the last several years, PHI's utility subsidiaries have proposed in each of their respective service territories the adoption of a mechanism to decouple retail distribution revenue from the amount of power delivered to retail customers. To date:

- A bill stabilization adjustment (BSA) has been approved and implemented for Pepco and DPL electric service in Maryland and for Pepco electric service in the District of Columbia. The MPSC has initiated a proceeding to review how the BSA operates in Maryland to recover revenues lost as a result of major storm outages (as discussed below).
- A modified fixed variable rate design (MFVRD) has been approved in concept for DPL electric service in Delaware, but the implementation has been deferred by the DPSC pending the development of an implementation plan and a customer education plan. DPL anticipates that the MFVRD will be in place for electric service early in 2012.
- A MFVRD has been approved in concept for DPL natural gas service in Delaware, but implementation likewise has been deferred until development of an implementation plan and a customer education plan.
- In New Jersey, a BSA that had been proposed by ACE as part of a Phase 2 to the base rate proceeding filed in August 2009 has not been included in a Stipulation of Settlement approved by the NJBPU on May 16, 2011. Accordingly, there is no BSA proposal currently pending in New Jersey.

Under the BSA, customer distribution rates are subject to adjustment (through a credit or surcharge mechanism), depending on whether actual distribution revenue per customer exceeds or falls short of the revenue-per-customer amount approved by the applicable public service commission. The BSA increases rates if actual distribution revenues fall below the approved level and decreases rates if actual distribution revenues are above the approved level. The result is that, over time, the utility collects its authorized revenues for distribution service. As a consequence, a BSA "decouples" distribution revenue from unit sales consumption and ties the growth in distribution revenues to the growth in the number of customers. Some advantages of the BSA are that it (i) eliminates revenue fluctuations due to weather and changes in customer usage patterns and, therefore, provides for more predictable distribution revenues that are better aligned with costs, (ii) provides for more reliable fixed-cost recovery, (iii) tends to stabilize customers' delivery bills, and (iv) removes any disincentives for the regulated utilities to promote energy efficiency programs for their customers, because it breaks the link between overall sales volumes and distribution revenues. The MFVRD approved in concept in Delaware provides for a fixed customer charge (i.e., not tied to the customer's volumetric consumption) to recover the utility's fixed costs, plus a reasonable rate of return. Although different from the BSA, PHI views the MFVRD as an appropriate distribution revenue decoupling mechanism.

On February 1, 2011, the MPSC initiated proceedings involving Pepco and DPL, as well as unaffiliated utilities including Baltimore Gas & Electric Company and Southern Maryland Electric Cooperative, for the purpose of reviewing how the BSA operates to recover revenues lost as a result of major storm outages. In its orders initiating the proceedings, the MPSC expressed concern that the utilities' respective BSAs may be allowing them to recover revenues lost during extended outages, therefore unintentionally eliminating an incentive to restore service quickly. The MPSC will consider whether the BSA, as currently in effect, is appropriate, whether the calculations or determinant factors for calculating the BSA should be modified, and if so, what modifications should be made. On July 22, 2011, the MPSC held a legislative-style hearing on this matter. The potential financial impact of any modification to the BSA cannot be assessed until the details of the modification are known. A provision that excludes revenues lost as a result of major storm outages from the calculation of future BSA adjustments is already included in the BSA for Pepco in the District of Columbia as approved by the DCPSC. If the MPSC were to implement a change similar to the provision in effect in the District of Columbia, the financial impact of service interruptions due to a major storm would generally depend on the scope and duration of the outages.

Delaware

DPL makes an annual Gas Cost Rate (GCR) filing with the DPSC for the purpose of allowing DPL to recover gas procurement costs through customer rates. In August 2010, DPL made its 2010 GCR filing, which proposes rates that would allow DPL to recover an amount equal to a two-year amortization of currently under-recovered gas costs. In October 2010, the DPSC issued an order allowing DPL to place the new rates into effect on November 1, 2010, subject to refund and pending final DPSC approval. The effect of the proposed two-year amortization upon rates is an increase of 0.1% in the level of GCR. The parties in the proceeding submitted a proposed settlement to the hearing examiner on June 3, 2011, which includes DPL's two-year amortization but provides that DPL will forego the interest associated with that amortization. The proposed settlement is subject to review of the hearing examiner and final review and approval by the DPSC.

In July 2010, DPL submitted an application with the DPSC to increase its natural gas distribution base rates. As subsequently amended in September 2010 (to replace test year data for the twelve months ended June 2010 with the actual data) and in October 2010 (based on an update to DPL's natural gas advanced metering infrastructure implementation schedule), the filing sought approval of an annual rate increase of approximately $10.2 million, assuming the implementation of the MFVRD, based on a requested ROE of 11.00%. As permitted by Delaware law, DPL placed an annual increase of approximately $2.5 million annually into effect, on a temporary basis, on August 31, 2010, and the remainder of approximately $7.7 million of the requested increase was placed into effect on February 2, 2011, in each case subject to refund and pending final DPSC approval. On February 9, 2011, DPL, DPSC staff, and the Attorney General of Delaware entered into a proposed settlement agreement, which provides for an annual rate increase of approximately $5.8 million, based on an ROE of 10%. In the settlement agreement, the parties agreed to defer the implementation of the MFVRD until an implementation plan and a customer education plan are developed. On June 21, 2011, the DPSC approved the proposed settlement agreement, effective for service rendered on and after July 1, 2011. The excess amount collected will be refunded to customers through a bill credit.

District of Columbia

On July 8, 2011, Pepco filed an application with the DCPSC to increase its electric distribution base rates by approximately $42 million annually, based on an ROE of 10.75%. A decision by the DCPSC is expected in the second quarter of 2012.

Maryland

In December 2009, Pepco filed an electric distribution base rate case in Maryland. The filing sought approval of an annual rate increase of approximately $40 million, based on a requested ROE of 10.75%. During the course of the proceeding, Pepco reduced its request to approximately $28.2 million. In August 2010, the MPSC issued an order approving a rate increase of approximately $7.8 million, based on an ROE of 9.83% Pepco implemented the new rates on August 19, 2010, effective for services rendered on and after July 29, 2011. In September 2010, Pepco filed with the MPSC a motion for reconsideration of the following issues, which, if approved, in the aggregate would have increased annual revenue by approximately $8.5 million: (i) denial of inclusion in rate base of certain reliability plant investments, which occurred subsequent to the test period but before the rate effective period; (ii) denial of Pepco's request to increase depreciation rates to reflect a corrected formula relating to the cost of removal expenses; and (iii) imposition of imputed cost savings to partially offset the costs of Pepco's enhanced vegetation management program. On June 8, 2011, the MPSC denied the motion for reconsideration, thus bringing the matter to a conclusion.

On December 21, 2010, DPL filed an application with the MPSC to increase its electric distribution base rates by $17.8 million annually, based on an ROE of 10.75%. On May 25, 2011, DPL and the other parties to the proceeding filed a unanimous stipulation and settlement providing for a rate increase of approximately $12.2 million and proposing a Phase II proceeding to explore methods to address the issue of regulatory lag (which is the delay experienced by DPL in recovering increased costs in its distribution rate base). Although no ROE was specified in the proposed settlement, it did provide that the ROE for purposes of calculating the allowance for funds used during construction and regulatory asset carrying costs would remain unchanged. The current ROE for those items is 10%. On July 8, 2011, the MPSC approved the proposed settlement.

Retained Environmental Exposures from the Sale of the Conectiv Energy Wholesale Power Generation Business

On July 1, 2010, PHI sold the Conectiv Energy wholesale power generation business to Calpine. Under New Jersey's Industrial Site Recovery Act (ISRA), the transfer of ownership triggered an obligation on the part of Conectiv Energy to remediate any environmental contamination at each of the nine Conectiv Energy generating facility sites located in New Jersey. Under the terms of the sale, Calpine has assumed responsibility for performing the ISRA-required remediation and for the payment of all related ISRA compliance costs up to $10 million. PHI is obligated to indemnify Calpine for any ISRA compliance remediation costs in excess of $10 million. According to preliminary estimates, the costs of ISRA-required remediation activities at the nine generating facility sites located in New Jersey are in the range of approximately $7 million to $18 million. PHI has accrued approximately $4 million as of June 30, 2011 for the ISRA-required remediation activities at the nine generating facility sites.

The sale of the Conectiv Energy wholesale power generation business to Calpine did not include a coal ash landfill site located at the Edge Moor generating facility, which PHI intends to close. The preliminary estimate of the costs to PHI to close the coal ash landfill ranges from approximately $2 million to $3 million, plus annual post-closure operations, maintenance and monitoring costs, estimated to range between $120,000 and $193,000 per year for 30 years. As of June 30, 2011, PHI had accrued approximately $5 million for landfill closure and monitoring.

In orders issued in 2007, the New Jersey Department of Environmental Protection (NJDEP) assessed penalties against Conectiv Energy in an aggregate amount of approximately $2 million, based on NJDEP's contention that Conectiv Energy's Deepwater generating facility exceeded the maximum allowable hourly heat input limits during certain periods in calendar years 2004, 2005 and 2006. Conectiv Energy appealed the NJDEP orders imposing these penalties to the New Jersey Office of Administrative Law. In connection with the sale of the generating facility to Calpine, PHI agreed to indemnify Calpine for any monetary penalties, fines or assessments arising out of the NJDEP orders. In May 2011, Calpine entered into a stipulation of settlement with NJDEP to resolve the appeal of the penalty orders. The stipulation of settlement required payment of a $96,000 penalty to the State of New Jersey and a $50,000 supplemental environmental project contribution to a third party for truck stop electrification projects in New Jersey. On May 27, 2011, PHI made the penalty payment and paid the contribution to fulfill its indemnity obligation to Calpine.

General Litigation

Pepco

In 1993, Pepco was served with Amended Complaints filed in the state Circuit Courts of Prince George's County, Baltimore City and Baltimore County, Maryland in separate ongoing, consolidated proceedings known as "In re: Personal Injury Asbestos Case." Pepco and other corporate entities were brought into these cases on a theory of premises liability. Under this theory, the plaintiffs argued that Pepco was negligent in not providing a safe work environment for employees or its contractors, who allegedly were exposed to asbestos while working on Pepco's property. Initially, a total of approximately 448 individual plaintiffs added Pepco to their complaints. While the pleadings are not entirely clear, it appears that each plaintiff sought $2 million in compensatory damages and $4 million in punitive damages from each defendant.

Since the initial filings in 1993, additional individual suits have been filed against Pepco, and significant numbers of cases have been dismissed. As a result of two motions to dismiss, numerous hearings and meetings and one motion for summary judgment, Pepco has had approximately 400 of these cases successfully dismissed with prejudice, either voluntarily by the plaintiff or by the court. As of June 30, 2011, there are approximately 180 cases still pending against Pepco in the State Courts of Maryland, of which approximately 90 cases were filed after December 19, 2000, and were tendered to Mirant Corporation (Mirant) for defense and indemnification in connection with the sale by Pepco of its generation assets to Mirant in 2000.

While the aggregate amount of monetary damages sought in the remaining suits (excluding those tendered to Mirant) is approximately $360 million, PHI and Pepco believe the amounts claimed by the remaining plaintiffs are greatly exaggerated. The amount of total liability, if any, and any related insurance recovery cannot be determined at this time; however, based on information and relevant circumstances known at this time, PHI and Pepco do not believe these suits will have a material adverse effect on their respective financial conditions, results of operations or cash flows. However, if an unfavorable decision were rendered against Pepco, it could have a material adverse effect on Pepco's and PHI's financial condition, results of operations and cash flows.

Environmental Litigation

PHI, through its subsidiaries, is subject to regulation by various federal, regional, state, and local authorities with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous waste disposal, and limitations on land use. In addition, federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or unremediated hazardous waste sites. PHI's subsidiaries may incur costs to clean up currently or formerly owned facilities or sites found to be contaminated, as well as other facilities or sites that may have been contaminated due to past disposal practices. Although penalties assessed for violations of environmental laws and regulations are not recoverable from customers of the operating utilities, environmental clean-up costs incurred by Pepco, DPL and ACE would be included by each company in its respective cost of service for ratemaking purposes.

Franklin Slag Pile Site. In November 2008, ACE received a general notice letter from the U.S. Environmental Protection Agency (EPA) concerning the Franklin Slag Pile site in Philadelphia, Pennsylvania, asserting that ACE is a potentially responsible party (PRP) that may have liability with respect to the site. If liable, ACE would be responsible for reimbursing EPA for clean-up costs incurred and to be incurred by the agency and for the costs of implementing an EPA-mandated remedy. EPA's claims are based on ACE's sale of boiler slag from the B.L. England generating facility, then owned by ACE, to MDC Industries, Inc. (MDC) during the period June 1978 to May 1983. EPA claims that the boiler slag ACE sold to MDC contained copper and lead, which are hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and that the sales transactions may have constituted an arrangement for the disposal or treatment of hazardous substances at the site, which could be a basis for liability under CERCLA. The EPA letter also states that, as of the date of the letter, EPA's expenditures for response measures at the site have exceeded $6 million. EPA estimates the cost for future response measures will be approximately $6 million. ACE understands that EPA sent similar general notice letters to three other companies and various individuals.

ACE believes that the B.L. England boiler slag sold to MDC was a valuable material with various industrial applications and, therefore, the sale was not an arrangement for the disposal or treatment of any hazardous substances as would be necessary to constitute a basis for liability under CERCLA. ACE intends to contest any claims to the contrary made by EPA. In a May 2009 decision arising under CERCLA, which did not involve ACE, the U.S. Supreme Court rejected an EPA argument that the sale of a useful product constituted an arrangement for disposal or treatment of hazardous substances. While this decision supports ACE's position, at this time ACE cannot predict how EPA will proceed with respect to the Franklin Slag Pile site, or what portion, if any, of the Franklin Slag Pile site response costs EPA would seek to recover from ACE. Costs to resolve this matter are not expected to be material.

Peck Iron and Metal Site. EPA informed Pepco in a May 2009 letter that Pepco may be a PRP under CERCLA with respect to the cleanup of the Peck Iron and Metal site in Portsmouth, Virginia, for costs EPA has incurred in cleaning up the site. The EPA letter states that Peck Iron and Metal purchased, processed, stored and shipped metal scrap from military bases, governmental agencies and businesses and that Peck's metal scrap operations resulted in the improper storage and disposal of hazardous substances. EPA bases its allegation that Pepco arranged for disposal or treatment of hazardous substances sent to the site on information provided by Peck Iron and Metal personnel, who informed EPA that Pepco was a customer at the site. Pepco has advised EPA by letter that its records show no evidence of any sale of scrap metal by Pepco to the site. Even if EPA has such records and such sales did occur, Pepco believes that any such scrap metal sales are entitled to the recyclable material exemption from CERCLA liability. In a Federal Register notice published on November 4, 2009, EPA placed the Peck Iron and Metal site on the National Priorities List (NPL). The NPL, among other things, serves as a guide to EPA in determining which sites warrant further investigation to assess the nature and extent of the human health and environmental risks associated with a site. In a July 12, 2011 letter, EPA invited Pepco to enter into discussions with the agency to conduct a remedial investigation/feasibility study (RI/FS) at the site. Pepco is evaluating EPA's invitation, but cannot at this time predict the costs of the RI/FS, the cost of performing a remedy at the site or the amount of such costs that EPA might impose on Pepco. Based on current information, PHI and Pepco do not believe this matter will have a material adverse effect on their respective financial conditions, results of operations or cash flows.

Ward Transformer Site. In April 2009, a group of PRPs with respect to the Ward Transformer site in Raleigh, North Carolina, filed a complaint in the U.S. District Court for the Eastern District of North Carolina, alleging cost recovery and/or contribution claims against a number of entities, including ACE, DPL and Pepco with respect to past and future response costs incurred by the PRP group in performing a removal action at the site. With the court's permission, the plaintiffs filed amended complaints in September 2009. ACE, DPL and Pepco, as part of a group of defendants, filed a motion to dismiss in October 2009. In a March 2010 order, the court denied the defendants' motion to dismiss. Although it is too early in the process to characterize the magnitude of the potential liability at this site, PHI does not believe that any of its three utility subsidiaries had extensive business transactions, if any, with the Ward Transformer site and therefore, costs incurred to resolve this matter are not expected to be material.

Benning Road Site. In September 2010, PHI received a letter from EPA stating that EPA and the District of Columbia Department of the Environment (DDOE) have identified the Benning Road location, consisting of a transmission and distribution facility operated by Pepco and a generation facility operated by Pepco Energy Services, as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. The letter stated that the principal contaminants of concern are polychlorinated biphenyls (PCBs) and polycyclic aromatic hydrocarbons, that EPA is monitoring the efforts of DDOE and that EPA intends to use federal authority to address the Benning Road site if an agreement for a comprehensive study to evaluate (and, if necessary, to clean up) the facility is not reached. In an October 2010 letter, the Office of the Attorney General of the District of Columbia notified PHI of the District's intent to sue Pepco Energy Services and Pepco under the Resource Conservation and Recovery Act for abatement of conditions related to their historical activities, including the discharge of PCBs at the Benning Road site, and under CERCLA for reimbursement of response costs incurred by the District. The District's letter stated that EPA will list the Benning Road site on the NPL if contamination at the facility is not addressed in a timely manner.

In January 2011, in response to these EPA and District of Columbia letters, Pepco and Pepco Energy Services entered into a proposed consent decree with DDOE that requires Pepco and Pepco Energy Services to conduct a RI/FS for the Benning Road site and an approximately 10-15 acre portion of the adjacent Anacostia River. The RI/FS will form the basis for DDOE's selection of a remedial action for the Benning Road site and for the Anacostia River sediment associated with the site. In February 2011, the District filed a complaint against Pepco and Pepco Energy Services in the United States District Court for the District of Columbia for the purpose of obtaining judicial approval of the consent decree. At the time of the filing, it was not expected that the filing of this complaint would lead to active litigation. Rather, after receiving public comment on the proposed consent decree, DDOE planned to file a motion requesting the District Court to enter the consent decree. However, in April 2011, Anacostia Riverkeeper, Inc., the Anacostia Watershed Society and the Natural Resources Defense Council (collectively, the Environmental Organizations) filed a motion to intervene as plaintiffs in the District Court action. Pepco and Pepco Energy Services and DDOE have filed briefs opposing their intervention. If the District Court allows the Environmental Organizations to intervene and become parties to the litigation, the settlement of the litigation by means of the consent decree will require their agreement, which could require changes to the terms of the proposed consent decree. DDOE, Pepco and Pepco Energy Services have agreed to certain revisions to the consent decree to address some of the comments from the Environmental Organizations. DDOE intends to file the amended consent decree with the District Court in the near future, and to request that the court approve and enter the consent decree. Whether the court agrees to enter the consent decree likely will depend on whether it decides to grant the Environmental Organizations' intervention motion. Work on the RI/FS is not expected to begin until this matter is resolved.

At the present time, in light of the efforts by DDOE, Pepco and Pepco Energy Services to address the site through the proposed consent decree, Pepco and Pepco Energy Services anticipate that EPA will continue to refrain from listing the Benning Road facility on the NPL. The current estimate of the costs for performing the RI/FS is approximately $1 million. The remediation costs cannot be determined until the RI/FS is completed and the nature and scope of any remedial action are defined. However, the remediation costs are preliminarily projected to be approximately $13 million. As of June 30, 2011, PHI had an accrued liability of approximately $14 million with respect to this matter.

<u>Price's Pit Site</u>. ACE owns a transmission and distribution right-of-way that traverses the Price's Pit superfund site in Egg Harbor Township, New Jersey. EPA placed Price's Pit on the NPL in 1983 and NJDEP undertook an environmental investigation to identify and implement remedial action at the site. NJDEP's investigation revealed that landfill waste had been disposed on ACE's right-of-way and NJDEP determined that ACE was a responsible party as the owner of a facility on which a hazardous substance has been deposited. ACE, EPA and NJDEP entered into a settlement agreement to resolve ACE's alleged liability (which was fully executed as of June 21, 2011, but will not be effective until after a public notice period, which will close on August 5, 2011, and receipt by ACE of notice of effectiveness from EPA). The settlement agreement requires ACE to make a payment of approximately $1 million to the EPA Hazardous Substance Superfund and donate a four-acre parcel of land adjacent to the site to NJDEP.

Appeal of New Jersey Flood Hazard Regulations. In November 2007, NJDEP adopted amendments to the agency's regulations under the Flood Hazard Area Control Act (FHACA) to minimize damage to life and property from flooding caused by development in flood plains. The amended regulations impose a new regulatory program to mitigate flooding and related environmental impacts from a broad range of construction and development activities, including electric utility transmission and distribution construction, which were previously unregulated under the FHACA. These regulations impose restrictions on construction of new electric transmission and distribution facilities and increase the time and personnel resources required to obtain permits and conduct maintenance activities. In November 2008, ACE filed an appeal of these regulations with the Appellate Division of the Superior Court of New Jersey. The grounds for ACE's appeal include the lack of administrative record justification for the FHACA regulations and conflict between the FHACA regulations and other state and federal regulations and standards for maintenance of electric power transmission and distribution facilities. The Appellate Division's decision upholding the amended FHACA regulations was issued on July 22, 2011. ACE currently is evaluating that ruling, including the financial impact related compliance with the amended regulations. Based on current information, PHI and ACE do not believe these regulations will have a material adverse effect on their respective financial conditions, results of operations or cash flows.

Indian River Oil Release. In 2001, DPL entered into a consent agreement with the Delaware Department of Natural Resources and Environmental Control for remediation, site restoration, natural resource damage compensatory projects and other costs associated with environmental contamination resulting from an oil release at the Indian River generating facility, which was sold in June 2001. As of June 30, 2011, DPL's accrual for expected future costs to fulfill its obligations under the consent agreement was approximately $5 million, of which approximately $1 million is expected to be incurred during the remainder of 2011.

Potomac River Mineral Oil Release. On January 23, 2011, a coupling failure on a transformer cooler pipe resulted in a release of non-toxic mineral oil at Pepco's Potomac River substation in Alexandria, Virginia. An overflow of an underground secondary containment reservoir resulted in approximately 4,500 gallons of mineral oil flowing into the Potomac River.

The release falls within the regulatory jurisdiction of multiple federal and state agencies, each of which has responded to the release in some way. Beginning in March 2011, DDOE issued a series of compliance directives that require Pepco to prepare an incident report, provide certain records, and prepare and implement plans for sampling surface water and river sediments and assessing ecological risks and natural resources damages. Pepco is complying with DDOE's compliance directives.

On March 16, 2011, the Virginia Department of Environmental Quality (VADEQ) requested documentation regarding the release and the preparation of an emergency response report, which Pepco submitted to the agency on April 20, 2011. On March 25, 2011, Pepco received a notice of violation from VADEQ, which advised Pepco of information on which VADEQ may rely to institute an administrative or judicial enforcement action and stated that Pepco may be asked to enter into a consent order to formalize a corrective action plan and schedule.

In March 2011, EPA conducted an inspection of the Potomac River substation to review compliance with federal regulations regarding Spill Prevention, Control, and Countermeasure (SPCC) plans for facilities using oil-containing equipment in proximity to surface waters. Following the inspection, EPA advised Pepco that it had identified several potential violations of the SPCC regulations relating to SPCC plan content, recordkeeping, and secondary containment. Pepco responded to EPA's allegations and expects to engage in further discussions that may lead to an EPA demand for noncompliance penalties. In addition, as a result of the oil release, Pepco is reevaluating certain physical changes to existing containment systems and revising its SPCC plan.

The U.S. Coast Guard has assessed a $5,000 penalty for the release of oil into the waters of the United States.

The amount of penalties, if any, that may be imposed by DDOE, VADEQ and/or EPA and the costs associated with possible changes to the containment system cannot be predicted at this time; however, based on current information, PHI and Pepco do not believe this matter will have a material adverse effect on their respective financial conditions, results of operations or cash flows.

PHI's Cross-Border Energy Lease Investments

Between 1994 and 2002, PCI, a subsidiary of PHI, entered into eight cross-border energy lease investments involving public utility assets (primarily consisting of hydroelectric generation and coal-fired electric generation facilities and natural gas distribution networks) located outside of the United States. Each of these investments is comprised of multiple leases and the investment is structured as a sale and leaseback transaction commonly referred to by the IRS as a sale-in/lease-out or SILO transaction. PHI had previously received annual tax benefits from these eight cross-border energy lease investments of approximately $56 million, which as of March 31, 2011, had an aggregate book value of approximately $1.4 billion.

As more fully discussed in Note (7), "Leasing Activities," PHI in the second quarter entered into early termination agreements with two lessees with respect to a number of leases in the cross-border energy lease portfolio. The lease terminations involved all of the leases comprising one of the eight cross-border energy lease investments and a small portion of the leases comprising a second cross-border energy lease investment. The early terminations of the leases were negotiated at the request of the lessees and were completed in June 2011. PHI received net cash proceeds of $161 million (net of a termination payment of $423 million used to retire the non-recourse debt associated with the terminated leases) and recorded a pre-tax gain of $39 million, representing the excess of the net cash proceeds over the carrying value of the lease investments. Going forward, PHI will receive annual tax benefits of approximately $52 million. As of June 30, 2011, the book value of PHI's investment in its cross-border energy lease investments was approximately $1.3 billion. After taking into consideration the $74 million paid with the 2001-2002 audit (as discussed below), the net federal and state tax benefits received for the remaining leases from January 1, 2001, the earliest year that remains open to audit, to June 30, 2011, has been approximately $486 million.

In 2005, the Treasury Department and IRS issued Notice 2005-13 identifying sale-leaseback transactions with certain attributes entered into with tax-indifferent parties as tax avoidance transactions, and the IRS announced its intention to disallow the associated tax benefits claimed by the investors in these transactions. PHI's cross-border energy lease investments, each of which is with a tax-indifferent party, have been under examination by the IRS as part of the normal PHI federal income tax audits. In the final IRS revenue agent's reports issued in June 2006 and in March 2009 in connection with the audit of PHI's 2001-2002 and 2003-2005 income tax returns, respectively, the IRS disallowed the depreciation and interest deductions in excess of rental income claimed by PHI with respect to each of its cross-border energy lease investments. In addition, the IRS has sought to recharacterize each of the leases as a loan transaction as to which PHI would be subject to original issue discount income. PHI disagrees with the IRS' proposed adjustments and filed tax protests in August 2006 and May 2009, respectively, in connection with the audit of the 2001-2002 and the 2003-2005 income tax returns. Both of these protests were forwarded to the IRS Appeals Office. On August 9, 2010, PHI signed an IRS settlement statement with respect to the 2001-2002 income tax returns agreeing to the IRS's disallowance of depreciation and interest deductions in excess of rental income with respect to the cross-border energy lease investments, but reserving its right to file timely refund claims in which it would contest the disallowances. The Joint Tax Committee approved the settlement on November 10, 2010. In January 2011, PHI paid $74 million of additional tax associated with the disallowed deductions from the cross-border energy lease investments for 2001 and 2002, plus penalties of $1 million. In June 2011, PHI paid $28 million in interest associated with the disallowed deductions. In July 2011, PHI filed a refund claim for the additional taxes and related interest and penalties incurred by reason of the disallowed deductions, which it expects the IRS to deny, and if so, PHI intends to pursue litigation in the U.S. Court of Federal Claims against the IRS to defend its tax position and recover the tax payment, interest, and penalties. Absent a settlement, litigation against the IRS may take several years to resolve. The 2003-2005 income tax return review continues to be in process with the IRS Appeals Office.

At December 31, 2010 and 2009, PHI modified its tax cash flow assumptions under its cross-border energy lease investments for the periods 2010-2013 and 2010-2012, respectively, to reflect the anticipated timing of potential litigation with the IRS concerning the investments. As a result of the 2009 recalculation, PHI recorded a $2 million after-tax non-cash charge to earnings at December 31 2009, and recorded an additional $3 million in after-tax non-cash earnings during 2010 (as compared to the earnings that it would have recorded absent the 2009 recalculation). As a result of the 2010 recalculation, PHI recorded a $1 million after-tax non-cash charge to earnings at December 31, 2010.

In the event that the IRS were to be successful in disallowing 100% of the tax benefits associated with these leases and recharacterizing these leases as loans, PHI estimates that, as of June 30, 2011, it would be obligated to pay approximately $612 million in additional federal and state taxes and $105 million of interest on the remaining leases. The $612 million in additional federal and state taxes is net of the $74 million tax payment made in January 2011. In addition, the IRS could require PHI to pay a penalty of up to 20% on the amount of additional taxes due.

PHI anticipates that any additional taxes that it would be required to pay as a result of the disallowance of prior deductions or a re-characterization of the leases as loans would be recoverable in the form of lower taxes over the remaining terms of the affected leases. Moreover, the entire amount of any additional tax would not be due immediately. Rather, the federal and state taxes would be payable when the open audit years are closed and PHI amends subsequent tax returns not then under audit. To mitigate the taxes due in the event of a total disallowance of tax benefits, PHI could elect to liquidate all or a portion of its seven remaining cross-border energy lease investments, which PHI estimates could be accomplished over a period of six months to one year. Based on current market values, PHI estimates that liquidation of the remaining portfolio would generate sufficient cash proceeds to cover the estimated $717 million in federal and state taxes and interest due as of June 30, 2011, in the event of a total disallowance of tax benefits and a recharacterization of the leases as loans. If payments of additional taxes and interest preceded the receipt of liquidation proceeds, the payments would be funded by currently available sources of liquidity.

To the extent that PHI does not prevail in this matter and suffers a disallowance of the tax benefits and incurs imputed original issue discount income due to the recharacterization of the leases as loans, PHI would be required under FASB guidance on leases (ASC 840) to recalculate the timing of the tax benefits generated by the cross-border energy lease investments and adjust the equity value of the investments, which would result in a non-cash charge to earnings.

District of Columbia Tax Legislation

On June 14, 2011, the Council of the District of Columbia (DC Council) approved the "Fiscal Year 2012 Budget Support Act of 2011" (Budget Support Act). The Budget Support Act includes a provision requiring that corporate taxpayers in the District of Columbia (District) calculate taxable income allocable or apportioned to the District by reference to the income and apportionment factors applicable to commonly controlled organizations organized within the United States that are engaged in a unitary business. This new reporting method will be effective for tax years beginning on or after December 31, 2010, if the Budget Support Act becomes law.

If it becomes law, the Budget Support Act will require a remeasurement of PHI's consolidated District of Columbia deferred tax balances as the Budget Support Act will result in the imposition of income taxes on income not previously taxable in the District. However, the Budget Support Act also provides a tax deduction for any increase in taxable temporary differences causing an increase in deferred tax liabilities; consequently any increase in deferred tax liabilities will be offset by the recording of deferred tax assets of an equal amount. Accordingly, the remeasurement of deferred taxes required by the Budget Support Act will have no income statement impact.

The Budget Support Act was signed by the Mayor on July 22, 2011, and must be submitted to Congress for review. Congress must act to disapprove the Budget Support Act within 30 days of its submission (counting only those days when either the House or Senate is in session); absent congressional disapproval, it will become law following the review period.

Management continues to analyze the impact that the tax reporting aspects of this legislation, if completed, may have on the financial position, results of operations and cash flows of PHI and its subsidiaries.

Third Party Guarantees, Indemnifications, and Off-Balance Sheet Arrangements

Pepco Holdings and certain of its subsidiaries have various financial and performance guarantees and indemnification obligations that they have entered into in the normal course of business to facilitate commercial transactions with third parties as discussed below.

As of June 30, 2011, Pepco Holdings and its subsidiaries were parties to a variety of agreements pursuant to which they were guarantors for standby letters of credit, performance residual value, and other commitments and obligations. The commitments and obligations, in millions of dollars, were as follows:

	Guarantor				
	PHI	DPL	ACE	Pepco	Total
Energy procurement obligations of Pepco Energy Services (a)	$194	$—	$—	$—	$194
Guarantees associated with disposal of Conectiv Energy assets (b)	50	—	—	—	50
Guaranteed lease residual values (c)	2	5	3	3	13
Total	$246	$ 5	$ 3	$ 3	$257

(a) Pepco Holdings has contractual commitments for performance and related payments of Pepco Energy Services to counterparties under routine energy sales and procurement obligations.

(b) Represents guarantees by PHI in connection with transfers of Conectiv Energy tolling agreements and derivatives portfolio. The tolling agreement guarantees cover the payment by the entity to which the tolling agreement was assigned. The guaranteed amounts on the transferred tolling agreements totaled $25 million at June 30, 2011, which decline until the termination of the guarantees. The derivative portfolio guarantee is currently $25 million and covers Conectiv Energy's performance prior to the assignment. This guarantee will reduce to approximately $13 million in July 2011 and remain in effect until the end of 2015.

(c) Subsidiaries of Pepco Holdings have guaranteed residual values in excess of fair value of certain equipment and fleet vehicles held through lease agreements. As of June 30, 2011, obligations under the guarantees were approximately $13 million. Assets leased under agreements subject to residual value guarantees are typically for periods ranging from 2 years to 10 years. Historically, payments under the guarantees have not been made by the guarantor as, under normal conditions, the contract runs to full term at which time the residual value is immaterial. As such, Pepco Holdings believes the likelihood of payments being required under the guarantee is remote.

Pepco Holdings and certain of its subsidiaries have entered into various indemnification agreements related to purchase and sale agreements and other types of contractual agreements with vendors and other third parties. These indemnification agreements typically cover environmental, tax, litigation and other matters, as well as breaches of representations, warranties and covenants set forth in these agreements. Typically, claims may be made by third parties under these indemnification agreements over various periods of time depending on the nature of the claim. The maximum potential exposure under these indemnification agreements can range from a specified dollar amount to an unlimited amount depending on the nature of the claim and the particular transaction. The total maximum potential amount of future payments under these indemnification agreements is not estimable due to several factors, including uncertainty as to whether or when claims may be made under these indemnities.

Energy Savings Performance Contracts

Pepco Energy Services has a diverse portfolio of energy savings performance contracts that are associated with the installation of energy savings equipment for federal, state and local government customers. As part of those contracts, Pepco Energy Services typically guarantees that the equipment or systems installed by Pepco Energy Services will generate a specified amount of energy savings on an annual basis over a multi-year period. As of June 30, 2011, Pepco Energy Services' energy savings guarantees on both completed projects and projects under construction totaled $397 million over the life of the performance contracts with the longest remaining term being 15 years. On an annual basis, Pepco Energy Services undertakes a measurement and verification process to determine the amount of energy savings for the year and whether there is any shortfall in the annual energy savings compared to the guaranteed amount. Pepco Energy Services recognizes a liability for the value of the estimated energy savings shortfall when it is probable that the guaranteed energy savings will not be achieved and the amount is reasonably estimable. After giving effect to a $1 million guarantee payout on one contract that was terminated during the three months ended June 30, 2011, Pepco Energy Services as of June 30, 2011, did not have an accrued liability for energy savings performance contracts. There was no significant change in the type of contracts issued for the three and six months ended June 30, 2011. Based on its historical experience, Pepco Energy Services believes the probability of incurring a material loss under its energy savings performance contracts is remote.

Dividends

On July 28, 2011, Pepco Holdings' Board of Directors declared a dividend on common stock of 27 cents per share payable September 30, 2011, to shareholders of record on September 12, 2011.

(16) DISCONTINUED OPERATIONS

In 2010, PHI disposed of Conectiv Energy. The disposition included the sale of the wholesale power generation business to Calpine, which was completed on July 1, 2010, and the liquidation of the remaining Conectiv Energy assets and businesses, which has been substantially completed.

PHI is reporting the results of operations of the former Conectiv Energy segment in discontinued operations in all periods presented in the accompanying Consolidated Statements of Income. Further, the assets and liabilities of Conectiv Energy, excluding the related current and deferred income tax accounts and certain retained liabilities, are reported as held for sale as of each date presented in the accompanying Consolidated Balance Sheets.

The remaining net assets of Conectiv Energy are $2 million at June 30, 2011 and primarily include miscellaneous receivables and payables. Net assets at December 31, 2010 of $45 million included accounts receivable of $81 million, inventory of $20 million, net derivative liabilities of $18 million and other miscellaneous receivables and payables. At June 30, 2011, there were no derivative assets and liabilities or financial assets and liabilities that would be accounted for at fair value on a recurring basis. At December 31, 2010, Conectiv Energy had $7 million of financial assets (with $4 million and $3 million categorized within levels 2 and 3 of the fair value hierarchy, respectively) and $90 million of financial liabilities accounted for at fair value on a recurring basis (with $10 million and $80 million categorized within levels 1 and 2 of the fair value hierarchy, respectively).

Operating Results

The operating results of Conectiv Energy are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
(Loss) income from operations of discontinued operations, net of income taxes	$ (2)	$ 2	$ 1	$ 8
Net gains (losses) from dispositions of assets and businesses of discontinued operations, net of income taxes	1	(132)	—	(130)
(Loss) income from discontinued operations, net of income taxes	$ (1)	$ (130)	$ 1	$ (122)

(Loss) income from operations of discontinued operations, net of income taxes, for the three and six months ended June 30, 2011, includes adjustments of $4 million to certain remaining miscellaneous assets and liabilities. In addition, adjustments were made to certain accrued expenses for obligations associated with the sale of the wholesale power generation business to Calpine to reflect the actual amounts paid to Calpine during the six months ended June 30, 2011. For the three and six months ended June 30, 2010, (loss) income from operations of discontinued operations, net of income taxes, includes after-tax expenses for employee severance and retention benefits of $9 million and after-tax accrued expenses for certain obligations associated with the sale of the wholesale power generation business to Calpine of $13 million, each recorded in the second quarter of 2010.

Net gains (losses) from dispositions of assets and businesses of discontinued operations, net of income taxes for the three months ended June 30, 2011 include after-tax income of $1 million related to the sale of a tolling agreement in May 2011. Net gains (losses) from dispositions of assets and businesses of discontinued operations, net of income taxes, for the six months ended June 30, 2011 includes the income from the sale of the tolling agreement noted above, which is offset by an expense of approximately $1 million (after-tax) which was incurred in connection with a financial transaction entered into with a third party on January 6, 2011, under which Conectiv Energy transferred to the third party its remaining portfolio of derivatives, including financially settled natural gas and electric power transactions, for all remaining periods from February 1, 2011 forward. In connection with the closing of the transaction, Conectiv paid the third party $82 million, primarily representing the fair value of the derivatives at February 1, 2011, and an after-tax administrative fee of $1 million. Substantially all of the mark-to-market gains and losses associated with these derivatives were recorded in earnings through December 31, 2010 and accordingly no additional material gain or loss was recognized as a result of this transaction in 2011.

Net losses from dispositions of assets and businesses of discontinued operations, net of income taxes, of $132 million and $130 million for the three and six months ended June 30, 2010, respectively, include (i) the after-tax loss on the sale of the wholesale power generation business to Calpine of $67 million, (ii) after-tax net losses on sales of assets and businesses not sold to Calpine of $51 million and $49 million, respectively (inclusive of the recognition of after-tax unrealized losses on derivative contracts considered no longer probable to occur of $50 million recorded in the second quarter of 2010), and (iii) tax charges aggregating $14 million for the establishment of valuation allowances against certain deferred tax assets primarily associated with state net operating losses, the remeasurement of deferred taxes for expected changes in state income tax apportionment factors, and the write-off of certain tax credit carryforwards no longer expected to be realized.

Derivative Instruments and Hedging Activities

Conectiv Energy has historically used derivative instruments primarily to reduce its financial exposure to changes in the value of its assets and obligations due to commodity price fluctuations. The derivative instruments used included forward contracts, futures, swaps, and exchange-traded and over-the-counter options. The two primary risk management objectives were: (i) to manage the spread between the cost of fuel used to operate electric generation facilities and the revenue received from the sale of the power produced by those facilities, and (ii) to manage the spread between wholesale sale commitments and the cost of supply used to service those commitments to ensure stable cash flows and lock in favorable prices and margins when they became available.

As of June 30, 2011, Conectiv Energy had disposed of all energy commodity contracts and all cash collateral associated with these contracts had been returned.

Through June 30, 2010, Conectiv Energy purchased energy commodity contracts in the form of futures, swaps, options and forward contracts to hedge price risk in connection with the purchase of physical natural gas, oil and coal to fuel its generation assets for sale to customers. Conectiv Energy also purchased energy commodity contracts in the form of electricity swaps, options and forward contracts to hedge price risk in connection with the purchase of electricity for distribution to requirements-load customers. Through June 30, 2010, Conectiv Energy sold electricity swaps, options and forward contracts to hedge price risk in connection with electric output from its generating facilities. Conectiv Energy accounted for most of its futures, swaps and certain forward contracts as cash flow hedges of forecasted transactions, and accordingly, the effective portion of the gains or losses on these derivatives were reflected as a component of AOCL which were reclassified into income in the same period or periods during which the hedged transactions affect income. Gains and losses on the derivatives representing hedge ineffectiveness or hedge components excluded from the assessment of effectiveness were recognized in current income.

The amounts of pre-tax loss on commodity derivatives included in other comprehensive loss for Conectiv Energy for the three and six months ended June 30, 2011 and 2010 is provided in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Amount of net pre-tax gain (loss) arising during the period included in accumulated other comprehensive loss	$ —	$ 44	$ —	$ (74)
Amount of net pre-tax loss reclassified into income:				
Effective portion:				
Loss from discontinued operations, net of income taxes	—	61	—	106
Ineffective portion:				
Loss from discontinued operations, net of income taxes (a)(b)	—	84	—	87
Total net pre-tax loss reclassified into income	—	145	—	193
Net pre-tax gain on commodity derivatives included in accumulated other comprehensive loss	$ —	$ 189	$ —	$ 119

(a) For the three months ended June 30, 2011 and 2010, amounts of zero and $87 million, respectively, were reclassified from AOCL to income because the forecasted transactions were deemed probable not to occur.

(b) For the six months ended June 30, 2011 and 2010, amounts of zero and $88 million, respectively, were reclassified from AOCL to income because the forecasted transactions were deemed probable not to occur.

To the extent that Conectiv Energy held certain derivatives that did not qualify as hedges, these derivatives were recorded at fair value on the balance sheet with changes in fair value recognized in income. The amounts of realized and unrealized derivative gains (losses) for Conectiv Energy included in (Loss) income from discontinued operations, net of income taxes, for the three and six months ended June 30, 2011 and 2010, is provided in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Realized mark-to-market gains	$ —	$ 23	$ —	$ 26
Unrealized mark-to-market losses	—	(23)	—	(24)
Total net mark-to-market gains (losses)	$ —	$ —	$ —	$ 2

(17) RESTRUCTURING CHARGE

With the ongoing wind down of the retail energy supply business of Pepco Energy Services and the disposition of Conectiv Energy, PHI repositioned itself as a regulated transmission and distribution company during 2010. In connection with this repositioning, PHI completed a comprehensive organizational review in 2010 that identified opportunities to streamline the organization and to achieve certain reductions in corporate overhead costs that are allocated to its operating segments, which resulted in the adoption of a restructuring plan. PHI began implementation of the plan during 2010, identifying 164 employee positions that were eliminated. The plan also includes additional cost reduction opportunities that are being implemented through process improvements and operational efficiencies.

In connection with the restructuring plan, PHI recorded a pre-tax restructuring charge of $30 million in 2010 related to severance, pension, and health and welfare benefits for employee terminations. The severance, pension, and health and welfare benefits were estimated based on the years of service and compensation levels of the employees associated with the 164 eliminated positions. The restructuring charge was allocated to PHI’s operating segments and was reflected as a separate line item in the Consolidated Statement of Income for the year ended December 31, 2010.

A reconciliation of PHI’s accrued restructuring charges for the three and six months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011 (millions of dollars)		
	Power Delivery	Corporate and Other	PHI Consolidated
Beginning balance as of April 1, 2011	$ 8	$ —	$ 8
Restructuring charge	—	—	—
Cash payments	(2)	—	(2)
Ending balance as of June 30, 2011	$ 6	$ —	$ 6

	Six Months Ended June 30, 2011 (millions of dollars)		
	Power Delivery	Corporate and Other	PHI Consolidated
Beginning balance as of January 1, 2011	$ 28	$ 1	$ 29
Restructuring charge	—	—	—
Cash payments	(22)	(1)	(23)
Ending balance as of June 30, 2011	$ 6	$ —	$ 6

POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Operating Revenue	$ 506	$ 539	$1,040	$1,091
Operating Expenses				
Purchased energy	218	261	473	576
Other operation and maintenance	100	73	202	161
Depreciation and amortization	42	40	84	78
Other taxes	94	88	186	163
Total Operating Expenses	454	462	945	978
Operating Income	52	77	95	113
Other Income (Expenses)				
Interest and dividend income	—	1	—	1
Interest expense	(22)	(25)	(46)	(50)
Other income	4	2	10	5
Total Other Expenses	(18)	(22)	(36)	(44)
Income Before Income Tax Expense	34	55	59	69
Income Tax Expense	2	23	9	29
Net Income	32	32	50	40
Retained Earnings at Beginning of Period	741	713	723	730
Dividends paid to Parent	—	(25)	—	(50)
Retained Earnings at End of Period	$ 773	$ 720	$ 773	$ 720

The accompanying Notes are an integral part of these Financial Statements.

POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 58	$ 88
Accounts receivable, less allowance for uncollectible accounts of $19 million and $20 million, respectively	378	373
Inventories	51	44
Prepayments of income taxes	27	95
Income taxes receivable	35	37
Prepaid expenses and other	51	34
Total Current Assets	600	671
INVESTMENTS AND OTHER ASSETS		
Regulatory assets	223	191
Prepaid pension expense	305	274
Investment in trust	29	25
Income taxes receivable	25	34
Other	57	57
Total Investments and Other Assets	639	581
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	6,353	6,185
Accumulated depreciation	(2,666)	(2,609)
Net Property, Plant and Equipment	3,687	3,576
TOTAL ASSETS	$ 4,926	$ 4,828

The accompanying Notes are an integral part of these Financial Statements.

POTOMAC ELECTRIC POWER COMPANY
BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars, except shares)	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 207	$ 194
Accounts payable due to associated companies	64	75
Capital lease obligations due within one year	8	8
Taxes accrued	64	62
Interest accrued	17	18
Other	106	119
Total Current Liabilities	466	476
DEFERRED CREDITS		
Regulatory liabilities	161	147
Deferred income taxes, net	1,006	958
Investment tax credits	6	7
Other postretirement benefit obligations	68	67
Income taxes payable	—	3
Liabilities and accrued interest related to uncertain tax positions	54	52
Other	65	64
Total Deferred Credits	1,360	1,298
LONG-TERM LIABILITIES		
Long-term debt	1,540	1,540
Capital lease obligations	82	86
Total Long-Term Liabilities	1,622	1,626
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
EQUITY		
Common stock, $.01 par value, 200,000,000 shares authorized, 100 shares outstanding	—	—
Premium on stock and other capital contributions	705	705
Retained earnings	773	723
Total Equity	1,478	1,428
TOTAL LIABILITIES AND EQUITY	$ 4,926	$ 4,828

The accompanying Notes are an integral part of these Financial Statements.

POTOMAC ELECTRIC POWER COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(millions of dollars)	
OPERATING ACTIVITIES		
Net income	$ 50	$ 40
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	84	78
Deferred income taxes	17	23
Changes in:		
Accounts receivable	(9)	(47)
Regulatory assets and liabilities, net	(1)	(15)
Accounts payable and accrued liabilities	(8)	18
Pension contribution	(40)	—
Taxes accrued	62	37
Other assets and liabilities	17	20
Net Cash From Operating Activities	172	154
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(205)	(136)
Department of Energy capital reimbursement awards received	14	—
Changes in restricted cash equivalents	—	1
Net other investing activities	(6)	1
Net Cash Used By Investing Activities	(197)	(134)
FINANCING ACTIVITIES		
Dividends paid to Parent	—	(50)
Reacquisition of long-term debt	—	(16)
Net other financing activities	(5)	(10)
Net Cash Used by Financing Activities	(5)	(76)
Net Decrease in Cash and Cash Equivalents	(30)	(56)
Cash and Cash Equivalents at Beginning of Period	88	213
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 58	$ 157
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash received for income taxes (includes payments from PHI for federal income taxes)	$ 71	$ 16

The accompanying Notes are an integral part of these Financial Statements.

NOTES TO FINANCIAL STATEMENTS

POTOMAC ELECTRIC POWER COMPANY

(1) ORGANIZATION

Potomac Electric Power Company (Pepco) is engaged in the transmission and distribution of electricity in the District of Columbia and major portions of Prince George's County and Montgomery County in suburban Maryland. Pepco also provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territories who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Standard Offer Service in both the District of Columbia and Maryland. Pepco is a wholly owned subsidiary of Pepco Holdings, Inc. (Pepco Holdings or PHI).

(2) SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Pepco's unaudited financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with the annual financial statements included in Pepco's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of Pepco's management, the financial statements contain all adjustments (which all are of a normal recurring nature) necessary to present fairly Pepco's financial condition as of June 30, 2011, in accordance with GAAP. The year-end December 31, 2010 Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Interim results for the three and six months ended June 30, 2011 may not be indicative of results that will be realized for the full year ending December 31, 2011 since the sales of electric energy are seasonal.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the financial statements and accompanying notes. Although Pepco believes that its estimates and assumptions are reasonable, they are based upon information available to management at the time the estimates are made. Actual results may differ significantly from these estimates.

Significant matters that involve the use of estimates include the assessment of contingencies, the calculation of future cash flows and fair value amounts for use in asset impairment evaluations, pension and other postretirement benefits assumptions, unbilled revenue calculations, the assessment of the probability of recovery of regulatory assets, accrual of storm restoration costs, accrual of restructuring charges, recognition of changes in network service transmission rates for prior service year costs, accrual of self-insurance reserves for general and auto liability claims and income tax provisions and reserves. Additionally, Pepco is subject to legal, regulatory, and other proceedings and claims that arise in the ordinary course of its business. Pepco records an estimated liability for these proceedings and claims when it is probable that a loss has been incurred and the loss is reasonably estimable.

Network Service Transmission Rates

In May 2011, Pepco filed its network service transmission rates with the Federal Energy Regulatory Commission (FERC) to be effective for the service year beginning June 1, 2011. The new rates include an adjustment for costs incurred in the service year ended May 31, 2011 that were not reflected in the rates charged to customers for that service year. In the second quarter of 2011, Pepco recorded a $2 million decrease in transmission revenues as a change to the estimates recorded in previous periods primarily due to a decrease in actual rate base versus estimated rate base.

General and Auto Liability

During the second quarter of 2011, Pepco reduced its self-insurance reserves for general and auto liability claims by approximately $1 million, based on obtaining an actuarial estimate of the unpaid loss attributable to general and auto liability claims for Pepco at June 30, 2011.

Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions

Taxes included in Pepco's gross revenues were $85 million and $79 million for the three months ended June 30, 2011 and 2010, respectively, and $171 million and $143 million for the six months ended June 30, 2011 and 2010, respectively.

Reclassifications and Adjustments

Certain prior period amounts have been reclassified in order to conform to the current period presentation. The following adjustments have been recorded which are not considered material individually or in the aggregate:

Income Tax Adjustments

During the first quarter of 2011, Pepco recorded an adjustment to correct certain income tax errors related to prior periods associated with the interest on uncertain tax positions. The adjustment resulted in an increase in income tax expense of $1 million.

(3) NEWLY ADOPTED ACCOUNTING STANDARDS

Fair Value Measurements and Disclosures (Accounting Standards Codification (ASC) 820)

The Financial Accounting Standards Board (FASB) issued new disclosure requirements that require significant items within the reconciliation of the Level 3 valuation category to be presented in separate categories for purchases, sales, issuances and settlements. The guidance was effective beginning with Pepco's March 31, 2011 financial statements. Pepco has included the new disclosure requirements in Note (9), "Fair Value Disclosures," to its financial statements.

(4) RECENTLY ISSUED ACCOUNTING STANDARDS, NOT YET ADOPTED

Fair Value Measurements and Disclosures (ASC 820)

In May 2011, the FASB issued new guidance on fair value measurement and disclosures that will be effective beginning with Pepco's March 31, 2012 financial statements. The new guidance would change how fair value is measured in specific instances and expand disclosures about fair value measurements. Pepco is evaluating the impact of this new guidance on its financial statements.

(5) SEGMENT INFORMATION

The company operates its business as one regulated utility segment, which includes all of its services as described above.

(6) <u>PENSION AND OTHER POSTRETIREMENT BENEFITS</u>

Pepco accounts for its participation in the Pepco Holdings benefit plans as participation in a multi-employer plan. PHI's pension and other postretirement net periodic benefit cost for the three months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $19 million and $31 million, respectively. Pepco's allocated share was $7 million and $13 million, respectively, for the three months ended June 30, 2011 and 2010. PHI's pension and other postretirement net periodic benefit cost for the six months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $46 million and $60 million, respectively. Pepco's allocated share was $17 million and $20 million, respectively, for the six months ended June 30, 2011 and 2010.

On March 14, 2011, Pepco made a discretionary tax-deductible contribution to PHI's non-contributory retirement plan (the PHI Retirement Plan) of $40 million. Pepco did not make a contribution to the PHI Retirement Plan in 2010.

(7) <u>DEBT</u>

Credit Facility

The principal credit source for PHI and its utility subsidiaries is an unsecured $1.5 billion syndicated credit facility, which can be used to borrow funds, obtain letters of credit and support the issuance of commercial paper. As of June 30, 2011, PHI's credit limit under the facility was $875 million and the credit limit for each of Pepco, Delmarva Power & Light Company (DPL) and Atlantic City Electric Company (ACE) was the lesser of $500 million and the maximum amount of debt each company was permitted to have outstanding by its regulatory authorities, except that the aggregate amount of credit used by Pepco, DPL and ACE collectively, at any given time, could not exceed $625 million. On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of the credit agreement with respect to the facility, which among other changes extends the expiration date of the facility from May 2, 2012, to August 1, 2016. The facility, as amended and restated is more fully described below under the heading "Financing Activities Subsequent to June 30, 2011." PHI also has two bi-lateral 364 day unsecured credit agreements totaling $200 million. Under each of the credit agreements, PHI has access to revolving and floating rate loans over the terms of the agreements. Neither agreement provides for the issuance of letters of credit. Both agreements expire on October 26, 2011.

At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus unused borrowing capacity under the $1.5 billion credit facility available to meet the future liquidity needs of PHI's utility subsidiaries was $595 million and $462 million, respectively.

Financing Activities Subsequent to June 30, 2011

On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of their $1.5 billion credit facility to extend the expiration date to August 1, 2016, and to make various other changes. As amended and restated, all or any portion of the facility may be used to obtain revolving loans and up to $500 million may be used to obtain letters of credit. PHI's credit sublimit under the facility is $750 million and the sublimit of each of Pepco, DPL and ACE is $250 million. The borrowers may increase or decrease their respective sublimits during the term of the facility, except that (i) the sum of all of the borrower sublimits following any such increase or decrease must equal the total amount of the facility and (ii) the aggregate amount of credit used at any given time by (a) PHI may not exceed $1.25 billion and (b) each of Pepco, DPL or ACE may not exceed the lesser of $500 million and the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of sublimit reallocations cannot exceed eight per fiscal year during the term of the agreement.

The interest rate payable by each company on utilized funds is, at the borrowing company's election, (i) the greater of the prevailing prime rate, the federal funds effective rate plus 0.5% and one month LIBOR plus 1.0%, or (ii) the prevailing Eurodollar rate, plus a margin that varies according to the credit rating of the borrower. The facility also includes a "swingline loan sub-facility," pursuant to which each company may make same day borrowings in an aggregate amount not to exceed 10% of the total amount of the facility. Any swingline loan must be repaid by the borrower within fourteen days of receipt thereof. All indebtedness incurred under the facility is unsecured.

(8) INCOME TAXES

A reconciliation of Pepco's effective income tax rate is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	(millions of dollars)							
Income tax at federal statutory rate	$ 12	35.0%	$ 19	35.0%	$ 21	35.0%	$ 24	35.0%
Increases (decreases) resulting from:								
Depreciation	—	—	2	2.9	—	—	3	3.6
Change in estimates and interest related to uncertain and effectively settled tax positions	(4)	(12.1)	1	2.2	(4)	(6.6)	2	3.2
State income taxes, net of federal effect	2	4.7	3	5.4	3	4.6	4	5.5
Permanent differences related to deferred compensation funding	—	(1.2)	—	(0.6)	(2)	(2.5)	(1)	(0.7)
State tax benefit related to prior years' asset dispositions	(4)	(12.4)	—	—	(4)	(7.1)	—	—
Asset removal costs	(2)	(4.4)	(1)	(1.1)	(3)	(4.2)	(1)	(1.6)
Other, net	(2)	(3.8)	(1)	(2.0)	(2)	(3.9)	(2)	(3.0)
Income tax expense	$ 2	5.8%	$ 23	41.8%	$ 9	15.3%	$ 29	42.0%

Pepco's effective tax rates for the three months ended June 30, 2011 and 2010 were 5.8% and 41.8%, respectively. The decrease in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions and refunds received on amended state tax returns.

During the second quarter of 2011, PHI reached a settlement with the Internal Revenue Service (IRS) with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that have been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, Pepco has recorded an additional tax benefit in the amount of $5 million (after-tax). This additional interest income was recorded in the second quarter of 2011.

In May 2011, Pepco received refunds of approximately $5 million and recorded tax benefits of approximately $4 million (after-tax) related to the filing of amended state tax returns. These amended returns reduced state taxable income due to an increase in tax basis on certain prior years' asset dispositions.

Pepco's effective tax rates for the six months ended June 30, 2011 and 2010 were 15.3% and 42.0%, respectively. The decrease in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions, refunds received on amended state tax returns and permanent differences related to deferred compensation funding.

In the second quarter of 2011, Pepco recorded a $5 million interest benefit from the reallocation of its deposits and the state refunds received of $4 million discussed above.

Further, in March of 2011, Pepco accrued $3 million related to proceeds from life insurance policies on a former executive. This income is not taxable and is included in the permanent differences related to deferred compensation funding.

(9) FAIR VALUE DISCLOSURES

Financial Instruments Measured at Fair Value on a Recurring Basis

Pepco has adopted FASB guidance on fair value measurement and disclosures (ASC 820) that established a framework for measuring fair value and expanded disclosures about fair value measurements. As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Pepco utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. Accordingly, Pepco utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Pepco classifies its fair value balances in the fair value hierarchy based on the observability of the inputs used in the fair value calculation as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable data. Level 2 also includes those financial instruments that are valued using internally developed methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Executive deferred compensation plan assets consist of life insurance policies that are categorized as level 2 assets because they are priced based on the assets underlying the policies, which consist of short-term cash equivalents and fixed income securities that are priced using observable market data. The level 2 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance sub-accounts. The sub-accounts are designed to mirror existing mutual funds and money market funds that are observable and actively traded.

Level 3 – Pricing inputs include significant inputs that are generally less observable than those from objective sources. Level 3 includes those financial instruments that are valued using models or other valuation methodologies.

Executive deferred compensation plan assets and liabilities that are classified as level 3 include certain life insurance policies that are valued using the cash surrender value of the policies, net of loans against those policies, which does not represent a quoted price in an active market.

The following tables set forth, by level within the fair value hierarchy, Pepco's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2011 and December 31, 2010. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Pepco's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Description	Total	Fair Value Measurements at June 30, 2011 Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)	Significant Other Observable Inputs (Level 2)(a)	Significant Unobservable Inputs (Level 3)
		(millions of dollars)		
ASSETS				
Executive deferred compensation plan assets				
Money Market Funds	$ 13	$ 13	$ —	$ —
Life Insurance Contracts	57	—	39	18
	$ 70	$ 13	$ 39	$ 18
LIABILITIES				
Executive deferred compensation plan liabilities				
Life Insurance Contracts	$ 11	$ —	$ 11	$ —
	$ 11	$ —	$ 11	$ —

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.

Description	Total	Fair Value Measurements at December 31, 2010 Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)	Significant Other Observable Inputs (Level 2)(a)	Significant Unobservable Inputs (Level 3)
		(millions of dollars)		
ASSETS				
Executive deferred compensation plan assets				
Money Market Funds	$ 6	$ 6	$ —	$ —
Life Insurance Contracts	59	—	41	18
	$ 65	$ 6	$ 41	$ 18
LIABILITIES				
Executive deferred compensation plan liabilities				
Life Insurance Contracts	$ 11	$ —	$ 11	$ —
	$ 11	$ —	$ 11	$ —

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.

Reconciliations of the beginning and ending balances of Pepco's fair value measurements using significant unobservable inputs (level 3) for the six months ended June 30, 2011 and 2010 are shown below:

	Life Insurance Contracts Six Months Ended June 30, 2011	2010
	(millions of dollars)	
Beginning balance as of January 1	$ 18	$ 18
Total gains or (losses) (realized and unrealized)		
Included in income	5	2
Included in accumulated other comprehensive loss	—	—
Purchases	—	—
Issuances	(1)	(1)
Settlements	(4)	—
Transfers in (out) of level 3	—	—
Ending balance as of June 30	$ 18	$ 19

The breakdown of realized and unrealized gains on level 3 instruments included in income as a component of "Other income" or "Other operation and maintenance" expense for the periods below were as follows:

	Six Months Ended June 30, 2011	2010
	(millions of dollars)	
Total gains included in income for the period	$ 5	$ 2
Change in unrealized gains relating to assets still held at reporting date	$ 2	$ 2

Other Financial Instruments

The estimated fair values of Pepco's issued debt instruments at June 30, 2011 and December 31, 2010 are shown below:

	June 30, 2011		December 31, 2010	
	(millions of dollars)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ 1,540	$1,765	$ 1,540	$1,722

The fair value of long-term debt issued by Pepco was based on actual trade prices as of June 30, 2011 and December 31, 2010. Where trade prices were not available, Pepco used a discounted cash flow model to estimate fair value.

The carrying amounts of all other financial instruments in the accompanying financial statements approximate fair value.

(10) COMMITMENTS AND CONTINGENCIES

Regulatory and Other Matters

District of Columbia Divestiture Case

In June 2000, the District of Columbia Public Service Commission (DCPSC) approved a divestiture settlement under which Pepco is required to share with its District of Columbia customers the net proceeds realized by Pepco from the sale of its generation-related assets in 2000. This approval left unresolved issues of (i) whether Pepco should be required to share with customers the excess deferred income taxes (EDIT) and accumulated deferred investment tax credits (ADITC) associated with the sold assets and, if so, whether such sharing would violate the normalization provisions of the Internal Revenue Code and its implementing regulations and (ii) whether Pepco was entitled to deduct certain costs in determining the amount of proceeds to be shared.

In May 2010, the DCPSC issued an order addressing all of the remaining issues related to the sharing of the proceeds of Pepco's divestiture of its generating assets. In the order, the DCPSC ruled that Pepco is not required to share EDIT and ADITC with customers. However, the order also disallowed certain items that Pepco had included in the costs deducted from the proceeds of the sale of the generation assets. The disallowance of these costs, together with interest on the disallowed amount, increased the aggregate amount Pepco was required to distribute to customers, pursuant to the sharing formula, by approximately $11 million, which PHI recognized as an expense in 2010 and refunded the amounts to its customers. In June 2010, Pepco filed an application for reconsideration of the DCPSC's order, contesting (i) approximately $5 million of the total of $6 million in disallowances and (ii) approximately $4 million of the $5 million in interest to be credited to customers (reflecting a difference in the period of time over which interest was calculated as well as the balance to which interest would be applied). In July 2010, the DCPSC denied Pepco's application for reconsideration. In September 2010, Pepco filed an appeal of the DCPSC's decision with the District of Columbia Court of Appeals. On April 12, 2011, the Court of Appeals affirmed the DCPSC order. Pepco does not intend to appeal this decision.

Maryland Public Service Commission Reliability Investigation

In August 2010, following the major storm events that occurred in July and August 2010, the Maryland Public Service Commission (MPSC) initiated a proceeding for the purpose of investigating the reliability of the Pepco distribution system and the quality of distribution service Pepco is providing its customers. On February 10, 2011, the MPSC issued a notice expanding the scope of issues on which it requested testimony to include suggested remedies for the MPSC to consider imposing if the MPSC finds that Pepco has failed to meet its public service obligations. The possible remedies identified in the notice were the imposition of civil penalties, changes in the manner of Pepco's operations, modification of Pepco's service territory and revocation of Pepco's authority to exercise its public utility franchise. On March 2, 2011, an independent consultant retained by the MPSC to review and make recommendations regarding the reliability of Pepco's distribution system and the quality of its service filed its report with the MPSC. Pepco and the other parties submitted written testimony and the MPSC held four days of hearings in mid-June 2011. The parties filed their initial briefs on July 20, 2011. Pepco's position in this proceeding is that while it is implementing a comprehensive program that will improve the reliability of its distribution system and its planning for, and response to, adverse weather events, there is no evidentiary support to impose sanctions for past performance. The other parties, including the staff of the MPSC, the Maryland Office of People's Counsel, the Maryland Energy Administration, and Montgomery County, Maryland, contend that Pepco's service reliability has not met an acceptable level. The other parties have recommended a variety of sanctions, including, but not limited to, the imposition of significant fines, the denial of rate recovery for reliability improvement costs, a reduction in Pepco's return on equity (ROE), restrictions on dividends to PHI in order to fund reliability improvement costs, compliance with enhanced reliability requirements within a specified period and various reporting requirements. While Pepco is committed to improving the reliability of its electric service, it is vigorously opposing the imposition of the sanctions requested by the other parties, which Pepco believes are unsupported by the record in this case. Pepco is unable to predict the outcome of this proceeding at this time.

Rate Proceedings

Over the last several years, Pepco has proposed in each of its service territories the adoption of a mechanism to decouple retail distribution revenue from the amount of power delivered to retail customers. A bill stabilization adjustment (BSA) has been approved and implemented for electric service in Maryland and the District of Columbia. The MPSC has initiated a proceeding to review how the BSA operates in Maryland to recover revenues lost as a result of major storm outages (as discussed below). Under the BSA, customer distribution rates are subject to adjustment (through a credit or surcharge mechanism), depending on whether actual distribution revenue per customer exceeds or falls short of the revenue-per-customer amount approved by the applicable public service commission. The BSA increases rates if actual distribution revenues fall below the approved level and decreases rates if actual distribution revenues are above the approved level. The result is that, over time, Pepco collects its authorized revenues for distribution service. As a consequence, a BSA "decouples" distribution revenue from unit sales consumption and ties the growth in distribution revenues to the growth in the number of customers. Some advantages of the BSA are that it (i) eliminates revenue fluctuations due to weather and changes in customer usage patterns and, therefore, provides for more predictable distribution revenues that are better aligned with costs, (ii) provides for more reliable fixed-cost recovery, (iii) tends to stabilize customers' delivery bills, and (iv) removes any disincentives for Pepco to promote energy efficiency programs for its customers, because it breaks the link between overall sales volumes and distribution revenues.

On February 1, 2011, the MPSC initiated proceedings involving Pepco and its subsidiary DPL, as well as unaffiliated utilities including Baltimore Gas & Electric Company and Southern Maryland Electric Cooperative, for the purpose of reviewing how the BSA operates to recover revenues lost as a result of major storm outages. In its orders initiating the proceedings, the MPSC expressed concern that the utilities' respective BSAs may be allowing them to recover revenues lost during extended outages, therefore unintentionally eliminating an incentive to restore service quickly. The MPSC will consider whether the BSA, as currently in effect, is appropriate, whether the calculations or determinant factors for calculating the BSA should be modified, and if so, what modifications should be made. On July 22, 2011, the MPSC held a legislative-style hearing on this matter. The potential financial impact of any modification to the BSA cannot be assessed until the details of the modification are known. A provision that excludes revenues lost as a result of major storm outages from the calculation of future BSA adjustments is already included in the BSA for Pepco in the District of Columbia as approved by the DCPSC. If the MPSC were to implement a change similar to the provision in effect in the District of Columbia, the financial impact of service interruptions due to a major storm would generally depend on the scope and duration of the outages.

District of Columbia

On July 8, 2011, Pepco filed an application with the DCPSC to increase its electric distribution base rates by approximately $42 million annually, based on an ROE of 10.75%. A decision by the DCPSC is expected in the second quarter of 2012.

Maryland

In December 2009, Pepco filed an electric distribution base rate case in Maryland. The filing sought approval of an annual rate increase of approximately $40 million, based on a requested ROE of 10.75%. During the course of the proceeding, Pepco reduced its request to approximately $28.2 million. In August 2010, the MPSC issued an order approving a rate increase of approximately $7.8 million, based on an ROE of 9.83% Pepco implemented the new rates on August 19, 2010, effective for services rendered on and after July 29,

2011. In September 2010, Pepco filed with the MPSC a motion for reconsideration of the following issues, which, if approved, in the aggregate would have increased annual revenue by approximately $8.5 million: (i) denial of inclusion in rate base of certain reliability plant investments, which occurred subsequent to the test period but before the rate effective period; (ii) denial of Pepco's request to increase depreciation rates to reflect a corrected formula relating to the cost of removal expenses; and (iii) imposition of imputed cost savings to partially offset the costs of Pepco's enhanced vegetation management program. On June 8, 2011, the MPSC denied the motion for reconsideration, thus bringing the matter to a conclusion.

General Litigation

In 1993, Pepco was served with Amended Complaints filed in the state Circuit Courts of Prince George's County, Baltimore City and Baltimore County, Maryland in separate ongoing, consolidated proceedings known as "In re: Personal Injury Asbestos Case." Pepco and other corporate entities were brought into these cases on a theory of premises liability. Under this theory, the plaintiffs argued that Pepco was negligent in not providing a safe work environment for employees or its contractors, who allegedly were exposed to asbestos while working on Pepco's property. Initially, a total of approximately 448 individual plaintiffs added Pepco to their complaints. While the pleadings are not entirely clear, it appears that each plaintiff sought $2 million in compensatory damages and $4 million in punitive damages from each defendant.

Since the initial filings in 1993, additional individual suits have been filed against Pepco, and significant numbers of cases have been dismissed. As a result of two motions to dismiss, numerous hearings and meetings and one motion for summary judgment, Pepco has had approximately 400 of these cases successfully dismissed with prejudice, either voluntarily by the plaintiff or by the court. As of June 30, 2011, there are approximately 180 cases still pending against Pepco in the State Courts of Maryland, of which approximately 90 cases were filed after December 19, 2000, and were tendered to Mirant Corporation (Mirant) for defense and indemnification in connection with the sale by Pepco of its generation assets to Mirant in 2000.

While the aggregate amount of monetary damages sought in the remaining suits (excluding those tendered to Mirant) is approximately $360 million, Pepco believes the amounts claimed by the remaining plaintiffs are greatly exaggerated. The amount of total liability, if any, and any related insurance recovery cannot be determined at this time; however, based on information and relevant circumstances known at this time, Pepco does not believe these suits will have a material adverse effect on its financial condition, results of operations or cash flows. However, if an unfavorable decision were rendered against Pepco, it could have a material adverse effect on Pepco's financial condition, results of operations and cash flows.

Environmental Litigation

Pepco is subject to regulation by various federal, regional, state, and local authorities with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous waste disposal, and limitations on land use. In addition, federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or unremediated hazardous waste sites. Pepco may incur costs to clean up currently or formerly owned facilities or sites found to be contaminated, as well as other facilities or sites that may have been contaminated due to past disposal practices. Although penalties assessed for violations of environmental laws and regulations are not recoverable from Pepco's customers, environmental clean-up costs incurred by it would be included in its cost of service for ratemaking purposes.

Peck Iron and Metal Site. The U.S. Environmental Protection Agency (EPA) informed Pepco in a May 2009 letter that Pepco may be a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) with respect to the cleanup of the Peck Iron and Metal site in Portsmouth, Virginia, for costs EPA has incurred in cleaning up the site. The EPA letter states that Peck Iron and Metal purchased, processed, stored and shipped metal scrap from military bases, governmental agencies and businesses and that Peck's metal scrap operations resulted in the improper storage and disposal of hazardous substances. EPA bases its allegation that Pepco arranged for disposal or treatment of hazardous substances sent to the site on information provided by Peck Iron and Metal personnel, who informed EPA that Pepco was a customer at the site. Pepco has advised EPA by letter that its records show no evidence of any sale of scrap metal by Pepco to the site. Even if EPA has such records and such sales did occur, Pepco believes that any such scrap metal sales are entitled to the recyclable material exemption from CERCLA liability. In a Federal Register notice published on November 4, 2009, EPA placed the Peck Iron and Metal site on the National Priorities List (NPL). The NPL, among other things, serves as a guide to EPA in determining which sites warrant further investigation to assess the nature and extent of the human health and environmental risks associated with a site. In a July 12, 2011 letter, EPA invited Pepco to enter into discussions with the agency to conduct a remedial investigation/feasibility study (RI/FS) at the site. Pepco is evaluating EPA's invitation, but can not at this time predict the costs of the RI/FS, the cost of performing a remedy at the site or the amount of such costs that EPA might impose on Pepco. Based on current information, Pepco does not believe this matter will have a material adverse effect on its financial condition, results of operations or cash flows.

Ward Transformer Site. In April 2009, a group of PRPs with respect to the Ward Transformer site in Raleigh, North Carolina, filed a complaint in the U.S. District Court for the Eastern District of North Carolina, alleging cost recovery and/or contribution claims against a number of entities, including Pepco with respect to past and future response costs incurred by the PRP group in performing a removal action at the site. With the court's permission, the plaintiffs filed amended complaints in September 2009. Pepco, as part of a group of defendants, filed a motion to dismiss in October 2009. In a March 2010 order, the court denied the defendants' motion to dismiss. Although it is too early in the process to characterize the magnitude of the potential liability at this site, Pepco does not believe that it had extensive business transactions, if any, with the Ward Transformer site and therefore, costs incurred to resolve this matter are not expected to be material.

Benning Road Site. In September 2010, PHI received a letter from EPA stating that EPA and the District of Columbia Department of the Environment (DDOE) have identified the Benning Road location, consisting of a transmission and distribution facility operated by Pepco and a generation facility operated by Pepco Energy Services, as one of six land-based sites potentially contributing to contamination of the lower Anacostia River. The letter stated that the principal contaminants of concern are polychlorinated biphenyls (PCBs) and polycyclic aromatic hydrocarbons, that EPA is monitoring the efforts of DDOE and that EPA intends to use federal authority to address the Benning Road site if an agreement for a comprehensive study to evaluate (and, if necessary, to clean up) the facility is not reached. In an October 2010 letter, the Office of the Attorney General of the District of Columbia notified PHI of the District's intent to sue Pepco Energy Services and Pepco under the Resource Conservation and Recovery Act for abatement of conditions related to their historical activities, including the discharge of PCBs at the Benning Road site, and under CERCLA for reimbursement of response costs incurred by the District. The District's letter stated that EPA will list the Benning Road site on the NPL if contamination at the facility is not addressed in a timely manner.

In January 2011, in response to these EPA and District of Columbia letters, Pepco and Pepco Energy Services entered into a proposed consent decree with DDOE that requires Pepco and Pepco Energy Services to conduct a RI/FS for the Benning Road site and an approximately 10-15 acre portion of the adjacent Anacostia River. The RI/FS will form the basis for DDOE's selection of a remedial action for the Benning Road site and for the Anacostia River sediment associated with the site. In February 2011, the District filed a complaint against Pepco and Pepco Energy Services in the United States District Court for the District of Columbia for the purpose of obtaining judicial approval of the consent decree. At the time of the filing, it was not expected that the filing of this complaint would lead to active litigation. Rather, after receiving public comment on the proposed consent decree, DDOE planned to file a motion requesting the District Court to enter the consent decree. However, in April 2011, Anacostia Riverkeeper, Inc., the Anacostia Watershed Society and the Natural Resources Defense Council (collectively, the Environmental Organizations) filed a motion to intervene as plaintiffs in the District Court action. Pepco and Pepco Energy Services and DDOE have filed briefs opposing their intervention. If the District Court allows the Environmental Organizations to intervene and become parties to the litigation, the settlement of the litigation by means of the consent decree will require their agreement, which could require changes to the terms of the proposed consent decree. DDOE, Pepco and Pepco Energy Services have agreed to certain revisions to the consent decree to address some of the comments from the Environmental Organizations. DDOE intends to file the amended consent decree with the District Court in the near future, and to request that the court approve and enter the consent decree. Whether the court agrees to enter the consent decree likely will depend on whether it decides to grant the Environmental Organizations' intervention motion. Work on the RI/FS is not expected to begin until this matter is resolved.

At the present time, in light of the efforts by DDOE, Pepco and Pepco Energy Services to address the site through the proposed consent decree, Pepco and Pepco Energy Services anticipate that EPA will continue to refrain from listing the Benning Road facility on the NPL. The current estimate of the costs for performing the RI/FS is approximately $1 million. The remediation costs cannot be determined until the RI/FS is completed and the nature and scope of any remedial action are defined. However, the remediation costs are preliminarily projected to be approximately $13 million. As of June 30, 2011, PHI had an accrued liability of approximately $14 million with respect to this matter.

Potomac River Mineral Oil Release. On January 23, 2011, a coupling failure on a transformer cooler pipe resulted in a release of non-toxic mineral oil at Pepco's Potomac River substation in Alexandria, Virginia. An overflow of an underground secondary containment reservoir resulted in approximately 4,500 gallons of mineral oil flowing into the Potomac River.

The release falls within the regulatory jurisdiction of multiple federal and state agencies, each of which has responded to the release in some way. Beginning in March 2011, DDOE issued a series of compliance directives that require Pepco to prepare an incident report, provide certain records, and prepare and implement plans for sampling surface water and river sediments and assessing ecological risks and natural resources damages. Pepco is complying with DDOE's compliance directives.

On March 16, 2011, the Virginia Department of Environmental Quality (VADEQ) requested documentation regarding the release and the preparation of an emergency response report, which Pepco submitted to the agency on April 20, 2011. On March 25, 2011, Pepco received a notice of violation from VADEQ, which advised Pepco of information on which VADEQ may rely to institute an administrative or judicial enforcement action and stated that Pepco may be asked to enter into a consent order to formalize a corrective action plan and schedule.

In March 2011, EPA conducted an inspection of the Potomac River substation to review compliance with federal regulations regarding Spill Prevention, Control, and Countermeasure (SPCC) plans for facilities using oil-containing equipment in proximity to surface waters. Following the inspection, EPA advised Pepco that it had identified several potential violations of the SPCC regulations relating to SPCC plan content, recordkeeping, and secondary containment. Pepco responded to EPA's allegations and expects to engage in further discussions that may lead to an EPA demand for noncompliance penalties. In addition, as a result of the oil release, Pepco is reevaluating certain physical changes to existing containment systems and revising its SPCC plan.

The U.S. Coast Guard has assessed a $5,000 penalty for the release of oil into the waters of the United States.

The amount of penalties, if any, that may be imposed by DDOE, VADEQ and/or EPA and the costs associated with possible changes to the containment system cannot be predicted at this time; however, based on current information, Pepco does not believe this matter will have a material adverse effect on its financial condition, results of operations or cash flows.

District of Columbia Tax Legislation

On June 14, 2011, the Council of the District of Columbia (DC Council) approved the "Fiscal Year 2012 Budget Support Act of 2011" (Budget Support Act). The Budget Support Act includes a provision requiring that corporate taxpayers in the District of Columbia (District) calculate taxable income allocable or apportioned to the District by reference to the income and apportionment factors applicable to commonly controlled organizations organized within the United States that are engaged in a unitary business. This new reporting method will be effective for tax years beginning on or after December 31, 2010, if the Budget Support Act becomes law.

If it becomes law, the Budget Support Act will require a remeasurement of PHI's consolidated District of Columbia deferred tax balances as the Budget Support Act will result in the imposition of income taxes on income not previously taxable in the District. However, the Budget Support Act also provides a tax deduction for any increase in taxable temporary differences causing an increase in deferred tax liabilities; consequently any increase in deferred tax liabilities will be offset by the recording of deferred tax assets of an equal amount. Accordingly, the remeasurement of deferred taxes required by the Budget Support Act will have no income statement impact.

The Budget Support Act was signed by the Mayor on July 22, 2011, and must be submitted to Congress for review. Congress must act to disapprove the Budget Support Act within 30 days of its submission (counting only those days when either the House or Senate is in session); absent congressional disapproval, it will become law following the review period.

Management continues to analyze the impact that the tax reporting aspects of this legislation, if completed, may have on the financial position, results of operations and cash flows of PHI and its subsidiaries.

(11) RELATED PARTY TRANSACTIONS

PHI Service Company provides various administrative and professional services to PHI and its regulated and unregulated subsidiaries, including Pepco. The cost of these services is allocated in accordance with cost allocation methodologies set forth in the service agreement using a variety of factors, including the subsidiaries' share of employees, operating expenses, assets, and other cost causal methods. These intercompany transactions are eliminated by PHI in consolidation and no profit results from these transactions at PHI. PHI Service Company costs directly charged or allocated to Pepco for the three months ended June 30, 2011 and 2010 were approximately $43 million and $41 million, respectively. PHI Service Company costs directly charged or allocated to Pepco for the six months ended June 30, 2011 and 2010 were approximately $86 million and $85 million, respectively.

Certain subsidiaries of Pepco Energy Services perform utility maintenance services, including services that are treated as capital costs, for Pepco. Amounts charged to Pepco by these companies for the three months ended June 30, 2011 and 2010 were approximately $4 million and $2 million, respectively. Amounts charged to Pepco by these companies for the six months ended June 30, 2011 and 2010 were approximately $8 million and $3 million, respectively.

As of June 30, 2011 and December 31, 2010, Pepco had the following balances on its Balance Sheets due to related parties:

Asset (Liability)	June 30, 2011	December 31, 2010
	(millions of dollars)	
Payable to Related Party (current) (a)		
PHI Service Company	$ (20)	$ (27)
Pepco Energy Services (b)	(44)	(48)
Total	$ (64)	$ (75)
Money Pool Balance with Pepco Holdings (included in Cash and cash equivalents)	$ 50	$ 82

(a) These amounts are included in Accounts payable due to associated companies on the Balance Sheet.
(b) Pepco bills customers on behalf of Pepco Energy Services where customers have selected Pepco Energy Services as their alternative energy supplier or where Pepco Energy Services has performed work for certain government agencies under a General Services Administration area-wide agreement.

(12) RESTRUCTURING CHARGE

With the ongoing wind down of the retail energy supply business of Pepco Energy Services and the disposition of Conectiv Energy, PHI repositioned itself as a regulated transmission and distribution company during 2010. In connection with this repositioning, PHI completed a comprehensive organizational review in 2010 that identified opportunities to streamline the organization and to achieve certain reductions in corporate overhead costs that are allocated to its operating segments, which resulted in the adoption of a restructuring plan. PHI began implementation of the plan during 2010, identifying 164 employee positions that were eliminated. The plan also includes additional cost reduction opportunities that are being implemented through process improvements and operational efficiencies.

In connection with the restructuring plan, Pepco recorded a pre-tax restructuring charge of $15 million in 2010 related to its allocation of severance, pension, and health and welfare benefits for the termination of corporate services employees at PHI. The severance, pension, and health and welfare benefits were estimated based on the years of service and compensation levels of the employees associated with the 164 eliminated positions at PHI. The restructuring charge was reflected as a separate line item in the Statement of Income for the year ended December 31, 2010.

A reconciliation of Pepco’s accrued restructuring charges for the three and six months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011
	(millions of dollars)
Beginning balance as of April 1, 2011	$ 4
Restructuring charge	—
Cash payments	(1)
Ending balance as of June 30, 2011	$ 3

	Six Months Ended June 30, 2011
	(millions of dollars)
Beginning balance as of January 1, 2011	$ 15
Restructuring charge	—
Cash payments	(12)
Ending balance as of June 30, 2011	$ 3

DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(millions of dollars)			
Operating Revenue				
Electric	$ 245	$ 260	$ 543	$ 559
Natural Gas	39	36	141	131
Total Operating Revenue	284	296	684	690
Operating Expenses				
Purchased energy	145	159	327	360
Gas purchased	25	25	96	91
Other operation and maintenance	47	65	112	126
Depreciation and amortization	22	20	44	40
Other taxes	9	8	20	18
Total Operating Expenses	248	277	599	635
Operating Income	36	19	85	55
Other Income (Expenses)				
Interest expense	(11)	(12)	(22)	(22)
Other income	2	2	4	3
Total Other Expenses	(9)	(10)	(18)	(19)
Income Before Income Tax Expense	27	9	67	36
Income Tax Expense	5	3	22	16
Net Income	22	6	45	20
Retained Earnings at Beginning of Period	517	486	494	472
Dividends paid to Parent	—	(23)	—	(23)
Retained Earnings at End of Period	$ 539	$ 469	$ 539	$ 469

The accompanying Notes are an integral part of these Financial Statements.

DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 50	$ 69
Accounts receivable, less allowance for uncollectible accounts of $15 million and $13 million, respectively	184	212
Inventories	39	41
Prepayments of income taxes	34	62
Prepaid expenses and other	24	22
Total Current Assets	331	406
INVESTMENTS AND OTHER ASSETS		
Goodwill	8	8
Regulatory assets	217	242
Prepaid pension expense	171	139
Other	22	21
Total Investments and Other Assets	418	410
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	3,079	3,000
Accumulated depreciation	(915)	(901)
Net Property, Plant and Equipment	2,164	2,099
TOTAL ASSETS	$2,913	$ 2,915

The accompanying Notes are an integral part of these Financial Statements.

DELMARVA POWER & LIGHT COMPANY
BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars, except shares)	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term debt	$ 105	$ 105
Current portion of long-term debt	66	35
Accounts payable and accrued liabilities	90	98
Accounts payable due to associated companies	16	34
Taxes accrued	12	6
Interest accrued	6	7
Derivative liabilities	12	15
Other	61	73
Total Current Liabilities	368	373
DEFERRED CREDITS		
Regulatory liabilities	304	310
Deferred income taxes, net	562	561
Investment tax credits	6	7
Other postretirement benefit obligations	26	22
Liabilities and accrued interest related to uncertain tax positions	22	24
Derivative liabilities	5	8
Other	35	39
Total Deferred Credits	960	971
LONG-TERM LIABILITIES		
Long-term debt	699	730
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
EQUITY		
Common stock, $2.25 par value, 1,000 shares authorized, 1,000 shares outstanding	—	—
Premium on stock and other capital contributions	347	347
Retained earnings	539	494
Total Equity	886	841
TOTAL LIABILITIES AND EQUITY	$ 2,913	$ 2,915

The accompanying Notes are an integral part of these Financial Statements.

DELMARVA POWER & LIGHT COMPANY
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(millions of dollars)	
OPERATING ACTIVITIES		
Net income	$ 45	$ 20
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	44	40
Deferred income taxes	40	3
Changes in:		
Accounts receivable	28	17
Inventories	1	2
Regulatory assets and liabilities, net	(5)	(6)
Accounts payable and accrued liabilities	(24)	7
Pension contribution	(40)	—
Taxes accrued	(25)	15
Other assets and liabilities	17	29
Net Cash From Operating Activities	81	127
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(99)	(133)
Net other investing activities	(1)	(1)
Net Cash Used By Investing Activities	(100)	(134)
FINANCING ACTIVITIES		
Dividends paid to Parent	—	(23)
Issuances of long-term debt	35	78
Reacquisitions of long-term debt	(35)	—
Net other financing activities	—	(5)
Net Cash From Financing Activities	—	50
Net (Decrease) Increase in Cash and Cash Equivalents	(19)	43
Cash and Cash Equivalents at Beginning of Period	69	26
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 50	$ 69
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash (paid) received for income taxes (includes payments (to) from PHI for federal income taxes)	$ (8)	$ 3

The accompanying Notes are an integral part of these Financial Statements.

NOTES TO FINANCIAL STATEMENTS

DELMARVA POWER & LIGHT COMPANY

(1) ORGANIZATION

Delmarva Power & Light Company (DPL) is engaged in the transmission and distribution of electricity in Delaware and portions of Maryland and provides natural gas distribution service in northern Delaware. Additionally, DPL provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territories who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Standard Offer Service in both Delaware and Maryland. DPL is a wholly owned subsidiary of Conectiv, which is wholly owned by Pepco Holdings, Inc. (Pepco Holdings or PHI).

(2) SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

DPL's unaudited financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with the annual financial statements included in DPL's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of DPL's management, the financial statements contain all adjustments (which all are of a normal recurring nature) necessary to present fairly DPL's financial condition as of June 30, 2011, in accordance with GAAP. The year-end December 31, 2010 Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Interim results for the three and six months ended June 30, 2011 may not be indicative of results that will be realized for the full year ending December 31, 2011 since the sales of electric energy and natural gas are seasonal.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the financial statements and accompanying notes. Although DPL believes that its estimates and assumptions are reasonable, they are based upon information available to management at the time the estimates are made. Actual results may differ significantly from these estimates.

Significant matters that involve the use of estimates include the assessment of contingencies, the calculation of future cash flows and fair value amounts for use in asset impairment evaluations, fair value calculations (based on estimated market pricing) associated with derivative instruments, pension and other postretirement benefits assumptions, unbilled revenue calculations, the assessment of the probability of recovery of regulatory assets, accrual of storm restoration costs, accrual of restructuring charges, recognition of changes in network service transmission rates for prior service year costs, accrual of self-insurance reserves for general and auto liability claims and income tax provisions and reserves. Additionally, DPL is subject to legal, regulatory, and other proceedings and claims that arise in the ordinary course of its business. DPL records an estimated liability for these proceedings and claims when it is probable that a loss has been incurred and the loss is reasonably estimable.

Network Service Transmission Rates

In May 2011, DPL filed its network service transmission rates with the Federal Energy Regulatory Commission to be effective for the service year beginning June 1, 2011. The new rates include an adjustment for costs incurred in the service year ended May 31, 2011 that were not reflected in the rates charged to customers for that service year. In the second quarter of 2011, DPL recorded a $2 million decrease in transmission revenues as a change to the estimates recorded in previous periods due to a decrease in actual rate base versus estimated rate base.

General and Auto Liability

During the second quarter of 2011, DPL reduced its self-insurance reserves for general and auto liability claims by approximately $3 million, based on obtaining an actuarial estimate of the unpaid loss attributed to general and auto liability claims for DPL at June 30, 2011.

Consolidation of Variable Interest Entities - DPL Renewable Energy Transactions

DPL has entered into three land-based wind power purchase agreements (PPAs) and one offshore wind PPA in the aggregate amount of 350 megawatts as of June 30, 2011 and one solar PPA with a 10 megawatt facility. As the wind facilities become operational, DPL is obligated to purchase energy and renewable energy credits (RECs) in amounts generated and delivered by the facilities at rates that are primarily fixed under these agreements. Under one of the PPAs, DPL is also obligated to purchase the capacity associated with the facility at rates that are generally fixed. If a wind facility does not become operational by a specified date, DPL has the right to terminate that PPA.

One of the land-based facilities is operational and DPL is obligated to purchase energy and RECs from this facility through 2024 in amounts not to exceed 50.25 megawatts. The other two land-based wind agreements each have a 20-year term and are currently expected to become operational during 2011. DPL's purchases under the operational wind PPAs totaled $4 million and $3 million for the three months ended June 30, 2011 and 2010, respectively, and $9 million and $6 million for the six months ended June 30, 2011 and 2010, respectively. In July 2011, the Delaware Public Service Commission (DPSC) approved amendments to one of the land-based wind PPAs to change the location of the facility and to reduce the maximum generation capacity from 60 megawatts to 38 megawatts.

The offshore wind PPA is expected to become operational during 2016. If the offshore wind facility developer is unable to obtain all necessary permits and financing commitments, this could result in delays in the construction schedule and the operational start date of the offshore wind facility.

The term of the agreement with the solar facility is 20 years and DPL is obligated to purchase RECs in an amount up to 70% of the energy output at a fixed price once the facility is operational, which is expected to be in the third quarter of 2011.

DPL concluded that consolidation is not required for any of these agreements under Financial Accounting Standards Board (FASB) guidance on the consolidation of variable interest entities.

Goodwill

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the net assets acquired at the acquisition date. All of DPL's goodwill was generated by DPL's acquisition of Conowingo Power Company in 1995. DPL tests its goodwill for impairment annually and whenever an event occurs or circumstances change in the interim that would more likely than not reduce the fair value of DPL below its carrying amount. DPL performs its annual impairment test on November 1. Factors that may result in an interim impairment test include, but are not limited to: a change in the identified reporting units; an adverse change in business conditions; an adverse regulatory action; or an impairment of DPL's long-lived assets. As described in Note (6), "Goodwill," DPL concluded that an interim impairment test was not required during the three and six months ended June 30, 2011.

Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions

Taxes included in DPL's gross revenues were $4 million for each of the three months ended June 30, 2011 and 2010 and $9 million for each of the six months ended June 30, 2011 and 2010.

Reclassifications and adjustments

Certain prior period amounts have been reclassified to conform to current period presentation. The following adjustment has been recorded and is not considered material.

Default Electricity Supply Revenue and Costs Adjustments

During the second quarter of 2011, DPL recorded adjustments to correct certain errors associated with the accounting for Default Electricity Supply revenue and costs. These adjustments primarily arose from the under-recognition of allowed returns on the cost of working capital and resulted in a pre-tax decrease in "Other operation and maintenance" expense of $8 million.

(3) NEWLY ADOPTED ACCOUNTING STANDARDS

Fair Value Measurements and Disclosures (Accounting Standards Codification (ASC) 820)

The FASB issued new disclosure requirements that require significant items within the reconciliation of the Level 3 valuation category to be presented in separate categories for purchases, sales, issuances and settlements. The guidance was effective beginning with DPL's March 31, 2011 financial statements. DPL has included the new disclosure requirements in Note (11), "Fair Value Disclosures," to its financial statements.

Goodwill (ASC 350)

The FASB issued new guidance on performing goodwill impairment tests that was effective beginning January 1, 2011 for DPL. Under the new guidance, the carrying value of the reporting unit must include the liabilities that are part of the capital structure of the reporting unit. DPL already allocates liabilities to the reporting unit when performing its goodwill impairment test, so the new guidance did not change DPL's goodwill impairment test methodology.

(4) RECENTLY ISSUED ACCOUNTING STANDARDS, NOT YET ADOPTED

Fair Value Measurements and Disclosures (ASC 820)

In May 2011, the FASB issued new guidance on fair value measurement and disclosures that will be effective beginning with DPL's March 31, 2012 financial statements. The new guidance would change how fair value is measured in specific instances and expand disclosures about fair value measurements. DPL is evaluating the impact of this new guidance on its financial statements.

(5) SEGMENT INFORMATION

The company operates its business as one regulated utility segment, which includes all of its services as described above.

(6) GOODWILL

DPL's goodwill balance of $8 million was unchanged during the three and six months ended June 30, 2011. All of DPL's goodwill was generated by its acquisition of Conowingo Power Company in 1995.

DPL's annual impairment test as of November 1, 2010 indicated that goodwill was not impaired. As of June 30, 2011, DPL concluded that there were no events requiring it to perform an interim goodwill impairment test. DPL will continue to monitor for indicators of goodwill impairment.

(7) PENSION AND OTHER POSTRETIREMENT BENEFITS

DPL accounts for its participation in the Pepco Holdings benefit plans as participation in a multi-employer plan. PHI's pension and other postretirement net periodic benefit cost for the three months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $19 million and $31 million, respectively. DPL's allocated share was $5 million and $10 million, respectively, for the three months ended June 30, 2011 and 2010. PHI's pension and other postretirement net periodic benefit cost for the six months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $46 million and $60 million, respectively. DPL's allocated share was $12 million and $14 million, respectively, for the six months ended June 30, 2011 and 2010.

On March 14, 2011, DPL made a discretionary tax-deductible contribution to PHI's non-contributory retirement plan (the PHI Retirement Plan) of $40 million. DPL did not make a contribution to the PHI Retirement Plan in 2010.

(8) DEBT

Credit Facility

The principal credit source for PHI and its utility subsidiaries is an unsecured $1.5 billion syndicated credit facility, which can be used to borrow funds, obtain letters of credit and support the issuance of commercial paper. As of June 30, 2011, PHI's credit limit under the facility was $875 million and the credit limit for each of Potomac Electric Power Company (Pepco), DPL and Atlantic City Electric Company (ACE) was the lesser of $500 million and the maximum amount of debt each company was permitted to have outstanding by its regulatory authorities, except that the aggregate amount of credit used by Pepco, DPL and ACE collectively, at any given time, could not exceed $625 million. On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of the credit agreement with respect to the facility, which among other changes extends the expiration date of the facility from May 2, 2012, to August 1, 2016. The facility, as amended and restated is more fully described below under the heading "Financing Activities Subsequent to June 30, 2011." PHI also has two bi-lateral 364 day unsecured credit agreements totaling $200 million. Under each of the credit agreements, PHI has access to revolving and floating rate loans over the terms of the agreements. Neither agreement provides for the issuance of letters of credit. Both agreements expire on October 26, 2011.

At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus unused borrowing capacity under the $1.5 billion credit facility available to meet the future liquidity needs of PHI's utility subsidiaries was $595 million and $462 million, respectively.

Financing Activities

On June 1, 2011, DPL resold approximately $35 million of 0.75% Delaware Economic Development Authority tax-exempt bonds due May 1, 2026. The bonds were originally issued for the benefit of DPL in 2001 and were purchased by DPL on May 2, 2011 pursuant to a mandatory repurchase obligation triggered by the expiration of the original interest period for the bonds. The bonds are subject to mandatory purchase by DPL on June 1, 2012.

Financing Activities Subsequent to June 30, 2011

On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of their $1.5 billion credit facility to extend the expiration date to August 1, 2016, and to make various other changes. As amended and restated, all or any portion of the facility may be used to obtain revolving loans and up to $500 million may be used to obtain letters of credit. PHI's credit sublimit under the facility is $750 million and the sublimit of each of Pepco, DPL and ACE is $250 million. The borrowers may increase or decrease their respective sublimits during the term of the facility, except that (i) the sum of all of the borrower sublimits following any such increase or decrease must equal the total amount of the facility and (ii) the aggregate amount of credit used at any given time by (a) PHI may not exceed $1.25 billion and (b) each of Pepco, DPL or ACE may not exceed the lesser of $500 million and the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of sublimit reallocations cannot exceed eight per fiscal year during the term of the agreement.

The interest rate payable by each company on utilized funds is, at the borrowing company's election, (i) the greater of the prevailing prime rate, the federal funds effective rate plus 0.5% and one month LIBOR plus 1.0%, or (ii) the prevailing Eurodollar rate, plus a margin that varies according to the credit rating of the borrower. The facility also includes a "swingline loan sub-facility," pursuant to which each company may make same day borrowings in an aggregate amount not to exceed 10% of the total amount of the facility. Any swingline loan must be repaid by the borrower within fourteen days of receipt thereof. All indebtedness incurred under the facility is unsecured.

(9) INCOME TAXES

A reconciliation of DPL's effective income tax rate is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
	(millions of dollars)							
Income tax at federal statutory rate	$ 10	35.0%	$ 3	35.0%	$ 24	35.0%	$ 13	35.0%
Increases (decreases) resulting from:								
State income taxes, net of federal effect	1	5.2	1	5.6	4	6.0	1	5.0
Depreciation	1	3.7	1	6.7	1	1.5	2	2.2
Tax credits	—	(0.6)	—	(2.2)	—	(0.5)	—	(1.1)
Change in estimates and interest related to uncertain and effectively settled tax positions	(5)	(18.5)	(1)	(7.8)	(5)	(7.5)	1	3.6
Deferred tax adjustment	(1)	(3.7)	—	—	(1)	(1.5)	—	—
Other, net	(1)	(2.6)	(1)	(4.0)	(1)	(0.2)	(1)	(0.3)
Income tax expense	$ 5	18.5%	$ 3	33.3%	$ 22	32.8%	$ 16	44.4%

DPL's effective tax rates for the three months ended June 30, 2011 and 2010 were 18.5% and 33.3%, respectively. The decrease in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions.

During the second quarter of 2011, PHI reached a settlement with the Internal Revenue Service (IRS) with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that have been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, DPL has recorded an additional $4 million (after-tax) interest benefit. This additional interest income was recorded in the second quarter of 2011. Also during the second quarter of 2011, DPL completed a reconciliation of its deferred taxes on certain regulatory assets and, as a result, recorded a $1 million decrease to income tax expense as shown in the "Deferred tax adjustment" line above.

DPL's effective tax rates for the six months ended June 30, 2011 and 2010 were 32.8% and 44.4%, respectively. The decrease in the effective tax rate resulted from changes in estimates and interest related to uncertain and effectively settled tax positions, primarily related to the $2 million reversal of accrued interest income on state income tax positions in 2010 that DPL no longer believes is more likely than not to be realized as well as the additional $4 million interest benefit from the reallocation of deposits discussed above.

(10) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

DPL uses derivative instruments in the form of swaps and over-the-counter options primarily to reduce natural gas commodity price volatility and to limit its customers' exposure to increases in the market price of natural gas. DPL also manages commodity risk with physical natural gas and capacity contracts that are not classified as derivatives. All premiums paid and other transaction costs incurred as part of DPL's natural gas hedging activity, in addition to all gains and losses related to hedging activities, are deferred under FASB guidance on regulated operations (ASC 980) until recovered from its customers through a fuel adjustment clause approved by the DPSC.

The tables below identify the balance sheet location and fair values of derivative instruments as of June 30, 2011 and December 31, 2010:

	As of June 30, 2011				
Balance Sheet Caption	Derivatives Designated as Hedging Instruments	Other Derivative Instruments	Gross Derivative Instruments	Effects of Cash Collateral and Netting	Net Derivative Instruments
			(millions of dollars)		
Derivative Assets (current assets)	$ —	$ —	$ —	$ —	$ —
Derivative Assets (non-current assets)	—	—	—	—	—
Total Derivative Assets	—	—	—	—	—
Derivative Liabilities (current liabilities)	(3)	(12)	(15)	3	(12)
Derivative Liabilities (non-current liabilities)	—	(5)	(5)	—	(5)
Total Derivative Liabilities	(3)	(17)	(20)	3	(17)
Net Derivative (Liability) Asset	$ (3)	$ (17)	$ (20)	$ 3	$ (17)

	As of December 31, 2010				
Balance Sheet Caption	Derivatives Designated as Hedging Instruments	Other Derivative Instruments	Gross Derivative Instruments	Effects of Cash Collateral and Netting	Net Derivative Instruments
			(millions of dollars)		
Derivative Assets (current assets)	$ —	$ —	$ —	$ —	$ —
Derivative Assets (non-current assets)	—	—	—	—	—
Total Derivative Assets	—	—	—	—	—
Derivative Liabilities (current liabilities)	(6)	(15)	(21)	6	(15)
Derivative Liabilities (non-current liabilities)	—	(8)	(8)	—	(8)
Total Derivative Liabilities	(6)	(23)	(29)	6	(23)
Net Derivative (Liability) Asset	$ (6)	$ (23)	$ (29)	$ 6	$ (23)

Under FASB guidance on the offsetting of balance sheet accounts (ASC 210), DPL offsets the fair value amounts recognized for derivative instruments and fair value amounts recognized for related collateral positions executed with the same counterparty under master netting agreements. The amount of cash collateral that was offset against these derivative positions is as follows:

	June 30, 2011	December 31, 2010
	(millions of dollars)	
Cash collateral pledged to counterparties with the right to reclaim	$ 3	$ 6

As of June 30, 2011 and December 31, 2010, all DPL cash collateral pledged related to derivative instruments accounted for at fair value was entitled to be offset under master netting agreements.

Derivatives Designated as Hedging Instruments

Cash Flow Hedges

All premiums paid and other transaction costs incurred as part of DPL's natural gas hedging activity, in addition to all of DPL's gains and losses related to hedging activities, are deferred under FASB guidance on regulated operations until recovered from customers through a fuel adjustment clause approved by the DPSC. The following table indicates the amounts of the net unrealized derivative gain (loss) deferred as a regulatory liability (regulatory asset) and the realized loss recognized in the Statements of Income for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Net Unrealized Gain (Loss) Deferred as a Regulatory Liability (Asset)	$ 2	$ 5	$ 3	$ —
Net Realized Loss Recognized in Purchased Energy or Gas Purchased	(1)	(3)	(3)	(5)

As of June 30, 2011 and December 31, 2010, DPL had the following outstanding commodity forward contracts that were entered into to hedge forecasted transactions:

	Quantities	
Commodity	June 30, 2011	December 31, 2010
Forecasted Purchases Hedges		
Natural Gas (One Million British Thermal Units (MMBtu))	765,000	1,670,000

Other Derivative Activity

DPL holds certain derivatives that are not in hedge accounting relationships nor are they designated as normal purchases or normal sales. These derivatives are recorded at fair value on the Balance Sheets with changes in the fair value recorded in income. In accordance with FASB guidance on regulated operations, offsetting regulatory liabilities or regulatory assets are recorded on the Balance Sheets and the recognition of the derivative gain or loss is deferred because of the DPSC-approved fuel adjustment clause. For the three and six months ended June 30, 2011 and 2010, the net amount of the unrealized derivative gain (loss) deferred as a regulatory liability (regulatory asset) and the net realized loss recognized in the Statements of Income is provided in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(millions of dollars)			
Net Unrealized Gain (Loss) Deferred as a Regulatory Liability (Asset)	$ 2	$ 7	$ 9	$ 1
Net Realized Loss Recognized in Purchased Energy or Gas Purchased	(4)	(6)	(11)	(13)

As of June 30, 2011 and December 31, 2010, DPL had the following net outstanding natural gas commodity forward contracts that did not qualify for hedge accounting:

	June 30, 2011		December 31, 2010	
Commodity	Quantity	Net Position	Quantity	Net Position
Natural Gas (MMBtu)	5,892,432	Long	7,827,635	Long

Contingent Credit Risk Features

The primary contracts used by DPL for derivative transactions are entered into under the International Swaps and Derivatives Association Master Agreement (ISDA) or similar agreements that closely mirror the principal credit provisions of the ISDA. The ISDAs include a Credit Support Annex (CSA) that governs the mutual posting and administration of collateral security. The failure of a party to comply with an obligation under the CSA, including an obligation to transfer collateral security when due or the failure to maintain any required credit support, constitutes an event of default under the ISDA for which the other party may declare an early termination and liquidation of all transactions entered into under the ISDA, including foreclosure against any collateral security. In addition, some of the ISDAs have cross default provisions under which a default by a party under another commodity or derivative contract, or the breach by a party of another borrowing obligation in excess of a specified threshold, is a breach under the ISDA.

Under the ISDA or similar agreements, the parties establish a dollar threshold of unsecured credit for each party in excess of which the party would be required to post collateral to secure its obligations to the other party. The amount of the unsecured credit threshold varies according to the senior, unsecured debt rating of the respective parties or that of a guarantor of the party's obligations. The fair values of all transactions between the parties are netted under the master netting provisions. Transactions may include derivatives accounted for on-balance sheet as well as those designated as normal purchases and normal sales that are accounted for off-balance sheet. If the aggregate fair value of the transactions in a net loss position exceeds the unsecured credit threshold, then collateral is required to be posted in an amount equal to the amount by which the unsecured credit threshold is exceeded. The obligations of DPL are stand-alone obligations without the guaranty of PHI. If DPL's credit rating were to fall below "investment grade," the unsecured credit threshold would typically be zero and collateral would be required for the entire net loss position. Exchange-traded contracts are required to be fully collateralized without regard to the credit rating of the holder.

The gross fair value of DPL's derivative liabilities, excluding the impact of offsetting transactions or collateral under master netting agreements, with credit-risk-related contingent features on June 30, 2011 and December 31, 2010, was $17 million and $23 million, respectively, before giving effect to the impact of a credit rating downgrade that would increase this amount or offsetting transactions that are encompassed within master netting agreements that would alter these amounts. As of those dates, DPL had not posted any cash collateral against the gross derivative liability. DPL's net settlement amount in the event of a downgrade of DPL's senior unsecured debt rating to below "investment grade" as of June 30, 2011 and December 31, 2010, would have been approximately $16 million and $31 million, respectively, after taking into account the master netting agreements.

DPL's primary source for posting cash collateral or letters of credit are PHI's credit facilities. At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus borrowing capacity under the PHI credit facilities available to meet the liquidity needs of PHI's utility subsidiaries was $595 million and $462 million, respectively.

(11) FAIR VALUE DISCLOSURES

Financial Instruments Measured at Fair Value on a Recurring Basis

DPL has adopted FASB guidance on fair value measurement and disclosures (ASC 820) that established a framework for measuring fair value and expanded disclosures about fair value measurements. As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). DPL utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. Accordingly, DPL utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). DPL classifies its fair value balances in the fair value hierarchy based on the observability of the inputs used in the fair value calculation as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis, such as the New York Mercantile Exchange (NYMEX).

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable data. Level 2 also includes those financial instruments that are valued using internally developed methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 – Pricing inputs include significant inputs that are generally less observable than those from objective sources. Level 3 includes those financial instruments that are valued using models or other valuation methodologies.

Derivative instruments categorized as Level 3 include natural gas options purchased by DPL as part of a natural gas hedging program approved by the DPSC. The valuation of the options is based, in part, on internal volatility assumptions extracted from historical NYMEX prices over a certain period of time.

Executive deferred compensation plan assets and liabilities that are classified as level 3 include certain life insurance policies that are valued using the cash surrender value of the policies, net of loans against those policies, which does not represent a quoted price in an active market.

The following tables set forth, by level within the fair value hierarchy, DPL's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2011 and December 31, 2010. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. DPL's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value Measurements at June 30, 2011			
Description	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)	Significant Other Observable Inputs (Level 2)(a)	Significant Unobservable Inputs (Level 3)
	(millions of dollars)			
ASSETS				
Executive deferred compensation plan assets				
Money Market Funds	$ 2	$ 2	$ —	$ —
Life Insurance Contracts	1	—	—	1
	$ 3	$ 2	$ —	$ 1
LIABILITIES				
Derivative instruments (b)				
Natural Gas	$ 20	$ 3	$ —	$ 17
	$ 20	$ 3	$ —	$ 17

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.
(b) The fair value of derivative liabilities reflects netting by counterparty before the impact of collateral.

	Fair Value Measurements at December 31, 2010			
Description	Total	Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)	Significant Other Observable Inputs (Level 2)(a)	Significant Unobservable Inputs (Level 3)
	(millions of dollars)			
ASSETS				
Executive deferred compensation plan assets				
Money Market Funds	$ 2	$ 2	$ —	$ —
Life Insurance Contracts	1	—	—	1
	$ 3	$ 2	$ —	$ 1
LIABILITIES				
Derivative instruments (b)				
Natural Gas	$ 29	$ 6	$ —	$ 23
	$ 29	$ 6	$ —	$ 23

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.
(b) The fair value of derivative liabilities reflects netting by counterparty before the impact of collateral.

Reconciliations of the beginning and ending balances of DPL's fair value measurements using significant unobservable inputs (level 3) for the six months ended June 30, 2011 and 2010 are shown below:

	Six Months Ended June 30, 2011	
	Natural Gas	Life Insurance Contracts
	(millions of dollars)	
Beginning balance as of January 1	$ (23)	$ 1
Total gains or (losses) (realized and unrealized):		
Included in income	—	—
Included in accumulated other comprehensive loss	—	—
Included in regulatory liabilities	(2)	—
Purchases	—	—
Issuances	—	—
Settlements	8	—
Transfers in (out) of level 3	—	—
Ending balance as of June 30	$ (17)	$ 1

	Six Months Ended June 30, 2010	
	Natural Gas	Life Insurance Contracts
	(millions of dollars)	
Beginning balance as of January 1	$ (29)	$ 1
Total gains or (losses) (realized and unrealized):		
Included in income	—	—
Included in accumulated other comprehensive loss	—	—
Included in regulatory liabilities	(10)	—
Purchases	—	—
Issuances	—	—
Settlements	10	—
Transfers in (out) of level 3	—	—
Ending balance as of June 30	$ (29)	$ 1

Other Financial Instruments

The estimated fair values of DPL's issued debt instruments as of June 30, 2011 and December 31, 2010 are shown below:

	June 30, 2011		December 31, 2010	
	(millions of dollars)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ 765	$827	$ 765	$822

The fair value of long-term debt issued by DPL was based on actual trade prices as of June 30, 2011 and December 31, 2010. Where trade prices were not available, DPL used a discounted cash flow model to estimate fair value.

The carrying amounts of all other financial instruments in the accompanying financial statements approximate fair value.

(12) COMMITMENTS AND CONTINGENCIES

Regulatory and Other Matters

Rate Proceedings

Over the last several years, DPL has proposed in each of its service territories the adoption of a mechanism to decouple retail distribution revenue from the amount of power delivered to retail customers. To date:

- A bill stabilization adjustment (BSA) has been approved and implemented for electric service in Maryland. The Maryland Public Service Commission (MPSC) has initiated a proceeding to review how the BSA operates in Maryland to recover revenues lost as a result of major storm outages (as discussed below).
- A modified fixed variable rate design (MFVRD) has been approved in concept for DPL electric service in Delaware, but the implementation has been deferred by the DPSC pending the development of an implementation plan and a customer education plan. DPL anticipates that the MFVRD will be in place for electric service by early in 2012.
- A MFVRD has been approved in concept for DPL natural gas service in Delaware, but implementation likewise has been deferred until development of an implementation plan and a customer education plan.

Under the BSA, customer distribution rates are subject to adjustment (through a credit or surcharge mechanism), depending on whether actual distribution revenue per customer exceeds or falls short of the revenue-per-customer amount approved by the applicable public service commission. The BSA increases rates if actual distribution revenues fall below the approved level and decreases rates if actual distribution revenues are above the approved level. The result is that, over time, DPL collects its authorized revenues for distribution service. As a consequence, a BSA “decouples” distribution revenue from unit sales consumption and ties the growth in distribution revenues to the growth in the number of customers. Some advantages of the BSA are that it (i) eliminates revenue fluctuations due to weather and changes in customer usage patterns and, therefore, provides for more predictable distribution revenues that are better aligned with costs, (ii) provides for more reliable fixed-cost recovery, (iii) tends to stabilize customers’ delivery bills, and (iv) removes any disincentives for DPL to promote energy efficiency programs for its customers, because it breaks the link between overall sales volumes and distribution revenues. The MFVRD approved in concept in Delaware provides for a fixed customer charge (i.e., not tied to the customer’s volumetric consumption) to recover the utility’s fixed costs, plus a reasonable rate of return. Although different from the BSA, DPL views the MFVRD as an appropriate distribution revenue decoupling mechanism.

On February 1, 2011, the MPSC initiated proceedings involving DPL and its affiliate Pepco, as well as unaffiliated utilities including Baltimore Gas & Electric Company and Southern Maryland Electric Cooperative, for the purpose of reviewing how the BSA operates to recover revenues lost as a result of major storm outages. In its orders initiating the proceedings, the MPSC expressed concern that the utilities’ respective BSAs may be allowing them to recover revenues lost during extended outages, therefore unintentionally eliminating an incentive to restore service quickly. The MPSC will consider whether the BSA, as currently in effect, is appropriate, whether the calculations or determinant factors for calculating the BSA should be modified, and if so, what modifications should be made. On July 22, 2011, the MPSC held a legislative-style hearing on this matter. The potential financial impact of any modification to the BSA cannot be assessed until the details of the modification are known. If the MPSC were to implement a change similar to the provision in effect in the District of Columbia, the financial impact of service interruptions due to a major storm would generally depend on the scope and duration of the outages.

Delaware

DPL makes an annual Gas Cost Rate (GCR) filing with the DPSC for the purpose of allowing DPL to recover gas procurement costs through customer rates. In August 2010, DPL made its 2010 GCR filing, which proposes rates that would allow DPL to recover an amount equal to a two-year amortization of currently under-recovered gas costs. In October 2010, the DPSC issued an order allowing DPL to place the new rates into effect on November 1, 2010, subject to refund and pending final DPSC approval. The effect of the proposed two-year amortization upon rates is an increase of 0.1% in the level of GCR. The parties in the proceeding submitted a proposed settlement to the hearing examiner on June 3, 2011, which includes DPL's two-year amortization but provides that DPL will forego the interest associated with that amortization. The proposed settlement is subject to review of the hearing examiner and final review and approval by the DPSC.

In July 2010, DPL submitted an application with the DPSC to increase its natural gas distribution base rates. As subsequently amended in September 2010 (to replace test year data for the twelve months ended June 2010 with the actual data) and in October 2010 (based on an update to DPL's natural gas advanced metering infrastructure implementation schedule), the filing sought approval of an annual rate increase of approximately $10.2 million, assuming the implementation of the MFVRD, based on a requested return on equity (ROE) of 11.00%. As permitted by Delaware law, DPL placed an annual increase of approximately $2.5 million annually into effect, on a temporary basis, on August 31, 2010, and the remainder of approximately $7.7 million of the requested increase was placed into effect on February 2, 2011, in each case subject to refund and pending final DPSC approval. On February 9, 2011, DPL, DPSC staff, and the Attorney General of Delaware entered into a proposed settlement agreement, which provides for an annual rate increase of approximately $5.8 million, based on an ROE of 10%. In the settlement agreement, the parties agreed to defer the implementation of the MFVRD until an implementation plan and a customer education plan are developed. On June 21, 2011, the DPSC approved the proposed settlement agreement, effective for service rendered on and after July 1, 2011. The excess amount collected will be refunded to customers through a bill credit.

Maryland

On December 21, 2010, DPL filed an application with the MPSC to increase its electric distribution base rates by $17.8 million annually, based on an ROE of 10.75%. On May 25, 2011, DPL and the other parties to the proceeding filed a unanimous stipulation and settlement providing for a rate increase of approximately $12.2 million and proposing a Phase II proceeding to explore methods to address the issue of regulatory lag (which is the delay experienced by DPL in recovering increased costs in its distribution rate base). Although no ROE was specified in the proposed settlement, it did provide that the ROE for purposes of calculating the allowance for funds used during construction and regulatory asset carrying costs would remain unchanged. The current ROE for those items is 10%. On July 8, 2011, the MPSC approved the proposed settlement.

<u>Environmental Litigation</u>

DPL is subject to regulation by various federal, regional, state, and local authorities with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous waste disposal, and limitations on land use. In addition, federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or unremediated hazardous waste sites. DPL may incur costs to clean up currently or formerly owned facilities or sites found to be contaminated, as well as other facilities or sites that may have been contaminated due to past disposal practices. Although penalties assessed for violations of environmental laws and regulations are not recoverable from DPL's customers, environmental clean-up costs incurred by it would be included in its cost of service for ratemaking purposes.

Ward Transformer Site. In April 2009, a group of potentially responsible parties (PRPs) with respect to the Ward Transformer site in Raleigh, North Carolina, filed a complaint in the U.S. District Court for the Eastern District of North Carolina, alleging cost recovery and/or contribution claims against a number of entities, including DPL with respect to past and future response costs incurred by the PRP group in performing a removal action at the site. With the court's permission, the plaintiffs filed amended complaints in September 2009. DPL, as part of a group of defendants, filed a motion to dismiss in October 2009. In a March 2010 order, the court denied the defendants' motion to dismiss. Although it is too early in the process to characterize the magnitude of the potential liability at this site, DPL does not believe that it had extensive business transactions, if any, with the Ward Transformer site and therefore, costs incurred to resolve this matter are not expected to be material.

Indian River Oil Release. In 2001, DPL entered into a consent agreement with the Delaware Department of Natural Resources and Environmental Control for remediation, site restoration, natural resource damage compensatory projects and other costs associated with environmental contamination resulting from an oil release at the Indian River generating facility, which was sold in June 2001. As of June 30, 2011, DPL's accrual for expected future costs to fulfill its obligations under the consent agreement was approximately $5 million, of which approximately $1 million is expected to be incurred during the remainder of 2011.

(13) RELATED PARTY TRANSACTIONS

PHI Service Company provides various administrative and professional services to PHI and its regulated and unregulated subsidiaries, including DPL. The cost of these services is allocated in accordance with cost allocation methodologies set forth in the service agreement using a variety of factors, including the subsidiaries' share of employees, operating expenses, assets, and other cost causal methods. These intercompany transactions are eliminated by PHI in consolidation and no profit results from these transactions at PHI. PHI Service Company costs directly charged or allocated to DPL for the three months ended June 30, 2011 and 2010 were approximately $31 million for each reporting period. PHI Service Company costs directly charged or allocated to DPL for the six months ended June 30, 2011 and 2010 were approximately $62 million and $65 million, respectively.

In addition to the PHI Service Company charges described above, DPL's financial statements include the following related party transactions in its Statements of Income:

Income (Expenses)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
		(millions of dollars)		
Purchased power under Default Electricity Supply contracts with Conectiv Energy Supply, Inc. (CESI) (a)(b)	$ —	$ (20)	$ 1	$ (39)
Intercompany lease transactions (c)	1	2	2	4

(a) Included in purchased energy expense.
(b) During 2010, PHI disposed of its Conectiv Energy segment and a third party assumed CESI's responsibilities under these contracts.
(c) Included in electric revenue.

As of June 30, 2011 and December 31, 2010, DPL had the following balances on its Balance Sheets due (to) from related parties:

(Liability) Asset	June 30, 2011	December 31, 2010
	(millions of dollars)	
(Payable to) Receivable from Related Party (a)		
PHI Service Company	$ (14)	$ (19)
Conectiv Energy Supply, Inc.	—	(13)
Pepco Energy Services, Inc. and its subsidiaries (Pepco Energy Services) (b)	(2)	(2)
Other	—	—
Total	$ (16)	$ (34)
Money Pool Balance with Pepco Holdings (included in cash and cash equivalents)	$ 46	$ 63

(a) These amounts are included in Accounts payable due to associated companies on the Balance Sheets.
(b) DPL bills customers on behalf of Pepco Energy Services where customers have selected Pepco Energy Services as their alternative energy supplier.

(14) RESTRUCTURING CHARGE

With the ongoing wind down of the retail energy supply business of Pepco Energy Services and the disposition of Conectiv Energy, PHI repositioned itself as a regulated transmission and distribution company during 2010. In connection with this repositioning, PHI completed a comprehensive organizational review in 2010 that identified opportunities to streamline the organization and to achieve certain reductions in corporate overhead costs that are allocated to its operating segments, which resulted in the adoption of a restructuring plan. PHI began implementation of the plan during 2010, identifying 164 employee positions that were eliminated. The plan also includes additional cost reduction opportunities that are being implemented through process improvements and operational efficiencies.

In connection with the restructuring plan, DPL recorded a pre-tax restructuring charge of $8 million in 2010 related to its allocation of severance, pension, and health and welfare benefits for the termination of corporate services employees at PHI. The severance, pension, and health and welfare benefits were estimated based on the years of service and compensation levels of the employees associated with the 164 eliminated positions at PHI. The restructuring charge was reflected as a separate line item in the Statement of Income for the year ended December 31, 2010.

A reconciliation of DPL’s accrued restructuring charges for the three and six months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011
	(millions of dollars)
Beginning balance as of April 1, 2011	$ 2
Restructuring charge	—
Cash payments	—
Ending balance as of June 30, 2011	$ 2

	Six Months Ended June 30, 2011
	(millions of dollars)
Beginning balance as of January 1, 2011	$ 7
Restructuring charge	—
Cash payments	(5)
Ending balance as of June 30, 2011	$ 2

ATLANTIC CITY ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
		(millions of dollars)		
Operating Revenue	$ 304	$ 315	$ 619	$ 632
Operating Expenses				
Purchased energy	196	243	394	478
Other operation and maintenance	51	47	106	97
Depreciation and amortization	33	25	66	49
Other taxes	5	6	11	12
Deferred electric service costs	(29)	(63)	(32)	(82)
Total Operating Expenses	256	258	545	554
Operating Income	48	57	74	78
Other Income (Expenses)				
Interest expense	(18)	(16)	(33)	(32)
Other income	2	1	2	1
Total Other Expenses	(16)	(15)	(31)	(31)
Income Before Income Tax Expense	32	42	43	47
Income Tax Expense	14	16	19	23
Net Income	18	26	24	24
Retained Earnings at Beginning of Period	167	141	161	143
Retained Earnings at End of Period	$ 185	$ 167	$ 185	$ 167

The accompanying Notes are an integral part of these Consolidated Financial Statements.

ATLANTIC CITY ELECTRIC COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4	$ 4
Restricted cash equivalents	11	11
Accounts receivable, less allowance for uncollectible accounts of $11 million and $11 million, respectively	211	212
Inventories	18	17
Prepayments of income taxes	51	55
Income taxes receivable	11	25
Prepaid expenses and other	65	9
Total Current Assets	371	333
INVESTMENTS AND OTHER ASSETS		
Regulatory assets	654	667
Prepaid pension expense	76	51
Income taxes receivable	64	59
Restricted cash equivalents	9	5
Assets and accrued interest related to uncertain tax positions	39	38
Other	12	11
Total Investments and Other Assets	854	831
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	2,486	2,443
Accumulated depreciation	(747)	(729)
Net Property, Plant and Equipment	1,739	1,714
TOTAL ASSETS	$2,964	$ 2,878

The accompanying Notes are an integral part of these Consolidated Financial Statements.

ATLANTIC CITY ELECTRIC COMPANY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	December 31, 2010
	(millions of dollars, except shares)	
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Short-term debt	$ 48	$ 181
Current portion of long-term debt	36	35
Accounts payable and accrued liabilities	132	120
Accounts payable due to associated companies	11	29
Taxes accrued	12	7
Interest accrued	15	13
Other	42	41
Total Current Liabilities	296	426
DEFERRED CREDITS		
Regulatory liabilities	60	71
Deferred income taxes, net	681	659
Investment tax credits	8	8
Other postretirement benefit obligations	29	27
Other	16	13
Total Deferred Credits	794	778
LONG-TERM LIABILITIES		
Long-term debt	833	633
Transition Bonds issued by ACE Funding	314	332
Total Long-Term Liabilities	1,147	965
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
REDEEMABLE SERIAL PREFERRED STOCK	—	6
EQUITY		
Common stock, $3.00 par value, 25,000,000 shares authorized, 8,546,017 shares outstanding	26	26
Premium on stock and other capital contributions	516	516
Retained earnings	185	161
Total Equity	727	703
TOTAL LIABILITIES AND EQUITY	$ 2,964	$ 2,878

The accompanying Notes are an integral part of these Consolidated Financial Statements.

ATLANTIC CITY ELECTRIC COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2011	2010
	(millions of dollars)	
OPERATING ACTIVITIES		
Net income	$ 24	$ 24
Adjustments to reconcile net income to net cash from (used by) operating activities:		
Depreciation and amortization	66	49
Deferred income taxes	30	7
Changes in:		
Accounts receivable	—	(19)
Regulatory assets and liabilities, net	(34)	(84)
Accounts payable and accrued liabilities	(5)	(24)
Pension contribution	(30)	—
Prepaid New Jersey sales and excise tax	(56)	(52)
Taxes accrued	13	22
Other assets and liabilities	11	8
Net Cash From (Used By) Operating Activities	19	(69)
INVESTING ACTIVITIES		
Investment in property, plant and equipment	(60)	(76)
Department of Energy capital reimbursement awards received	2	—
Net other investing activities	(3)	2
Net Cash Used By Investing Activities	(61)	(74)
FINANCING ACTIVITIES		
Capital contribution from Parent	—	23
Redemption of preferred stock	(6)	—
Issuances of long-term debt	200	23
Reacquisitions of long-term debt	(17)	(16)
(Repayments) issuances of short-term debt, net	(133)	110
Net other financing activities	(2)	—
Net Cash From Financing Activities	42	140
Net Decrease in Cash and Cash Equivalents	—	(3)
Cash and Cash Equivalents at Beginning of Period	4	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4	$ 4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash received (paid) for income taxes (includes payments (to) from PHI for federal income taxes)	$ 18	$ (1)

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ATLANTIC CITY ELECTRIC COMPANY

(1) ORGANIZATION

Atlantic City Electric Company (ACE) is engaged in the transmission and distribution of electricity in southern New Jersey. ACE also provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territory who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Basic Generation Service in New Jersey. ACE is a wholly owned subsidiary of Conectiv, which is wholly owned by Pepco Holdings, Inc. (Pepco Holdings or PHI).

(2) SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

ACE's unaudited Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to the rules and regulations of the Securities and Exchange Commission, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted. Therefore, these financial statements should be read along with the annual financial statements included in ACE's Annual Report on Form 10-K for the year ended December 31, 2010. In the opinion of ACE's management, the Consolidated Financial Statements contain all adjustments (which all are of a normal recurring nature) necessary to present fairly ACE's financial condition as of June 30, 2011, in accordance with GAAP. The year-end December 31, 2010 Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by GAAP. Interim results for the three and six months ended June 30, 2011 may not be indicative of results that will be realized for the full year ending December 31, 2011 since the sales of electric energy are seasonal.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the Consolidated Financial Statements and accompanying notes. Although ACE believes that its estimates and assumptions are reasonable, they are based upon information available to management at the time the estimates are made. Actual results may differ significantly from these estimates.

Significant matters that involve the use of estimates include the assessment of contingencies, the calculation of future cash flows and fair value amounts for use in asset impairment evaluations, pension and other postretirement benefits assumptions, unbilled revenue calculations, the assessment of the probability of recovery of regulatory assets, accrual of storm restoration costs, accrual of restructuring charges, recognition of changes in network service transmission rates for prior service year costs, accrual of self-insurance reserves for general and auto liability claims and income tax provisions and reserves. Additionally, ACE is subject to legal, regulatory, and other proceedings and claims that arise in the ordinary course of its business. ACE records an estimated liability for these proceedings and claims when it is probable that a loss has been incurred and the loss is reasonably estimable.

Network Service Transmission Rates

In May 2011, ACE filed its network service transmission rates with the Federal Energy Regulatory Commission to be effective for the service year beginning June 1, 2011. The new rates include an adjustment for costs incurred in the service year ended May 31, 2011 that were not reflected in the rates charged to customers for that service year. In the second quarter of 2011, ACE recorded a $1 million increase in transmission revenues as a change to the estimates recorded in previous periods primarily due to an increase in actual rate base versus estimated rate base.

General and Auto Liability

During the second quarter of 2011, ACE reduced its self-insurance reserves for general and auto liability claims by approximately $1 million, based on obtaining an actuarial estimate of the unpaid loss attributed to general and auto liability claims for ACE at June 30, 2011.

Consolidation of Variable Interest Entities

ACE Power Purchase Agreements (PPAs)

ACE is a party to three PPAs with unaffiliated, non-utility generators (NUGs). ACE was unable to obtain sufficient information to determine whether these three entities were variable interest entities or if ACE was the primary beneficiary and as a result has applied the scope exemption from the consolidation guidance for enterprises that have not been able to obtain such information.

Net purchase activities with the NUGs for the three months ended June 30, 2011 and 2010 were approximately $55 million and $67 million, respectively, of which approximately $51 million and $62 million, respectively, consisted of power purchases under the PPAs. Net purchase activities with the NUGs for the six months ended June 30, 2011 and 2010 were approximately $112 million and $140 million, respectively, of which approximately $104 million and $129 million, respectively, consisted of power purchases under the PPAs. The power purchase costs are recoverable from ACE's customers through regulated rates.

Atlantic City Electric Transitional Funding LLC

Atlantic City Electric Transitional Funding LLC (ACE Funding) was established in 2001 by ACE solely for the purpose of securitizing authorized portions of ACE's recoverable stranded costs through the issuance and sale of bonds (Transition Bonds). The proceeds of the sale of each series of Transition Bonds have been transferred to ACE in exchange for the transfer by ACE to ACE Funding of the right to collect non-bypassable transition bond charges (the Transition Bond Charges) from ACE customers pursuant to bondable stranded costs rate orders issued by the New Jersey Board of Public Utilities (NJBPU) in an amount sufficient to fund the principal and interest payments on the Transition Bonds and related taxes, expenses and fees (Bondable Transition Property). ACE collects the Transition Bond Charges from its customers on behalf of ACE Funding and the holders of the Transition Bonds. The assets of ACE Funding, including the Bondable Transition Property, and the Transition Bond Charges collected from ACE's customers, are not available to creditors of ACE. The holders of the Transition Bonds have recourse only to the assets of ACE Funding. ACE owns 100 percent of the equity of ACE Funding and consolidates ACE Funding in its financial statements as ACE is the primary beneficiary of ACE Funding under the variable interest entity consolidation guidance.

ACE Standard Offer Capacity Agreements

On April 28, 2011, ACE entered into three Standard Offer Capacity Agreements (SOCAs) by order of the NJBPU, each with a different generation company. The SOCAs were established under a New Jersey law enacted to promote the construction of qualified electric generation facilities in New Jersey. The SOCAs are 15-year, financially settled transactions approved by the NJBPU that allow generators to receive payments from, or make payments to, ACE based on the difference between the fixed price in the SOCAs and the price for capacity that clears PJM Interconnection, LLC (PJM). Each of the other electricity distribution companies (EDCs) in New Jersey has entered into SOCAs having the same terms with the same generation companies. The annual share of payments or receipts for ACE and the other EDCs is based upon each company's annual proportion of the total New Jersey load attributable to all EDCs. ACE and the other EDCs entered the

SOCAs under protest based on concerns about the potential cost to distribution customers. On May 16, 2011, the NJBPU denied a joint motion for reconsideration of its order requiring each of the EDCs to enter into the SOCAs. On June 24, 2011, ACE and the other EDCs filed appeals from the NJBPU orders with the Appellate Division of the New Jersey Superior Court.

The SOCAs are associated with the construction of three distinct combined cycle, natural gas generation facilities with an aggregate capacity of 1,949 megawatts, of which ACE's share would be approximately 15 percent, or 292 megawatts. The obligation to make payments is conditioned upon the clearance of capacity from a generation facility through PJM, and the earliest capacity auction would be in May 2012 based upon the estimated June 1, 2015 operational date for two of the facilities followed by a capacity auction in May 2013 for the third facility that has an estimated June 1, 2016 operational date. Payments would begin after a facility is operational. The NJBPU has approved full recovery from distribution customers of payments made by ACE and the other EDCs, and distribution customers would be entitled to any payments received by ACE and the other EDCs.

Currently, PHI believes that Financial Accounting Standards Board (FASB) guidance on derivative accounting and the accounting for regulated operations would apply to a SOCA once capacity has cleared a PJM auction. Once cleared, the gain (loss) associated with the fair value of a derivative would be offset by the establishment of a regulatory liability (asset).

Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions

Taxes included in ACE's gross revenues were $5 million for each of the three months ended June 30, 2011 and 2010, and $10 million for each of the six months ended June 30, 2011 and 2010.

Reclassifications and Adjustments

Certain prior period amounts have been reclassified in order to conform to the current period presentation. The following adjustments have been recorded and are not considered material either individually or in the aggregate:

Income Tax Adjustments

During the second quarter of 2011, ACE completed a reconciliation of its deferred taxes associated with certain regulatory assets and recorded adjustments which resulted in an increase to income tax expense of $1 million.

During the first quarter of 2010, ACE recorded an adjustment to correct certain income tax errors related to prior periods. The adjustment resulted in an increase in income tax expense of $6 million for the quarter ended March 31, 2010. The adjustment represents the reversal of erroneously recorded interest income for state income tax purposes related to uncertain and effectively settled tax positions, including $2 million, $3 million and $1 million recorded in 2009, 2008 and 2007, respectively.

(3) NEWLY ADOPTED ACCOUNTING STANDARDS

Fair Value Measurements and Disclosures (Accounting Standards Codification (ASC) 820)

The FASB issued new disclosure requirements that require significant items within the reconciliation of the Level 3 valuation category to be presented in separate categories for purchases, sales, issuances and settlements. The guidance was effective beginning with ACE's March 31, 2011 financial statements. ACE has included the new disclosure requirements in Note (10), "Fair Value Disclosures," to its financial statements.

(4) RECENTLY ISSUED ACCOUNTING STANDARDS, NOT YET ADOPTED

Fair Value Measurements and Disclosures (ASC 820)

In May 2011, the FASB issued new guidance on fair value measurement and disclosures that will be effective beginning with ACE's March 31, 2012 financial statements. The new guidance would change how fair value is measured in specific instances and expand disclosures about fair value measurements. ACE is evaluating the impact of this new guidance on its financial statements.

(5) SEGMENT INFORMATION

The company operates its business as one regulated utility segment, which includes all of its services as described above.

(6) PENSION AND OTHER POSTRETIREMENT BENEFITS

ACE accounts for its participation in the Pepco Holdings benefit plans as participation in a multi-employer plan. PHI's pension and other postretirement net periodic benefit cost for the three months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $19 million and $31 million, respectively. ACE's allocated share was $4 million and $7 million, respectively, for the three months ended June 30, 2011 and 2010. PHI's pension and other postretirement net periodic benefit cost for the six months ended June 30, 2011 and 2010, before intercompany allocations from the PHI Service Company, were $46 million and $60 million, respectively. ACE's allocated share was $10 million and $11 million, respectively, for the six months ended June 30, 2011 and 2010.

On March 14, 2011, ACE made a discretionary tax-deductible contribution to PHI's non-contributory retirement plan (the PHI Retirement Plan) of $30 million. ACE did not make a contribution to the PHI Retirement Plan in 2010.

(7) DEBT

Credit Facility

The principal credit source for PHI and its utility subsidiaries is an unsecured $1.5 billion syndicated credit facility, which can be used to borrow funds, obtain letters of credit and support the issuance of commercial paper. As of June 30, 2011, PHI's credit limit under the facility was $875 million and the credit limit for each of Potomac Electric Power Company (Pepco), Delmarva Power & Light Company (DPL) and ACE was the lesser of $500 million and the maximum amount of debt each company was permitted to have outstanding by its regulatory authorities, except that the aggregate amount of credit used by Pepco, DPL and ACE collectively, at any given time, could not exceed $625 million. On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of the credit agreement with respect to the facility, which among other changes extends the expiration date of the facility from May 2, 2012, to August 1, 2016. The facility, as amended and restated is more fully described below under the heading "Financing Activities Subsequent to June 30, 2011." PHI also has two bi-lateral 364 day unsecured credit agreements totaling $200 million. Under each of the credit agreements, PHI has access to revolving and floating rate loans over the terms of the agreements. Neither agreement provides for the issuance of letters of credit. Both agreements expire on October 26, 2011.

At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus unused borrowing capacity under the $1.5 billion credit facility available to meet the future liquidity needs of PHI's utility subsidiaries was $595 million and $462 million, respectively.

Financing Activities

In April 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-2 and A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

On April 5, 2011, ACE issued $200 million of 4.35% first mortgage bonds due April 1, 2021. The net proceeds were used to repay short-term debt and for general corporate purposes.

Financing Activities Subsequent to June 30, 2011

In July 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amendment and restatement of their $1.5 billion credit facility to extend the expiration date to August 1, 2016, and to make various other changes. As amended and restated, all or any portion of the facility may be used to obtain revolving loans and up to $500 million may be used to obtain letters of credit. PHI's credit sublimit under the facility is $750 million and the sublimit of each of Pepco, DPL and ACE is $250 million. The borrowers may increase or decrease their respective sublimits during the term of the facility, except that (i) the sum of all of the borrower sublimits following any such increase or decrease must equal the total amount of the facility and (ii) the aggregate amount of credit used at any given time by (a) PHI may not exceed $1.25 billion and (b) each of Pepco, DPL or ACE may not exceed the lesser of $500 million and the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of sublimit reallocations cannot exceed eight per fiscal year during the term of the agreement.

The interest rate payable by each company on utilized funds is, at the borrowing company's election, (i) the greater of the prevailing prime rate, the federal funds effective rate plus 0.5% and one month LIBOR plus 1.0%, or (ii) the prevailing Eurodollar rate, plus a margin that varies according to the credit rating of the borrower. The facility also includes a "swingline loan sub-facility," pursuant to which each company may make same day borrowings in an aggregate amount not to exceed 10% of the total amount of the facility. Any swingline loan must be repaid by the borrower within fourteen days of receipt thereof. All indebtedness incurred under the facility is unsecured.

(8) INCOME TAXES

A reconciliation of ACE's consolidated effective income tax rate is as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
Income tax at federal statutory rate	$ 11	35.0%	$ 15	35.0%	$ 15	35.0%	$ 16	35.0%
Increases (decreases) resulting from:								
State income taxes, net of federal effect	2	6.6	2	6.4	3	7.0	3	6.8
Depreciation	—	(0.3)	—	(0.2)	—	(0.5)	—	(0.4)
Tax credits	—	(0.6)	—	(0.5)	(1)	(1.2)	—	(1.1)
Change in estimates and interest related to uncertain and effectively settled tax positions	—	1.3	(1)	(2.1)	1	1.4	4	8.9
Deferred tax adjustment	1	3.1	—	—	1	2.3	—	—
Other, net	—	(1.3)	—	(0.5)	—	0.2	—	(0.3)
Consolidated income tax expense	$ 14	43.8%	$ 16	38.1%	$ 19	44.2%	$ 23	48.9%

ACE's consolidated effective tax rates for the three months ended June 30, 2011 and 2010 were 43.8% and 38.1%, respectively. The increase in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions.

During the second quarter of 2011, PHI reached a settlement with the Internal Revenue Service (IRS) with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that have been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, ACE has recorded an additional $1 million (after-tax) of interest due to the IRS. This additional interest expense was recorded in the second quarter of 2011. Also during the second quarter of 2011, ACE completed a reconciliation of its deferred taxes on certain regulatory assets and, as a result, recorded a $1 million increase to income tax expense as shown in the "Deferred Tax Adjustment" line above.

ACE's consolidated effective tax rates for the six months ended June 30, 2011 and 2010 were 44.2% and 48.9%, respectively. The decrease in the effective tax rate primarily resulted from the reversal of $6 million of accrued interest income on uncertain and effectively settled state income tax positions in 2010.

(9) PREFERRED STOCK

On February 25, 2011, ACE redeemed all of its outstanding cumulative preferred stock for approximately $6 million.

(10) FAIR VALUE DISCLOSURES

Financial Instruments Measured at Fair Value on a Recurring Basis

ACE has adopted FASB guidance on fair value measurement and disclosures (ASC 820) that established a framework for measuring fair value and expanded disclosures about fair value measurements. As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ACE utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. Accordingly, ACE utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). ACE classifies its fair value balances in the fair value hierarchy based on the observability of the inputs used in the fair value calculation as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using broker quotes in liquid markets and other observable data. Level 2 also includes those financial instruments that are valued using internally developed methodologies that have been corroborated by observable market data through correlation or by other means. Significant assumptions are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

The level 2 liability associated with the life insurance policies represents a deferred compensation obligation, the value of which is tracked via underlying insurance sub-accounts. The sub-accounts are designed to mirror existing mutual funds and money market funds that are observable and actively traded.

Level 3 – Pricing inputs include significant inputs that are generally less observable than those from objective sources. Level 3 includes those financial instruments that are valued using models or other valuation methodologies.

The following tables set forth, by level within the fair value hierarchy, ACE's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2011 and December 31, 2010. As required by the guidance, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. ACE's assessment of the significance of a particular input to the fair value measurement requires the exercise of judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Fair Value Measurements at June 30, 2011			
Description	**Total**	**Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)**	**Significant Other Observable Inputs (Level 2)(a)**	**Significant Unobservable Inputs (Level 3)**
		(millions of dollars)		
ASSETS				
Cash equivalents				
Treasury Fund	$ 20	$ 20	$ —	$ —
	$ 20	$ 20	$ —	$ —
LIABILITIES				
Executive deferred compensation plan liabilities				
Life Insurance Contracts	$ 1	$ —	$ 1	$ —
	$ 1	$ —	$ 1	$ —

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.

	Fair Value Measurements at December 31, 2010			
Description	**Total**	**Quoted Prices in Active Markets for Identical Instruments (Level 1)(a)**	**Significant Other Observable Inputs (Level 2)(a)**	**Significant Unobservable Inputs (Level 3)**
		(millions of dollars)		
ASSETS				
Cash equivalents				
Treasury Fund	$ 17	$ 17	$ —	$ —
	$ 17	$ 17	$ —	$ —
LIABILITIES				
Executive deferred compensation plan liabilities				
Life Insurance Contracts	$ 1	$ —	$ 1	$ —
	$ 1	$ —	$ 1	$ —

(a) There were no significant transfers of instruments between level 1 and level 2 valuation categories.

Other Financial Instruments

The estimated fair values of ACE's issued debt and equity instruments at June 30, 2011 and December 31, 2010 are shown below:

	June 30, 2011		December 31, 2010	
	(millions of dollars)			
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-Term Debt	$ 833	$921	$ 633	$710
Transition Bonds issued by ACE Funding	350	390	367	406
Redeemable Serial Preferred Stock	—	—	6	5

The fair value of long-term debt issued by ACE was based on actual trade prices as of June 30, 2011 and December 31, 2010. Where trade prices were not available, ACE used a discounted cash flow model to estimate fair value. The fair value of Transition Bonds issued by ACE Funding, including amounts due within one year, were derived based on bid prices obtained from brokers and validated by ACE because actual trade prices were not available.

The fair value of the Redeemable Serial Preferred Stock was derived based on quoted market prices.

The carrying amounts of all other financial instruments in the accompanying financial statements approximate fair value.

(11) COMMITMENTS AND CONTINGENCIES

Regulatory and Other Matters

Environmental Litigation

ACE is subject to regulation by various federal, regional, state, and local authorities with respect to the environmental effects of its operations, including air and water quality control, solid and hazardous waste disposal, and limitations on land use. In addition, federal and state statutes authorize governmental agencies to compel responsible parties to clean up certain abandoned or unremediated hazardous waste sites. ACE may incur costs to clean up currently or formerly owned facilities or sites found to be contaminated, as well as other facilities or sites that may have been contaminated due to past disposal practices. Although penalties assessed for violations of environmental laws and regulations are not recoverable from ACE's customers, environmental clean-up costs incurred by it would be included in its cost of service for ratemaking purposes.

Franklin Slag Pile Site. In November 2008, ACE received a general notice letter from the U.S. Environmental Protection Agency (EPA) concerning the Franklin Slag Pile site in Philadelphia, Pennsylvania, asserting that ACE is a potentially responsible party (PRP) that may have liability with respect to the site. If liable, ACE would be responsible for reimbursing EPA for clean-up costs incurred and to be incurred by the agency and for the costs of implementing an EPA-mandated remedy. EPA's claims are based on ACE's sale of boiler slag from the B.L. England generating facility, then owned by ACE, to MDC Industries, Inc. (MDC) during the period June 1978 to May 1983. EPA claims that the boiler slag ACE sold to MDC contained copper and lead, which are hazardous substances under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), and that the sales transactions may have constituted an arrangement for the disposal or treatment of hazardous substances at the site, which could be a basis for liability under CERCLA. The EPA letter also states that, as of the date of the letter, EPA's expenditures for response measures at the site have exceeded $6 million. EPA estimates the cost for future response measures will be approximately $6 million. ACE understands that EPA sent similar general notice letters to three other companies and various individuals.

ACE believes that the B.L. England boiler slag sold to MDC was a valuable material with various industrial applications and, therefore, the sale was not an arrangement for the disposal or treatment of any hazardous substances as would be necessary to constitute a basis for liability under CERCLA. ACE intends to contest any claims to the contrary made by EPA. In a May 2009 decision arising under CERCLA, which did not involve ACE, the U.S. Supreme Court rejected an EPA argument that the sale of a useful product constituted an arrangement for disposal or treatment of hazardous substances. While this decision supports ACE's position, at this time ACE cannot predict how EPA will proceed with respect to the Franklin Slag Pile site, or what portion, if any, of the Franklin Slag Pile site response costs EPA would seek to recover from ACE. Costs to resolve this matter are not expected to be material.

Ward Transformer Site. In April 2009, a group of PRPs with respect to the Ward Transformer site in Raleigh, North Carolina, filed a complaint in the U.S. District Court for the Eastern District of North Carolina, alleging cost recovery and/or contribution claims against a number of entities, including ACE with respect to past and future response costs incurred by the PRP group in performing a removal action at the site. With the court's permission, the plaintiffs filed amended complaints in September 2009. ACE, as part of a group of defendants, filed a motion to dismiss in October 2009. In a March 2010 order, the court denied the defendants' motion to dismiss. Although it is too early in the process to characterize the magnitude of the potential liability at this site, ACE does not believe that it had extensive business transactions, if any, with the Ward Transformer site and therefore, costs incurred to resolve this matter are not expected to be material.

Price's Pit Site. ACE owns a transmission and distribution right-of-way that traverses the Price's Pit superfund site in Egg Harbor Township, New Jersey. EPA placed Price's Pit on the NPL in 1983 and the New Jersey Department of Environmental Protection (NJDEP) undertook an environmental investigation to identify and implement remedial action at the site. NJDEP's investigation revealed that landfill waste had been disposed on ACE's right-of-way and NJDEP determined that ACE was a responsible party as the owner of a facility on which a hazardous substance has been deposited. ACE, EPA and NJDEP entered into a settlement agreement to resolve ACE's alleged liability (which was fully executed as of June 21, 2011, but will not be effective until after a public notice period, which will close on August 5, 2011, and receipt by ACE of notice of effectiveness from EPA). The settlement agreement requires ACE to make a payment of approximately $1 million to the EPA Hazardous Substance Superfund and donate a four-acre parcel of land adjacent to the site to NJDEP.

Appeal of New Jersey Flood Hazard Regulations. In November 2007, NJDEP adopted amendments to the agency's regulations under the Flood Hazard Area Control Act (FHACA) to minimize damage to life and property from flooding caused by development in flood plains. The amended regulations impose a new regulatory program to mitigate flooding and related environmental impacts from a broad range of construction and development activities, including electric utility transmission and distribution construction, which were previously unregulated under the FHACA. These regulations impose restrictions on construction of new electric transmission and distribution facilities and increase the time and personnel resources required to obtain permits and conduct maintenance activities. In November 2008, ACE filed an appeal of these regulations with the Appellate Division of the Superior Court of New Jersey. The grounds for ACE's appeal include the lack of administrative record justification for the FHACA regulations and conflict between the FHACA regulations and other state and federal regulations and standards for maintenance of electric power transmission and distribution facilities. The Appellate Division's decision upholding the amended FHACA regulations was issued on July 22, 2011. ACE currently is evaluating that ruling, including the financial impact related compliance with the amended regulations. Based on current information, PHI and ACE do not believe these regulations will have a material adverse effect on their respective financial conditions, results of operations or cash flows.

(12) RELATED PARTY TRANSACTIONS

PHI Service Company provides various administrative and professional services to PHI and its regulated and unregulated subsidiaries, including ACE. The cost of these services is allocated in accordance with cost allocation methodologies set forth in the service agreement using a variety of factors, including the subsidiaries' share of employees, operating expenses, assets, and other cost causal methods. These intercompany transactions are eliminated by PHI in consolidation and no profit results from these transactions at PHI. PHI Service Company costs directly charged or allocated to ACE for the three months ended June 30, 2011 and 2010 were approximately $24 million and $19 million, respectively. PHI Service Company costs directly charged or allocated to ACE for the six months ended June 30, 2011 and 2010 were approximately $48 million and $45 million, respectively.

In addition to the PHI Service Company charges described above, ACE's financial statements include the following related party transactions in the Consolidated Statements of Income:

Income (Expense)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(millions of dollars)			
Purchased power under Default Electricity Supply contracts with Conectiv Energy Supply, Inc. (CESI) (a) (b)	$ —	$ (41)	$ —	$ (80)
Meter reading services provided by Millennium Account Services LLC (c)	(1)	(1)	(2)	(2)

(a) Included in purchased energy expense.
(b) During 2010, PHI disposed of its Conectiv Energy segment and a third party assumed CESI's responsibilities under these contracts.
(c) Included in other operation and maintenance expense.

As of June 30, 2011 and December 31, 2010, ACE had the following balances on its Consolidated Balance Sheets due to related parties:

Liability	June 30, 2011	December 31, 2010
	(millions of dollars)	
Payable to Related Party (current) (a)		
PHI Service Company	$ (10)	$ (13)
Conectiv Energy Supply, Inc.	—	(14)
Other	(1)	(2)
Total	$ (11)	$ (29)

(a) These amounts are included in Accounts payable due to associated companies on the Consolidated Balance Sheets.

(13) RESTRUCTURING CHARGE

With the ongoing wind down of the retail energy supply business of Pepco Energy Services and the disposition of Conectiv Energy, PHI repositioned itself as a regulated transmission and distribution company during 2010. In connection with this repositioning, PHI completed a comprehensive organizational review in 2010 that identified opportunities to streamline the organization and to achieve certain reductions in corporate overhead costs that are allocated to its operating segments, which resulted in the adoption of a restructuring plan. PHI began implementation of the plan during 2010, identifying 164 employee positions that were eliminated. The plan also includes additional cost reduction opportunities that are being implemented through process improvements and operational efficiencies.

In connection with the restructuring plan, ACE recorded a pre-tax restructuring charge of $6 million in 2010 related to its allocation of severance, pension, and health and welfare benefits for the termination of corporate services employees at PHI. The severance, pension, and health and welfare benefits were estimated based on the years of service and compensation levels of the employees associated with the 164 eliminated positions at PHI. The restructuring charge was reflected as a separate line item in the Consolidated Statement of Income for the year ended December 31, 2010.

A reconciliation of ACE's accrued restructuring charges for the three and six months ended June 30, 2011 is as follows:

	Three Months Ended June 30, 2011 *(millions of dollars)*
Beginning balance as of April 1, 2011	$ 2
Restructuring charge	—
Cash payments	(1)
Ending balance as of June 30, 2011	$ 1

	Six Months Ended June 30, 2011 *(millions of dollars)*
Beginning balance as of January 1, 2011	$ 6
Restructuring charge	—
Cash payments	(5)
Ending balance as of June 30, 2011	$ 1

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is contained herein, as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Pepco Holdings, Inc.

General Overview

Pepco Holdings, Inc. (PHI or Pepco Holdings), a Delaware corporation incorporated in 2001, is a holding company that is engaged primarily in the transmission, distribution and default supply of electricity and the distribution and supply of natural gas through its regulated public utility subsidiaries (Power Delivery). Through Pepco Energy Services, Inc. and its subsidiaries (collectively, Pepco Energy Services), PHI provides energy efficiency services primarily to government and institutional customers and is in the process of winding down its competitive electricity and natural gas retail supply business. Each of Power Delivery and Pepco Energy Services constitutes a separate segment for financial reporting purposes. A third segment, Other Non-Regulated, owns a portfolio of seven cross-border energy lease investments.

The following table sets forth the percentage contributions to consolidated operating revenue and consolidated operating income from continuing operations attributable to the Power Delivery, Pepco Energy Services and Other Non-Regulated segments. Power Delivery Electric consists primarily of the transmission, distribution and default supply of electricity, and Power Delivery Gas consists of the delivery and supply of natural gas.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Percentage of Consolidated Operating Revenue				
Power Delivery	78%	70%	77%	70%
Pepco Energy Services	22%	29%	22%	30%
Other Non-Regulated	—	1%	1%	—
Percentage of Consolidated Operating Income				
Power Delivery	67%	79%	72%	76%
Pepco Energy Services	6%	12%	8%	15%
Other Non-Regulated	27%	9%	20%	9%
Percentage of Power Delivery Operating Revenue				
Power Delivery Electric	96%	97%	94%	95%
Power Delivery Gas	4%	3%	6%	5%

Power Delivery

The Power Delivery business is conducted by PHI's three regulated public utility subsidiaries: Potomac Electric Power Company (Pepco), Delmarva Power & Light Company (DPL), and Atlantic City Electric Company (ACE). Each utility is regulated in the jurisdictions that comprise its service territory. Each utility is responsible for the distribution of electricity and, in the case of DPL, natural gas in its service territory, for which it is paid tariff rates established by the applicable local public service commission. Each utility also supplies electricity at regulated rates to retail customers in its service territory who do not elect to purchase electricity from a competitive energy supplier. The regulatory term for this supply service is Standard Offer Service in Delaware, the District of Columbia and Maryland, and Basic Generation Service in New Jersey. In this Form 10-Q, these supply service obligations are referred to generally as Default Electricity Supply.

Pepco, DPL and ACE are also responsible for the transmission of wholesale electricity into and across their service territories. The rates each company is permitted to charge for the wholesale transmission of electricity are regulated by the Federal Energy Regulatory Commission (FERC). Transmission rates are updated annually based on a FERC-approved formula methodology.

The profitability of the Power Delivery business depends on its ability to recover costs and earn a reasonable return on its capital investments through the rates it is permitted to charge. The Power Delivery operating results historically have been seasonal, generally producing higher revenue and income in the warmest and coldest periods of the year. Operating results also can be affected by economic conditions, energy prices and the impact of energy efficiency measures on customer usage of electricity.

As a result of the implementation of a bill stabilization adjustment mechanism (BSA) for retail electric customers of Pepco and DPL in Maryland in June 2007 and for retail customers of Pepco in the District of Columbia in November 2009, Pepco and DPL recognize distribution revenue based on an approved distribution charge per customer. From a revenue recognition standpoint, this has the effect of decoupling distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a consequence, the only factors that will cause distribution revenue in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. For customers to whom the BSA applies, changes in customer usage (such as due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue.

Reliability Enhancement Plans

During 2010, Pepco announced Comprehensive Reliability Enhancement Plans for Maryland and the District of Columbia. Each plan advances work on existing programs and initiates new activities for customers in the respective jurisdictions. These programs include enhanced vegetation management, identification and upgrading of underperforming feeder lines, addition of new facilities to support load growth, installation of distribution automation systems, replacement of underground residential cables, improvements to substation supply lines and selective undergrounding of existing above-ground service lines. By focusing on these areas, Pepco plans to increase the reliability of the distribution system by reducing both the frequency and the duration of power outages. Pepco's progress on this plan includes increasing tree-trimming personnel (including contractors) from 80 to 350, trimming trees along more than 2,200 miles of power lines, and replacing or upgrading over 150 miles of underground cable.

The incremental cost of the reliability improvements over the next five years associated with Pepco's Comprehensive Reliability Enhancement Plans for Maryland and the District of Columbia, a substantial portion of which would be capitalized, is estimated to be $100 million in the Maryland service territory and $90 million in the District of Columbia service territory. The total amount of the expenditures may change when anticipated regulations imposing reliability standards are promulgated in Maryland and upon the completion of Pepco's analysis of the recently adopted modifications to the reliability standards in the District of Columbia.

Pepco Energy Services

Pepco Energy Services is engaged in the Energy Services business, which is comprised of providing energy efficiency services principally to federal, state and local government customers, and designing, constructing and operating combined heat and power and central energy plants and providing high voltage electric construction and maintenance services to customers throughout the United States and low voltage electric construction and maintenance services and streetlight construction and asset management services to utilities, municipalities and other customers in the Washington, D.C. metropolitan area.

Pepco Energy Services also owns and operates two oil-fired generation facilities that are scheduled for deactivation in May 2012.

In December 2009, PHI announced the wind down of the retail energy supply component of the Pepco Energy Services business. Pepco Energy Services is implementing this wind down by not entering into any new supply contracts, while continuing to perform under its existing supply contracts through their expiration dates. The retail energy supply business has historically generated a substantial portion of the operating revenues and net income of the Pepco Energy Services segment. Operating revenues related to the retail energy supply business for the three months ended June 30, 2011 and 2010 were $231 million and $401 million, respectively, while operating income for the same periods was $4 million and $10 million, respectively. Operating revenues related to the retail energy supply business for the six months ended June 30, 2011 and 2010 were $536 million and $898 million, respectively, while operating income for the same periods was $16 million and $31 million, respectively.

In connection with the operation of the retail energy supply business, Pepco Energy Services provided letters of credit of $62 million and posted net cash collateral of $76 million as of June 30, 2011. These collateral requirements, which are based on existing wholesale energy purchase and sale contracts and current market prices, will decrease as the contracts expire, with the collateral expected to be fully released by June 1, 2014. The Energy Services business will not be affected by the wind down of the retail energy supply business.

PHI expects the retail energy supply business to remain profitable through December 31, 2012, based on its existing contract backlog and its corresponding portfolio of wholesale hedges, and PHI expects to record only immaterial losses beyond that date. Substantially all of Pepco Energy Services' retail customer obligations will be fully performed by June 1, 2014.

Other Non-Regulated

Through its subsidiary Potomac Capital Investment Corporation, PHI maintains a portfolio of cross-border energy lease investments with a book value at June 30, 2011 of approximately $1.3 billion. In June 2011, PCI completed the early termination of all of the leases comprising one lease investment and a small portion of the leases comprising another lease investment. PCI received $161 million in net cash proceeds and recorded an after-tax gain of $3 million from these early terminations. For a discussion of PHI's cross-border energy lease investments, see Note (7), "Leasing Activities" and Note (15), "Commitments and Contingencies—Regulatory and Other Matters – PHI's Cross-Border Energy Lease Investments," to the Consolidated Financial Statements of PHI set forth in Part I, Item 1 of this Form 10-Q.

Discontinued Operations

In April 2010, the Board of Directors of PHI approved a plan for the disposition of Conectiv Energy, which was comprised of Conectiv Energy Holding Company and its subsidiaries. On July 1, 2010, PHI completed the sale of Conectiv Energy's wholesale power generation business to Calpine Corporation (Calpine) for $1.64 billion. The disposition of all of Conectiv Energy's remaining assets and businesses not included in the Calpine sale, including its load service supply contracts, energy hedging portfolio and certain tolling agreements, has been substantially completed. The operations of Conectiv Energy, which previously comprised a separate segment for financial reporting purposes, have been classified as a discontinued operation in PHI's Consolidated Statements of Income for each of the three and six months ended June 30, 2011 and 2010. Accordingly, in this Management's Discussion and Analysis of Financial Condition and Results of Operations, all references to continuing operations exclude the operations of the former Conectiv Energy segment.

Earnings Overview

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

PHI's net income from continuing operations for the three months ended June 30, 2011 was $95 million, or $0.42 per share, compared to $76 million, or $0.34 per share, for the three months ended June 30, 2010.

PHI's net loss from discontinued operations for the three months ended June 30, 2011 was $1 million, or less than one cent per share, compared to a net loss of $130 million, or $0.58 per share, for the three months ended June 30, 2010.

PHI's net income (loss) for the three months ended June 30, 2011 and 2010, by operating segment, is set forth in the table below (in millions of dollars):

	2011	2010	Change
Power Delivery	$72	$ 65	$ 7
Pepco Energy Services	8	10	(2)
Other Non-Regulated	19	6	13
Corporate and Other	(4)	(5)	1
Net Income from Continuing Operations	95	76	19
Discontinued Operations	(1)	(130)	129
Total PHI Net Income (Loss)	$94	$ (54)	$ 148

Discussion of Operating Segment Net Income Variances:

Power Delivery's $7 million increase in earnings is primarily due to the following:

- $13 million increase primarily due to an audit settlement with the Internal Revenue Service (IRS) for tax years 1996 through 2002, and a reallocation of deposits with the IRS with respect to tax liabilities in the settlement years and subsequent years.
- $8 million increase associated with higher Default Electricity Supply margins, primarily resulting from an approval by the District of Columbia Public Service Commission (DCPSC) of an increase in Pepco's cost recovery rate for providing Standard Offer Service (SOS) in the District of Columbia, and an adjustment to DPL's operating and maintenance expense for providing SOS in Delaware.
- $5 million increase from higher distribution revenue primarily due to distribution rate increases (Pepco in Maryland effective July 2010; DPL in Delaware effective February 2011; and ACE in New Jersey effective June 2010).
- $14 million decrease due to higher operating and maintenance expenses primarily from increased system preventive maintenance and reliability activity.
- $5 million decrease associated with ACE Basic Generation Service primarily attributable to a decrease in unbilled revenue.

Pepco Energy Services' $2 million decrease in earnings is primarily due to lower capacity revenues from the generating facilities and mark-to-market losses on derivative contracts, partially offset by higher revenues from energy services and high-voltage construction activities, and lower credit related costs.

Other Non-Regulated's $13 million increase in earnings is primarily due to favorable income tax adjustments and the gain on the early termination of certain cross-border energy leases.

Corporate and Other's $1 million decrease in net loss is primarily due to lower interest expense as the result of the reduction in outstanding debt due to the retirement of debt with the Conectiv Energy sale proceeds, offset by favorable income tax adjustments in 2010 from the release of certain deferred tax valuation allowances related to state net operating losses.

The $129 million decrease in the net loss from discontinued operations for the three months ended June 30, 2011 as compared to June 30, 2010 was primarily due to the 2010 write-down associated with the anticipated sale of the wholesale power generation business to Calpine and unrealized losses on derivative instruments no longer qualifying for cash flow hedge accounting, partially offset by gains in the 2010 period from sales of load service supply contracts.

Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

PHI's net income from continuing operations for the six months ended June 30, 2011 was $157 million, or $0.69 per share, compared to $104 million, or $0.47 per share, for the six months ended June 30, 2010.

PHI's net income from discontinued operations for the six months ended June 30, 2011 was $1 million, or $0.01 per share, compared to a net loss of $122 million, or $0.55 per share, for the six months ended June 30, 2010.

PHI's net income (loss) for the six months ended June 30, 2011 and 2010, by operating segment, is set forth in the table below (in millions of dollars):

	2011	2010	Change
Power Delivery	$119	$ 85	$ 34
Pepco Energy Services	18	23	(5)
Other Non-Regulated	25	10	15
Corporate and Other	(5)	(14)	9
Net Income from Continuing Operations	157	104	53
Discontinued Operations	1	(122)	123
Total PHI Net Income (Loss)	$158	$ (18)	$ 176

Discussion of Operating Segment Net Income Variances:

Power Delivery's $34 million increase in earnings is primarily due to the following:

- $21 million increase primarily due to an audit settlement with the IRS for tax years 1996 through 2002 and a reallocation of deposits with the IRS with respect to tax liabilities in the settlement years and subsequent years, and unfavorable income tax adjustments in 2010 related to interest on uncertain and effectively settled tax positions.
- $19 million increase from higher distribution revenue primarily due to distribution rate increases (Pepco in the District of Columbia effective March 2010 and in Maryland effective July 2010; DPL in Delaware effective April 2010 and February 2011; and ACE in New Jersey effective June 2010).
- $11 million increase from higher transmission revenue primarily attributable to higher rates effective June 1, 2010, related to an increase in transmission plant investment.

- $11 million increase associated with higher Default Electricity Supply margins, primarily resulting from an approval by the DCPSC of an increase in Pepco's cost recovery rate for providing SOS in the District of Columbia, and an adjustment to DPL's operating and maintenance expense for providing SOS in Delaware.
- $26 million decrease due to higher operating and maintenance expenses primarily from increased system preventive maintenance and reliability activity.

Pepco Energy Services' $5 million decrease in earnings is primarily due to lower capacity revenues from the generating facilities and mark-to-market losses on derivative contracts, partially offset by higher revenues from energy services and high-voltage construction activities, and lower credit related costs.

Other Non-Regulated's $15 million increase in earnings is primarily due to favorable income tax adjustments and the gain on the early termination of certain cross-border energy leases.

Corporate and Other's $9 million decrease in net loss is primarily due to lower interest expense as the result of the reduction in outstanding debt due to the retirement of debt with the Conectiv Energy sale proceeds, partially offset by favorable income tax adjustments in 2010 from the release of certain deferred tax valuation allowances related to state net operating losses.

The $123 million decrease in the net loss from discontinued operations for the six months ended June 30, 2011 as compared to June 30, 2010 was primarily due to the 2010 write-down associated with the anticipated sale of the wholesale power generation business to Calpine and unrealized losses on derivative instruments no longer qualifying for cash flow hedge accounting, partially offset by gains in the 2010 period from sales of load service supply contracts.

Consolidated Results of Operations

The following results of operations discussion is for the three months ended June 30, 2011, compared to the three months ended June 30, 2010. All amounts in the tables (except sales and customers) are in millions of dollars.

Continuing Operations

Operating Revenue

A detail of the components of PHI's consolidated operating revenue is as follows:

	2011	2010	Change
Power Delivery	$1,093	$1,149	$ (56)
Pepco Energy Services	308	476	(168)
Other Non-Regulated	14	13	1
Corporate and Other	(6)	(2)	(4)
Total Operating Revenue	$1,409	$1,636	$ (227)

Power Delivery Business

The following table categorizes Power Delivery's operating revenue by type of revenue.

	2011	2010	Change
Regulated T&D Electric Revenue	$ 455	$ 449	$ 6
Default Electricity Supply Revenue	582	646	(64)
Other Electric Revenue	17	18	(1)
Total Electric Operating Revenue	1,054	1,113	(59)
Regulated Gas Revenue	26	24	2
Other Gas Revenue	13	12	1
Total Gas Operating Revenue	39	36	3
Total Power Delivery Operating Revenue	$1,093	$1,149	$ (56)

Regulated Transmission and Distribution (T&D) Electric Revenue includes revenue from the distribution of electricity, including the distribution of Default Electricity Supply, by PHI's utility subsidiaries to customers within their service territories at regulated rates. Regulated T&D Electric Revenue also includes transmission service revenue that PHI's utility subsidiaries receive as transmission owners from PJM Interconnection, LLC (PJM) at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Default Electricity Supply Revenue is the revenue received from the supply of electricity by PHI's utility subsidiaries at regulated rates to retail customers who do not elect to purchase electricity from a competitive energy supplier. Depending on the jurisdiction, Default Electricity Supply is also known as Standard Offer Service or Basic Generation Service (BGS). The costs related to Default Electricity Supply are included in "Fuel and Purchased Energy." Default Electricity Supply Revenue also includes revenue from Transition Bond Charges that ACE receives, and pays to Atlantic City Electric Transitional Funding LLC (ACE Funding), to fund the principal and interest payments on Transition Bonds issued by ACE Funding and revenue in the form of transmission enhancement credits that PHI utility subsidiaries receive as transmission owners from PJM for approved regional transmission expansion plan costs (Transmission Enhancement Credits).

Other Electric Revenue includes work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Regulated Gas Revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates.

Other Gas Revenue consists of DPL's off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Regulated T&D Electric

	2011	2010	Change
Regulated T&D Electric Revenue			
Residential	$154	$149	$ 5
Commercial and industrial	223	224	(1)
Other	78	76	2
Total Regulated T&D Electric Revenue	$455	$449	$ 6

Other Regulated T&D Electric Revenue consists primarily of transmission service revenue.

	2011	2010	Change
Regulated T&D Electric Sales (Gigawatt hours (GWh))			
Residential	3,855	3,773	82
Commercial and industrial	7,913	8,227	(314)
Other	55	56	(1)
Total Regulated T&D Electric Sales	11,823	12,056	(233)

	2011	2010	Change
Regulated T&D Electric Customers (in thousands)			
Residential	1,635	1,628	7
Commercial and industrial	198	198	—
Other	2	2	—
Total Regulated T&D Electric Customers	1,835	1,828	7

The Pepco, DPL and ACE service territories are located within a corridor extending from the District of Columbia to southern New Jersey. These service territories are economically diverse and include key industries that contribute to the regional economic base.

- Commercial activity in the region includes banking and other professional services, government, insurance, real estate, shopping malls, casinos, stand alone construction, and tourism.
- Industrial activity in the region includes chemical, glass, pharmaceutical, steel manufacturing, food processing, and oil refining.

Regulated T&D Electric Revenue increased by $6 million primarily due to:

- An increase of $7 million due to distribution rate increases (Pepco in the District of Columbia effective March 2010 and July 2010, and in Maryland effective July 2010; and ACE in New Jersey effective June 2010).
- An increase of $5 million due to higher pass-through revenue (which is substantially offset by a corresponding increase in Other Taxes) primarily the result of rate increases in Montgomery County, Maryland utility taxes that are collected by Pepco on behalf of the county.
- An increase of $2 million due to Pepco customer growth of 1% in 2011, primarily in the residential class.
- An increase of $1 million in non-weather related average customer usage.

The aggregate amount of these increases was partially offset by:

- A decrease of $7 million due to an ACE New Jersey Societal Benefit Charge rate decrease that became effective in January 2011 (which is offset in Deferred Electric Service Costs).
- A decrease of $3 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.

Default Electricity Supply

	2011	2010	Change
Default Electricity Supply Revenue			
Residential	$376	$418	$ (42)
Commercial and industrial	165	188	(23)
Other	41	40	1
Total Default Electricity Supply Revenue	$582	$646	$ (64)

Other Default Electricity Supply Revenue consists primarily of (i) revenue from the resale by ACE in the PJM Regional Transmission Organization (PJM RTO) market of energy and capacity purchased under contracts with unaffiliated non-utility generators (NUGs), and (ii) revenue from Transmission Enhancement Credits.

	2011	2010	Change
Default Electricity Supply Sales (GWh)			
Residential	3,401	3,586	(185)
Commercial and industrial	1,495	1,749	(254)
Other	18	23	(5)
Total Default Electricity Supply Sales	4,914	5,358	(444)

	2011	2010	Change
Default Electricity Supply Customers (in thousands)			
Residential	1,475	1,568	(93)
Commercial and industrial	141	155	(14)
Other	1	1	—
Total Default Electricity Supply Customers	1,617	1,724	(107)

Default Electricity Supply Revenue decreased by $64 million primarily due to:

- A decrease of $47 million due to lower sales, primarily as a result of commercial and residential customer migration to competitive suppliers.
- A decrease of $30 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.
- A net decrease of $20 million as a result of lower Pepco and DPL Default Electricity Supply rates, partially offset by higher ACE rates.

The aggregate amount of these decreases was partially offset by:

- An increase of $30 million due to higher non-weather related average customer usage.

The decrease in total Default Electricity Supply Revenue includes a decrease of $10 million in unbilled revenue attributable to ACE's BGS. Under the BGS terms approved by the New Jersey Board of Public Utilities, ACE is entitled to recover from its customers all of its costs of providing BGS. If the costs of providing BGS exceed the BGS revenue, the excess costs are deferred in Deferred Electric Service Costs. ACE's BGS unbilled revenue is not included in the deferral calculation, and therefore has an impact on the results of operations in the period during which it is accrued. While the change in the amount of unbilled revenue from year to year typically is not significant, for the three months ended June 30, 2011, BGS unbilled revenue decreased by $10 million as compared to the three months ended June 30, 2010, which resulted in a $6 million decrease in PHI's net income. The decrease was primarily due to lower customer usage and increased customer migration during the unbilled revenue period at the end of the three months ended June 30, 2011, as compared to the corresponding period in 2010.

Regulated Gas

	2011	2010	Change
Regulated Gas Revenue			
Residential	$16	$14	$ 2
Commercial and industrial	8	8	—
Transportation and other	2	2	—
Total Regulated Gas Revenue	$26	$24	$ 2

	2011	2010	Change
Regulated Gas Sales (billion cubic feet)			
Residential	1	1	—
Commercial and industrial	1	1	—
Transportation and other	1	1	—
Total Regulated Gas Sales	3	3	—

	2011	2010	Change
Regulated Gas Customers (in thousands)			
Residential	114	113	1
Commercial and industrial	9	9	—
Transportation and other	—	—	—
Total Regulated Gas Customers	123	122	1

DPL's natural gas service territory is located in New Castle County, Delaware. Several key industries contribute to the economic base as well as to growth:

- Commercial activity in the region includes banking and other professional services, government, insurance, real estate, shopping malls, stand alone construction, and tourism.
- Industrial activity in the region includes chemical and pharmaceutical.

Regulated Gas Revenue increased by $2 million primarily due to:

- An increase of $2 million due to higher sales as a result of colder weather during the 2011 spring months as compared to 2010.
- An increase of $1 million due to distribution rate increases effective August 2010 and February 2011.

The aggregate amount of these increases was partially offset by:

- A decrease of $1 million due to lower non-weather related average customer usage.

Pepco Energy Services

Pepco Energy Services' operating revenue decreased by $168 million primarily due to:

- A decrease of $168 million due to lower retail supply sales volume primarily attributable to the ongoing wind down of the retail energy supply business.
- A decrease of $27 million due to lower capacity revenues at the generating facilities due to lower Reliability Pricing Model (RPM) clearing prices in the PJM auction.

The decrease is partially offset by:

- An increase of $26 million due to increased energy services and high voltage construction activities.

<u>*Operating Expenses*</u>

Fuel and Purchased Energy and Other Services Cost of Sales

A detail of PHI's consolidated Fuel and Purchased Energy and Other Services Cost of Sales is as follows:

	2011	2010	Change
Power Delivery	$584	$ 688	$ (104)
Pepco Energy Services	269	427	(158)
Corporate and Other	(1)	(3)	2
Total	$852	$1,112	$ (260)

<u>Power Delivery Business</u>

Power Delivery's Fuel and Purchased Energy consists of the cost of electricity and natural gas purchased by its utility subsidiaries to fulfill their respective Default Electricity Supply and Regulated Gas obligations and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of natural gas purchased for off-system sales. Fuel and Purchased Energy expense decreased by $104 million primarily due to:

- A decrease of $64 million due to lower average electricity costs under Default Electricity Supply contracts.
- A decrease of $29 million primarily due to customer migration to competitive suppliers.
- A decrease of $26 million due to lower electricity sales primarily as a result of cooler weather during the 2011 spring months as compared to 2010.

The aggregate amount of these decreases was partially offset by:

- An increase of $13 million in deferred electricity expense primarily due to lower average electricity costs under Default Electricity Supply contracts, which resulted in a higher rate of recovery of Default Electricity Supply costs.

Pepco Energy Services

Pepco Energy Services' Fuel and Purchased Energy and Other Services Cost of Sales decreased $158 million primarily due to:

- A decrease of $127 million due to lower volumes of electricity purchased to serve decreased retail electricity sales volume as a result of the ongoing wind down of the retail energy supply business.
- A decrease of $37 million due to lower volumes of natural gas purchased to serve decreased retail natural gas volumes as a result of the ongoing wind down of the retail energy supply business.
- A decrease of $15 million due to decreased purchases of installed capacity and decreased fuel usage associated with the generating facilities.

The aggregate amount of these decreases was partially offset by:

- An increase of $20 million due to increased high voltage and energy services construction activities.

Other Operation and Maintenance

A detail of PHI's Other Operation and Maintenance expense is as follows:

	2011	2010	Change
Power Delivery	$197	$184	$ 13
Pepco Energy Services	21	21	—
Corporate and Other	(9)	(9)	—
Total	$209	$196	$ 13

Other Operation and Maintenance expense for Power Delivery increased by $13 million; however, excluding an increase of $1 million primarily related to New Jersey Societal Benefit Program costs that are deferred and recoverable, Other Operation and Maintenance expense increased by $12 million. The $12 million increase was primarily due to:

- An increase of $17 million primarily due to higher tree trimming and preventative maintenance costs.
- An increase of $5 million in customer support and communication costs.
- An increase of $3 million in emergency restoration costs.
- An increase of $3 million primarily due to emergency restoration improvement projects and reliability compliance costs.

The aggregate amount of these increases was partially offset by:

- A decrease of $8 million associated with certain adjustments recorded by PHI in the second quarter of 2011 to correct certain errors associated with the accounting for DPL Default Electricity Supply. These adjustments were primarily due to the under-recognition of allowed returns on the cost of working capital.
- A decrease of $6 million in employee-related costs, primarily due to lower pension and other postretirement benefit expenses.

- A decrease of $4 million due to 2010 environmental remediation costs related to a 1999 oil release at the Indian River generating facility then owned by DPL, as further discussed under "Indian River Oil Release" in Note (15), "Commitments and Contingencies" to the consolidated financial statements of PHI.

Depreciation and Amortization

Depreciation and Amortization expense increased by $12 million to $105 million in 2011 from $93 million in 2010 primarily due to:

- An increase of $6 million in amortization of stranded costs as the result of higher revenue due to rate increases effective October 2010 for the ACE Transition Bond Charge and the Market Transition Charge Tax (partially offset in Default Electricity Supply Revenue).
- An increase of $4 million due to utility plant additions.

Other Taxes

Other Taxes increased by $4 million to $109 million in 2011 from $105 million in 2010. The increase was primarily due to rate increases in the Montgomery County, Maryland utility taxes that are collected and passed through by Pepco (substantially offset by a corresponding increase in Regulated T&D Electric Revenue).

Gain on Early Termination of Finance Leases Held in Trust

PHI's operating expenses include a $39 million pre-tax gain for the three months ended June 30, 2011 associated with the early termination of several leases included in its cross-border energy lease portfolio.

Deferred Electric Service Costs

Deferred Electric Service Costs, which relate only to ACE, represent (i) the over or under recovery of electricity costs incurred by ACE to fulfill its Default Electricity Supply obligation and (ii) the over or under recovery of New Jersey Societal Benefit Program costs incurred by ACE. The cost of electricity purchased is reported under Fuel and Purchased Energy and the corresponding revenue is reported under Default Electricity Supply Revenue. The cost of New Jersey Societal Benefit Programs is reported under Other Operation and Maintenance and the corresponding revenue is reported under Regulated T&D Electric Revenue.

Deferred Electric Service Costs increased by $34 million, to an expense reduction of $29 million in 2011 as compared to an expense reduction of $63 million in 2010, primarily due to an increase in deferred electricity expense as a result of higher Default Electricity Supply revenue rates and lower electricity supply costs.

Other Income (Expenses)

Other Expenses (which are net of Other Income) decreased by $31 million primarily due to lower interest expense resulting from the reduction in outstanding long-term debt due to the retirement of debt in 2010 with the proceeds from the Conectiv Energy sale.

Income Tax Expense

PHI's consolidated effective tax rates from continuing operations for the three months ended June 30, 2011 and 2010 were 36.2% and 30.3%, respectively. The increase in the effective tax rate was primarily due to the impact of the early termination of certain cross border energy leases and the non-recurring tax benefit of the 2010 corporate restructuring. This increase was partially offset by interest benefits associated with the settlement with the Internal Revenue Service (IRS) discussed below (included in changes in estimates and interest related to uncertain and effectively settled tax positions) and a state tax benefit related to prior years' asset dispositions.

As discussed further in Note (7), "Leasing Activities," during the second quarter of 2011, PHI terminated early its interest in certain cross-border energy leases. As a result of the early terminations, PHI reversed $22 million of previously recognized income tax benefits associated with those leases which will not be realized due to the early termination.

In the second quarter of 2010, PHI recorded a non-recurring benefit related to the April 1, 2010 corporate restructuring. As a result of the restructuring, PHI recorded an $8 million decrease to its state deferred tax balances resulting from a change in state apportionment factors.

In the second quarter of 2011, PHI reached a settlement with the IRS with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that had been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, PHI has recorded an additional tax benefit in the amount of $17 million (after-tax). This additional interest income was recorded in the second quarter of 2011.

Also in the second quarter of 2011, PHI received refunds of approximately $5 million and recorded tax benefits of approximately $4 million (after-tax) related to the filing of amended state tax returns. These amended returns reduced state taxable income due to an increase in tax basis reported on certain prior years' asset dispositions.

Discontinued Operations

For the three months ended June 30, 2011, the $1 million loss from discontinued operations, net of income taxes, includes an after-tax gain of $1 million arising from the sale of a tolling agreement in May 2011.

For the three months ended June 30, 2010, the loss from discontinued operations, net of income taxes, of $130 million includes income from operations of $2 million for Conectiv Energy, which includes the after-tax effects of employee severance and retention benefits of $9 million and after-tax accruals of certain obligations associated with the anticipated sale of the wholesale power generation business to Calpine of $13 million, each recorded in the second quarter of 2010.

Net losses from dispositions of assets and businesses of discontinued operations, net of income taxes of $132 million for the three ended June 30, 2010, includes (i) the after-tax loss on the sale of the wholesale power generation business to Calpine of $67 million, (ii) after-tax net losses on sales of assets and businesses not sold to Calpine of $51 million (inclusive of the recognition of after-tax unrealized losses on derivative contracts considered no longer probable to occur of $50 million recorded in the second quarter of 2010), and (iii) tax charges of $14 million for the establishment of valuation allowances against certain deferred tax assets primarily associated with state net operating losses, the remeasurement of deferred taxes for expected changes in state income tax apportionment factors, and the write-off of certain tax credit carryforwards no longer expected to be realized.

The following results of operations discussion is for the six months ended June 30, 2011, compared to the six months ended June 30, 2010. All amounts in the tables (except sales and customers) are in millions of dollars.

Continuing Operations

Operating Revenue

A detail of the components of PHI's consolidated operating revenue is as follows:

	2011	2010	Change
Power Delivery	$2,342	$2,411	$ (69)
Pepco Energy Services	681	1,023	(342)
Other Non-Regulated	28	26	2
Corporate and Other	(8)	(5)	(3)
Total Operating Revenue	$3,043	$3,455	$ (412)

Power Delivery Business

The following table categorizes Power Delivery's operating revenue by type of revenue.

	2011	2010	Change
Regulated T&D Electric Revenue	$ 907	$ 846	$ 61
Default Electricity Supply Revenue	1,261	1,401	(140)
Other Electric Revenue	33	33	—
Total Electric Operating Revenue	2,201	2,280	(79)
Regulated Gas Revenue.	117	111	6
Other Gas Revenue	24	20	4
Total Gas Operating Revenue	141	131	10
Total Power Delivery Operating Revenue	$2,342	$2,411	$ (69)

Regulated T&D Electric

	2011	2010	Change
Regulated T&D Electric Revenue			
Residential.	$322	$298	$ 24
Commercial and industrial	425	407	18
Other	160	141	19
Total Regulated T&D Electric Revenue	$907	$846	$ 61

Other Regulated T&D Electric Revenue consists primarily of transmission service revenue.

	2011	2010	Change
Regulated T&D Electric Sales (GWh)			
Residential	8,630	8,650	(20)
Commercial and industrial	15,218	15,428	(210)
Other	123	124	(1)
Total Regulated T&D Electric Sales	23,971	24,202	(231)

	2011	2010	Change
Regulated T&D Electric Customers (in thousands)			
Residential	1,635	1,628	7
Commercial and industrial	198	198	—
Other	2	2	—
Total Regulated T&D Electric Customers	1,835	1,828	7

Regulated T&D Electric Revenue increased by $61 million primarily due to:

- An increase of $28 million due to distribution rate increases (Pepco in the District of Columbia effective March 2010 and July 2010, and in Maryland effective July 2010; DPL in Delaware effective April 2010; and ACE in New Jersey effective June 2010).
- An increase of $24 million due to higher pass-through revenue (which is substantially offset by a corresponding increase in Other Taxes) primarily the result of rate increases in Montgomery County, Maryland utility taxes that are collected by Pepco on behalf of the county.
- An increase of $19 million in transmission revenue primarily attributable to higher rates effective June 1, 2010 related to an increase in transmission plant investment.
- An increase of $3 million due to Pepco customer growth of 1% in 2011, primarily in the residential class.

The aggregate amount of these increases was partially offset by:

- A decrease of $13 million due to an ACE New Jersey Societal Benefit Charge rate decrease that became effective in January 2011 (which is offset in Deferred Electric Service Costs).

Default Electricity Supply

	2011	2010	Change
Default Electricity Supply Revenue			
Residential	$ 845	$ 939	$ (94)
Commercial and industrial	333	367	(34)
Other	83	95	(12)
Total Default Electricity Supply Revenue	$1,261	$1,401	$ (140)

Other Default Electricity Supply Revenue consists primarily of (i) revenue from the resale by ACE in the PJM RTO market of energy and capacity purchased under contracts with unaffiliated NUGs, and (ii) revenue from Transmission Enhancement Credits.

	2011	2010	Change
Default Electricity Supply Sales (GWh)			
Residential	7,699	8,266	(567)
Commercial and industrial	3,053	3,504	(451)
Other	37	48	(11)
Total Default Electricity Supply Sales	10,789	11,818	(1,029)

	2011	2010	Change
Default Electricity Supply Customers (in thousands)			
Residential	1,475	1,568	(93)
Commercial and industrial	141	155	(14)
Other	1	1	—
Total Default Electricity Supply Customers	1,617	1,724	(107)

Default Electricity Supply Revenue decreased by $140 million primarily due to:

- A decrease of $99 million due to lower sales, primarily as a result of customer migration to competitive suppliers.
- A decrease of $31 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.
- A net decrease of $25 million as a result of lower Pepco and DPL Default Electricity Supply rates, partially offset by higher ACE rates.
- A decrease of $7 million in wholesale energy and capacity resale revenues primarily due to the sale of lower volumes of electricity and capacity purchased from NUGs.
- A decrease of $3 million due to a decrease in revenue from Transmission Enhancement Credits.

The aggregate amount of these decreases was partially offset by:

- An increase of $21 million due to higher non-weather related average customer usage.
- An increase of $3 million resulting from an approval by the DCPSC of an increase in Pepco's cost recovery rate for providing Default Electricity Supply in the District of Columbia to provide for recovery of higher cash working capital costs incurred in prior periods. The higher cash working capital costs were incurred when the billing cycle for Default Electricity suppliers was shortened from a monthly to a weekly period, effective in June 2009.

The decrease in total Default Electricity Supply Revenue includes a decrease of $6 million in unbilled revenue attributable to ACE's BGS. Under the BGS terms approved by the New Jersey Board of Public Utilities, ACE is entitled to recover from its customers all of its costs of providing BGS. If the costs of providing BGS exceed the BGS revenue, the excess costs are deferred in Deferred Electric Service Costs. ACE's BGS unbilled revenue is not included in the deferral calculation, and therefore has an impact on the results of operations in the period during which it is accrued. While the change in the amount of unbilled revenue from year to year typically is not significant, for the six months ended June 30, 2011, BGS unbilled revenue decreased by $6 million as compared to the six months ended June 30, 2010, which resulted in a $4 million decrease in PHI's net income. The decrease was primarily due to lower customer usage and increased customer migration during the unbilled revenue period at the end of the six months ended June 30, 2011, as compared to the corresponding period in 2010.

Regulated Gas

	2011	2010	Change
Regulated Gas Revenue			
Residential	$ 73	$ 69	$ 4
Commercial and industrial	39	38	1
Transportation and other	5	4	1
Total Regulated Gas Revenue	$117	$111	$ 6

	2011	2010	Change
Regulated Gas Sales (billion cubic feet)			
Residential	5	5	—
Commercial and industrial	3	3	—
Transportation and other	4	3	1
Total Regulated Gas Sales	12	11	1

	2011	2010	Change
Regulated Gas Customers (in thousands)			
Residential	114	113	1
Commercial and industrial	9	9	—
Transportation and other	—	—	—
Total Regulated Gas Customers	123	122	1

Regulated Gas Revenue increased by $6 million primarily due to:

- An increase of $16 million due to higher sales as a result of colder weather during the 2011 winter months as compared to 2010.
- An increase of $2 million due to distribution rate increases effective August 2010 and February 2011.

The aggregate amount of these increases was partially offset by:

- A decrease of $12 million due to lower non-weather related average customer usage.

Other Gas Revenue

Other Gas Revenue increased by $4 million primarily due to higher volumes of off-system sales to electric generators and gas marketers.

Pepco Energy Services

Pepco Energy Services' operating revenue decreased by $342 million primarily due to:

- A decrease of $357 million due to lower retail supply sales volume primarily attributable to the ongoing wind down of the retail energy supply business.
- A decrease of $33 million due to lower capacity revenues at the generating facilities due to lower RPM clearing prices in the PJM auction.

The aggregate amount of these decreases was partially offset by:

- An increase of $46 million due to increased energy services and high voltage construction activities.

Operating Expenses

Fuel and Purchased Energy and Other Services Cost of Sales

A detail of PHI's consolidated Fuel and Purchased Energy and Other Services Cost of Sales is as follows:

	2011	2010	Change
Power Delivery	$1,290	$1,505	$ (215)
Pepco Energy Services	600	923	(323)
Corporate and Other	—	(4)	4
Total	$1,890	$2,424	$ (534)

Power Delivery Business

Power Delivery's Fuel and Purchased Energy consists of the cost of electricity and gas purchased by its utility subsidiaries to fulfill their respective Default Electricity Supply and Regulated Gas obligations and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of natural gas purchased for off-system sales. Fuel and Purchased Energy expense decreased by $215 million primarily due to:

- A decrease of $105 million primarily due to customer migration to competitive suppliers.
- A decrease of $101 million due to lower average electricity costs under Default Electricity Supply contracts.
- A decrease of $27 million due to lower electricity sales primarily as a result of cooler weather during the 2011 spring months as compared to 2010.
- A decrease of $6 million in the cost of gas purchases for on-system sales as a result of lower average gas prices.
- A decrease of $5 million from the settlement of financial hedges entered into as part of DPL's hedge program for regulated natural gas.

The aggregate amount of these decreases was partially offset by:

- An increase of $14 million in deferred natural gas expense as a result of a higher rate of recovery of natural gas supply costs.
- An increase of $13 million in deferred electricity expense primarily due to lower average electricity costs under Default Electricity Supply contracts, which resulted in a higher rate of recovery of Default Electricity Supply costs.

Pepco Energy Services

Pepco Energy Services' Fuel and Purchased Energy and Other Services Cost of Sales decreased $323 million primarily due to:

- A decrease of $249 million due to lower volumes of electricity purchased to serve decreased retail electricity sales volume as a result of the ongoing wind down of the retail energy supply business.
- A decrease of $96 million due to lower volumes of natural gas purchased to serve decreased retail gas volumes as a result of the ongoing wind down of the retail energy supply business.
- A decrease of $17 million due to lower purchase of installed capacity and lower fuel usage associated with the generating facilities.

The aggregate amount of these decreases was partially offset by:

- An increase of $38 million due to increased high voltage and energy services construction activities.

Other Operation and Maintenance

A detail of PHI's Other Operation and Maintenance expense is as follows:

	2011	2010	Change
Power Delivery	$419	$382	$ 37
Pepco Energy Services	42	42	—
Other Non-Regulated	2	2	—
Corporate and Other	(20)	(16)	(4)
Total	$443	$410	$ 33

Other Operation and Maintenance expense for Power Delivery increased by $37 million; however, excluding an increase of $3 million primarily related to New Jersey Societal Benefit Program costs and bad debt expenses that are deferred and recoverable, Other Operation and Maintenance expense increased by $34 million. This $34 million increase was primarily due to:

- An increase of $27 million primarily due to higher tree trimming and preventative maintenance costs.
- An increase of $6 million in customer support and communication costs.
- An increase of $3 million in emergency restoration costs.
- An increase of $3 million primarily due to emergency restoration improvement projects and reliability compliance costs.
- An increase of $3 million in regulatory expenses due to an expense reduction recorded in February 2010 for recoverable District of Columbia distribution rate case costs.
- An increase of $2 million due to costs related to customer requested work.

The aggregate amount of these increases was partially offset by:

- A decrease of $8 million associated with certain adjustments recorded by PHI in the second quarter of 2011 to correct certain errors associated with the accounting for DPL Default Electricity Supply. These adjustments were primarily due to the under-recognition of allowed returns on the cost of working capital.

- A decrease of $4 million due to 2010 environmental remediation costs related to a 1999 oil release at the Indian River generating facility then owned by DPL, as further discussed under “Indian River Oil Release” in Note (15), “Commitments and Contingencies” to the consolidated financial statements of PHI.

Depreciation and Amortization

Depreciation and Amortization expenses increased by $28 million to $210 million in 2011 from $182 million in 2010 primarily due to:

- An increase of $13 million in amortization of stranded costs as the result of higher revenue due to rate increases effective October 2010 for the ACE Transition Bond Charge and the Market Transition Charge Tax (partially offset in Default Electricity Supply Revenue).
- An increase of $7 million due to utility plant additions.
- An increase of $3 million in amortization of regulatory assets primarily associated with the EmPower Maryland (a demand side management program) surcharge that became effective in March 2010 (which is substantially offset by a corresponding increase in Regulated T&D Electric Revenue).
- An increase of $1 million in amortization of deferred Demand Side Management expenses.

Other Taxes

Other Taxes increased by $23 million to $220 million in 2011 from $197 million in 2010. The increase was primarily due to rate increases in the Montgomery County, Maryland utility taxes that are collected and passed through by Pepco (substantially offset by a corresponding increase in Regulated T&D Electric Revenue).

Gain on Early Termination of Finance Leases Held in Trust

PHI’s operating expenses include a $39 million pre-tax gain for the six months ended June 30, 2011 associated with the early termination of several leases included in its cross-border energy lease portfolio.

Deferred Electric Service Costs

Deferred Electric Service Costs, which relate only to ACE, represent (i) the over or under recovery of electricity costs incurred by ACE to fulfill its Default Electricity Supply obligation and (ii) the over or under recovery of New Jersey Societal Benefit Program costs incurred by ACE. The cost of electricity purchased is reported under Fuel and Purchased Energy and the corresponding revenue is reported under Default Electricity Supply Revenue. The cost of New Jersey Societal Benefit Programs is reported under Other Operation and Maintenance and the corresponding revenue is reported under Regulated T&D Electric Revenue.

Deferred Electric Service Costs increased by $50 million, to an expense reduction of $32 million in 2011 as compared to an expense reduction of $82 million in 2010, primarily due to an increase in deferred electricity expense as a result of higher Default Electricity Supply revenue rates and lower electricity supply costs.

Other Income (Expenses)

Other expenses (which are net of Other Income) decreased by $56 million primarily due to lower interest expense resulting from the reduction in outstanding long-term debt due to the retirement of debt in 2010 with the proceeds from the Conectiv Energy sale.

Income Tax Expense

PHI 's consolidated effective tax rates from continuing operations for the six months ended June 30, 2011 and 2010 were 35.9% and 35.8%, respectively. While the effective tax rate was substantially unchanged between the two periods, the rate was affected by several offsetting items.

The effective tax rate increased in 2011 as a result of the negative impact of the June 2011 early termination of certain cross-border energy leases of $22 million discussed above, however, this increase was substantially offset by the $17 million benefit PHI recorded during the six months ended June 30, 2011, primarily resulting from the settlement with the IRS on interest due on its 1996 through 2002 audit settlement also discussed above, and the $4 million state tax benefit related to prior years' asset dispositions.

The 2010 effective tax rate included the non-recurring impact of the April 2010 corporate restructuring. As a result of this restructuring, PHI recorded approximately $16 million of non-recurring tax benefits in 2010 including approximately $8 million resulting from a change in state apportionment factors and the release of $8 million of valuation allowances on deferred tax assets related to state net operating losses.

The effective tax rate in 2010 was also affected by changes in estimates and interest related to uncertain and effectively settled tax positions, primarily consisting of a non-recurring $2 million reversal of accrued interest income on state income tax positions in 2010 that PHI concluded was no longer more likely than not to be realized and the reversal of $6 million of erroneously accrued interest income in 2010 on uncertain and effectively settled state income tax positions, as discussed in Note (2), "Significant Accounting Policies." The 2010 rate was further affected by the change in taxation of the Medicare Part D subsidy that increased PHI's effective tax rate for the six months ended June 30, 2010. This change increased PHI's first quarter 2010 tax expense by $4 million, which was partially offset through a reduction in Operating Expenses resulting in a $2 million decrease to net income.

Discontinued Operations

For the six months ended June 30, 2011, the $1 million income from discontinued operations, net of income taxes, includes after-tax income of $4 million arising from adjustments to certain accrued expenses for obligations associated with the sale of the wholesale power generation business to Calpine. These adjustments were made to reflect the actual amounts paid to Calpine during the first quarter of 2011. Income from discontinued operations, net of income taxes for the six months ended June 30, 2011 also includes a $1 million after-tax gain on the sale of a tolling agreement. Offsetting these amounts was an expense of approximately $1 million (after-tax) which was incurred in connection with the financial transaction entered into with a third party on January 6, 2011, under which Conectiv Energy transferred its remaining portfolio of derivatives, including financially settled natural gas and electric power transactions, for all remaining periods from February 1, 2011 forward. In connection with the closing of the transaction, Conectiv paid the third party $82 million, primarily representing the fair value of the derivatives at February 1, 2011, and an after-tax administrative fee of $1 million. No additional material gain or loss was recognized as a result of this transaction as the derivatives were previously marked to fair value through earnings in 2010.

For the six months ended June 30, 2010, the net loss from discontinued operations, net of income taxes, of $122 million includes income from operations of $8 million for Conectiv Energy, which includes the after-tax effects of employee severance and retention benefits of $9 million and after-tax accruals of certain obligations associated with the anticipated sale of the wholesale power generation business to Calpine of $13 million, each recorded in the second quarter of 2010.

Net losses from dispositions of assets and businesses of discontinued operations, net of income taxes of $130 million for the six months ended June 30, 2010, includes (i) the after-tax loss on the sale of the wholesale power generation business to Calpine of $67 million, (ii) after-tax net losses on sales of assets and businesses not sold to Calpine of $49 million (inclusive of the recognition of after-tax unrealized losses on derivative contracts considered no longer probable to occur of $50 million recorded in the second quarter of 2010), and (iii) tax charges of $14 million for the establishment of valuation allowances against certain deferred tax assets primarily associated with state net operating losses, the remeasurement of deferred taxes for expected changes in state income tax apportionment factors, and the write-off of certain tax credit carryforwards no longer expected to be realized.

Capital Resources and Liquidity

This section discusses Pepco Holdings' working capital, cash flow activity, capital requirements and other uses and sources of capital.

Working Capital

At June 30, 2011, Pepco Holdings' current assets on a consolidated basis totaled $1.5 billion and its current consolidated liabilities totaled $1.6 billion, resulting in a working capital deficit of $66 million. PHI expects the working capital deficit at June 30, 2011 to be funded during 2011 through cash flow from operations and anticipated reductions in collateral requirements due to the ongoing wind down of the Pepco Energy Services retail energy supply business. At December 31, 2010, Pepco Holdings' current assets on a consolidated basis totaled $1.8 billion and its current liabilities totaled $1.8 billion. The approximate $26 million decrease in working capital from December 31, 2010 to June 30, 2011 was due primarily to the decrease in prepayments of income taxes in addition to a decrease in the current portion of Conectiv Energy assets held for sale offset by the repayment of commercial paper with the proceeds from the early termination of several leases included in the cross-border lease portfolio.

At June 30, 2011, Pepco Holdings' cash and cash equivalents totaled $58 million, which consisted of cash, uncollected funds, and cash equivalent investments of $41 million. Current restricted cash equivalents (cash that is available to be used only for designated purposes) totaled $11 million. At December 31, 2010, Pepco Holdings' cash and cash equivalents totaled $21 million, of which $1 million is reflected on the Balance Sheet in Conectiv Energy assets held for sale, and its current restricted cash equivalents totaled $11 million.

A detail of PHI's short-term debt balance and current maturities of long-term debt and project funding balance follows:

	As of June 30, 2011 (millions of dollars)						
Type	**PHI Parent**	**Pepco**	**DPL**	**ACE**	**ACE Funding**	**Pepco Energy Services**	**PHI Consolidated**
Variable Rate Demand Bonds	$—	$—	$105	$ 23	$ —	$ 18	$ 146
Commercial Paper	224	—	—	25	—	—	249
Total Short-Term Debt	$ 224	$—	$105	$ 48	$ —	$ 18	$ 395
Current Maturities of Long-Term Debt and Project Funding	$—	$—	$ 66	$—	$ 36	$ 9	$ 111

Type	PHI Parent	Pepco	DPL	ACE	ACE Funding	Pepco Energy Services	PHI Consolidated
	As of December 31, 2010 (millions of dollars)						
Variable Rate Demand Bonds	$—	$—	$105	$ 23	$ —	$ 18	$ 146
Commercial Paper	230	—	—	158	—	—	388
Total Short-Term Debt	$ 230	$—	$105	$181	$ —	$ 18	$ 534
Current Maturities of Long-Term Debt and Project Funding	$—	$—	$ 35	$—	$ 35	$ 5	$ 75

Financing Activity During the Three Months Ended June 30, 2011

In April 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-2 and A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

On April 5, 2011, ACE issued $200 million of 4.35% first mortgage bonds due April 1, 2021. The net proceeds were used to repay short-term debt and for general corporate purposes.

On June 1, 2011, DPL resold approximately $35 million of 0.75% Delaware Economic Development Authority tax-exempt bonds due May 1, 2026. The bonds were originally issued for the benefit of DPL in 2001 and were purchased by DPL on May 2, 2011 pursuant to a mandatory repurchase obligation triggered by the expiration of the original interest period for the bonds. The bonds are subject to mandatory purchase by DPL on June 1, 2012.

Credit Facilities

PHI, Pepco, DPL and ACE maintain an unsecured syndicated credit facility to provide for their respective liquidity needs, including obtaining letters of credit, and to support its commercial paper program. On August 1, 2011, PHI, Pepco, DPL and ACE entered into an amended and restated credit agreement with respect to the facility, which among other changes, extends the expiration date of the facility to August 1, 2016.

The aggregate borrowing limit under the amended and restated credit facility is $1.5 billion, all or any portion of which may be used to obtain loans and up to $500 million of which may be used to obtain letters of credit. The facility also includes a swingline loan sub-facility, pursuant to which each company may make same day borrowings in an aggregate amount not to exceed 10% of the total amount of the facility. Any swingline loan must be repaid by the borrower within fourteen days of receipt. The credit sublimit for PHI is $750 million and $250 million for each of Pepco, DPL and ACE. The sublimits may be increased or decreased by the individual borrower during the term of the facility, except that (i) the sum of all of the borrower sublimits following any such increase or decrease must equal the total amount of the facility and (ii) the aggregate amount of credit used at any given time by (a) PHI may not exceed $1.25 billion and (b) each of Pepco, DPL or ACE may not exceed the lesser of $500 million and the maximum amount of short-term debt the company is permitted to have outstanding by its regulatory authorities. The total number of the sublimit reallocations may not exceed eight per year during the term of the facility.

The interest rate payable by each company on utilized funds is, at the borrowing company's election, (i) the greater of the prevailing prime rate, the federal funds effective rate plus 0.5% and one month LIBOR plus 1.0%, or (ii) the prevailing Eurodollar rate, plus a margin that varies according to the credit rating of the borrower.

In order for a borrower to use the facility, certain representations and warranties must be true and correct, and the borrower must be in compliance with specified financial covenants, including (i) the requirement that each borrowing company maintain a ratio of total indebtedness to total capitalization of 65% or less, computed in accordance with the terms of the credit agreement, which calculation excludes from the definition of total indebtedness certain trust preferred securities and deferrable interest subordinated debt (not to exceed 15% of total capitalization), (ii) a restriction on sales or other dispositions of assets, other than certain sales and dispositions, and (iii) a restriction on the incurrence of liens on the assets of a borrower or any of its significant subsidiaries other than permitted liens. The amended and restated credit agreement contains certain covenants and other customary agreements and requirements that, if not complied with, could result in an event of default and the acceleration of repayment obligations of one or more of the borrowers thereunder. Each of the borrowers was in compliance with all financial covenants under this facility as of June 30, 2011.

PHI also maintains two bi-lateral 364-day unsecured credit agreements totaling $200 million. Under each of the credit agreements, PHI has access to revolving and floating rate loans over the terms of the agreements. Neither agreement provides for the issuance of letters of credit. Both agreements expire on October 26, 2011. The interest rate payable on funds borrowed is at PHI's election, based on either (i) the prevailing Eurodollar rate plus 2.0% or (ii) the highest of (a) the prevailing prime rate, (b) the federal funds effective rate plus 0.5% or (c) the one-month Eurodollar rate plus 1.0%, plus a margin of 1.0%. In order to obtain loans under either of the agreements, PHI must be in compliance with the same covenants and conditions that it is required to satisfy for utilization of its existing $1.5 billion credit facility.

The absence of a material adverse change in PHI's business, property, results of operations or financial condition is not a condition to the availability of credit under the $1.5 billion facility or either credit agreement. Neither the facility nor either of the credit agreements includes any rating triggers.

Financing Activities Subsequent to June 30, 2011

In July 2011, ACE Funding made principal payments of $6 million on its Series 2002-1 Bonds, Class A-3, and $2 million on its Series 2003-1 Bonds, Class A-2.

Cash and Credit Facilities Available as of June 30, 2011

	Consolidated PHI	PHI Parent	Utility Subsidiaries
		(millions of dollars)	
Credit Facilities (Total Capacity)	$ 1,700	$ 1,075	$ 625
Less: Letters of Credit issued	70	65	5
Commercial Paper outstanding	249	224	25
Remaining Credit Facilities Available	1,381	786	595
Cash Invested in Money Market Funds (a)	41	41	—
Total Cash and Credit Facilities Available	$ 1,422	$ 827	$ 595

(a) Cash and cash equivalents reported on the PHI Consolidated Balance Sheet total $58 million, of which $41 million was invested in money market funds and the balance was held in cash and uncollected funds.

At June 30, 2011 and December 31, 2010, the aggregate amount of cash plus unused borrowing capacity under the credit facilities available to meet the combined future liquidity needs of Pepco Energy Services totaled $827 million and $728 million, respectively.

Collateral Requirements of Pepco Energy Services

Pepco Energy Services, in the ordinary course of its retail energy supply business, enters into various contracts to buy and sell electricity, fuels and related products, including derivative instruments, designed to reduce its financial exposure to changes in the value of its assets and obligations due to energy price fluctuations. These contracts typically have collateral requirements. Depending on the contract terms, the collateral required to be posted by Pepco Energy Services can be of varying forms, including cash and letters of credit.

During periods of declining energy prices, Pepco Energy Services has been exposed to the asymmetrical risk of having to post collateral under its wholesale purchase contracts without receiving a corresponding amount of collateral from its retail customers. To partially address these asymmetrical collateral obligations, Pepco Energy Services, in the first quarter of 2009, entered into a credit intermediation arrangement with Morgan Stanley Capital Group, Inc. (MSCG). Under this arrangement, MSCG, in consideration for the payment to MSCG of certain fees, (i) assumed, by novation, the electricity purchase obligations of Pepco Energy Services in years 2009 through 2011 under several wholesale purchase contracts, and (ii) agreed to supply electricity to Pepco Energy Services on the same terms as the novated transactions, but without imposing on Pepco Energy Services any obligation to post collateral based on changes in electricity prices. The upfront fees incurred by Pepco Energy Services in 2009 in the amount of $25 million are being amortized into expense in declining amounts over the life of the arrangement based on the fair value of the underlying contracts at the time of the novation. For the three months ended June 30, 2011 and 2010, Pepco Energy Services recognized less than $1 million and approximately $3 million, respectively, of the fees in “Interest expense.” For the six months ended June 30, 2011 and 2010, Pepco Energy Services recognized less than $1 million and approximately $5 million, respectively, of the fees in “Interest expense.”

As of June 30, 2011, Pepco Energy Services had posted net cash collateral of $76 million and provided letters of credit of $62 million. At December 31, 2010, Pepco Energy Services had posted net cash collateral of $117 million and provided letters of credit of $113 million. Pepco Energy Services’ collateral requirements will continue to decline as its retail energy supply business winds down.

Remaining Collateral Requirements of Conectiv Energy

As of June 30, 2011, all cash collateral related to Conectiv Energy had been returned and there were no outstanding letters of credit. At December 31, 2010, Conectiv Energy had posted net cash collateral of $104 million and there were no outstanding letters of credit.

Pension and Postretirement Benefit Plans

Pension benefits are provided under PHI’s defined benefit pension plan (PHI Retirement Plan), a non-contributory retirement plan that covers substantially all employees of Pepco, DPL and ACE and certain employees of other PHI subsidiaries. PHI’s funding policy with regard to the PHI Retirement Plan is to maintain a funding level that is at least equal to the funding target as defined under the Pension Protection Act of 2006. The funding target under the Pension Protection Act is an amount that is being phased in over time. The funding target was 96% of the accrued liability for 2010 and is 100% of the accrued liability for 2011.

Under the Pension Protection Act, if a plan incurs a funding shortfall in the preceding plan year, there can be required minimum quarterly contributions in the current and following plan years. PHI satisfied the minimum required contribution rules in 2010. Although PHI currently has no minimum funding requirement under the Pension Protection Act guidelines, Pepco, ACE and DPL in the first quarter of 2011 made discretionary tax-deductible contributions to the PHI Retirement Plan in the amounts of $40 million, $30 million and $40 million, respectively. The $110 million in contributions brought the PHI Retirement Plan assets to the funding target level for 2011 under the Pension Protection Act. During 2010, PHI Service

Company made discretionary tax-deductible contributions totaling $100 million to the PHI Retirement Plan, which brought plan assets to the funding target level for 2010 under the Pension Protection Act. Pepco, ACE and DPL did not make contributions to the PHI Retirement Plan in 2010.

Based on the results of the 2010 actuarial valuation, PHI's net periodic pension and other postretirement benefit costs were approximately $116 million in 2010 and the current estimate of benefit cost for 2011 is approximately $93 million. The utility subsidiaries are responsible for substantially all of the total PHI net periodic pension and other postretirement benefit costs. Approximately 30% of the net periodic pension and other postretirement benefit costs are capitalized. PHI estimates that its net periodic pension and other postretirement benefit expense will be approximately $65 million in 2011, as compared to $81 million in 2010.

Cash Flow Activity

PHI's cash flows for the six months ended June 30, 2011 and 2010 are summarized below:

	Cash (Use) Source		
	2011	2010	Change
	(millions of dollars)		
Operating Activities	$ 334	$ 499	$(165)
Investing Activities	(220)	(473)	253
Financing Activities	(77)	(36)	(41)
Net increase (decrease) in cash and cash equivalents	$ 37	$ (10)	$ 47

Operating Activities

Cash flows from operating activities during the six months ended June 30, 2011 and 2010 are summarized below:

	Cash (Use) Source		
	2011	2010	Change
	(millions of dollars)		
Net income from continuing operations	$ 157	$104	$ 53
Non-cash adjustments to net income	172	149	23
Gain on early termination of finance leases held in trust	(39)	—	(39)
Pension contributions	(110)	—	(110)
Changes in cash collateral related to derivative activities	44	4	40
Changes in other assets and liabilities	68	102	(34)
Changes in Conectiv Energy net assets held for sale	42	140	(98)
Net cash from operating activities	$ 334	$499	$(165)

Net cash from operating activities decreased $165 million for the six months ended June 30, 2011, compared to the same period in 2010. The decrease was due primarily to discretionary tax-deductible contributions to the PHI Retirement Plan and a reduction in the cash flows associated with Conectiv Energy assets held for sale included in discontinued operations. The gain associated with the early termination of finance leases held in trust was adjusted from cash received from net income and the associated proceeds are included in the investing activities section below. Partially offsetting these decreases in operating cash flows was an increase in cash flows from continuing operations, as well as a decrease in collateral requirements as a result of the on-going wind down of Pepco Energy Services retail energy supply business.

Investing Activities

Cash flows from investing activities during the six months ended June 30, 2011 and 2010 are summarized below:

	Cash (Use) Source		
	2011	2010	Change
	(millions of dollars)		
Investment in property, plant and equipment	$(387)	$(364)	$ (23)
DOE capital reimbursement awards received	16	—	16
Proceeds from early termination of finance leases held in trust	161	—	161
Changes in restricted cash equivalents	(3)	3	(6)
Net other investing activities	(7)	(1)	(6)
Investment in property, plant and equipment associated with Conectiv Energy assets held for sale	—	(111)	111
Net cash used by investing activities	$(220)	$(473)	$ 253

Net cash used by investing activities decreased $253 million for the six months ended June 30, 2011 compared to the same period in 2010. The decrease was primarily due to the proceeds from the early termination of certain cross-border energy leases and the disposition of the Conectiv Energy business, which in 2010 had a cash use of $111 million for the investment in property, plant and equipment.

Financing Activities

Cash flows from financing activities during the six months ended June 30, 2011 and 2010 are summarized below:

	Cash (Use) Source		
	2011	2010	Change
	(millions of dollars)		
Dividends paid on common stock	$(122)	$(120)	$ (2)
Common stock issued for the Dividend Reinvestment Plan and employee-related compensation	25	25	—
Redemption of preferred stock of subsidiaries	(6)	—	(6)
Issuances of long-term debt	235	102	133
Reacquisition of long-term debt	(52)	(482)	430
(Redemptions) Issuances of short-term debt, net	(139)	458	(597)
Net other financing activities	(18)	(25)	7
Net financing activities associated with Conectiv Energy assets held for sale	—	6	(6)
Net cash used by financing activities	$ (77)	$ (36)	$ (41)

Net cash used by financing activities increased $41 million for the six months ended June 30, 2011, compared to the same period in 2010, primarily due to changes in outstanding long-term and short-term debt.

Redemption of Preferred Stock

On February 25, 2011, ACE redeemed all of its outstanding cumulative preferred stock for approximately $6 million.

Changes in Outstanding Long-Term Debt

Cash flows from the issuance and reacquisitions of long-term debt for the six months ended June 30, 2011 and 2010 are summarized in the charts below:

Issuances		2011	2010
		(millions of dollars)	
DPL			
	5.4% Tax-exempt bonds due 2031 (a)	$ —	$ 78
	0.75% Tax-exempt bonds due 2026 (b)	35	—
ACE			
	4.875% Tax-exempt bonds due 2029 (c)	—	23
	4.35% First mortgage bonds due 2021	200	—
Pepco Energy Services		—	1
		$ 235	$ 102

(a) Consists of Gas Facilities Refunding Revenue Bonds issued by The Delaware Economic Development Authority (DEDA) for the benefit of DPL.

(b) Consists of Pollution Control Refunding Revenue Bonds (DPL Bonds) issued by DEDA for the benefit of DPL that were purchased by DPL in May 2011. See footnote (b) to the Reacquisitions table below. The DPL Bonds were resold to the public in June 2011. While DPL held the DPL Bonds, they remained outstanding as a contractual matter, but were considered extinguished for accounting purposes. In connection with the resale of the DPL Bonds, the interest rate on the bonds was changed from 4.9% to a fixed rate of 0.75%. The DPL Bonds are secured by an outstanding series of collateral first mortgage bonds issued by DPL. The collateral first mortgage bonds have maturity dates, optional and mandatory redemption provisions, interest rates and interest payment dates that are identical to the terms of the DPL Bonds. The payment by DPL of its obligations in respect of the DPL Bonds satisfies the corresponding payment obligations on the collateral first mortgage bonds. The DPL Bonds are subject to mandatory purchase by DPL on June 1, 2012.

(c) Consists of Pollution Control Revenue Refunding Bonds (ACE Bonds) issued by The Pollution Control Financing Authority of Salem County for the benefit of ACE that were purchased by ACE in 2008. In connection with the resale by ACE, the interest rate on the ACE Bonds was changed from an auction rate to a fixed rate. The ACE Bonds are secured by an outstanding series of senior notes issued by ACE, and the senior notes are in turn secured by a series of collateral first mortgage bonds issued by ACE. Both the senior notes and the collateral first mortgage bonds have maturity dates, optional and mandatory redemption provisions, interest rates and interest payment dates that are identical to the terms of the ACE Bonds. The payment by ACE of its obligations in respect of the ACE Bonds satisfies the corresponding payment obligations on the senior notes and collateral first mortgage bonds.

Reacquisitions		2011	2010
		(millions of dollars)	
Pepco			
	5.75% Tax-exempt bonds due 2010 (a)	$ —	$ 16
		—	16
DPL			
	4.9% Tax-exempt bonds due 2026 (b)	35	—
		35	—
ACE			
	Securitization bonds due 2010-2011	17	16
		17	16
PHI			
	4.00% Notes due May 15, 2010	—	200
	Floating Rate Notes due June 1, 2010	—	250
		—	450
		$ 52	$ 482

(a) Consists of Pollution Control Revenue Refunding Bonds (Pepco 2010 Bonds) issued by Prince George's County for the benefit of Pepco. The Pepco 2010 Bonds were secured by an outstanding series of collateral first mortgage bonds issued by Pepco. The collateral first mortgage bonds had maturity dates, optional and mandatory redemption provisions, interest rates and interest payment dates that were identical to the terms of the Pepco 2010 Bonds. Accordingly, the redemption of the Pepco 2010 Bonds at maturity was deemed to be a redemption of the collateral first mortgage bonds.

(b) Repurchased by DPL in May 2011 pursuant to a mandatory purchase provision in the indenture for the bonds that was triggered by the expiration of the original interest period for the bonds. The bonds were resold by DPL in June 2011. See footnote (b) to the Issuances table above.

Changes in Short-Term Debt

Cash flows from the issuance of short-term debt, net of repayments, decreased by $597 million during the six months ended June 30, 2011 as compared to the same period in 2010 as a result of decreased collateral requirements of Pepco Energy Services and Conectiv Energy, and the use of the proceeds from the sale of Conectiv Energy's wholesale generation business to reduce PHI's outstanding debt. In April 2011, ACE issued $200 million of 4.35% first mortgage bonds, of which a portion of the proceeds was used to repay short-term debt. In 2010, PHI increased short-term borrowings by entering into a $450 million unsecured bridge facility, the proceeds of which were used to redeem (i) $200 million of 4.00% Notes due May 15, 2010 and (ii) $250 million of Floating Rate Notes due June 1, 2010. PHI repaid all amounts outstanding under this facility in July 2010 with a portion of the proceeds from the sale of the Conectiv Energy wholesale power generation business.

Capital Requirements

Capital Expenditures

Pepco Holdings' total capital expenditures for the six months ended June 30, 2011 totaled $387 million, of which $205 million was incurred by Pepco, $99 million was incurred by DPL and $60 million was incurred by ACE. The remainder was incurred primarily by the PHI Service Company. The Power Delivery expenditures were primarily related to capital costs associated with new customer services, distribution reliability and transmission.

In its Form 10-K for the year ended December 31, 2010, PHI presented the projected capital expenditures for each of PHI's financial reporting segments for the five-year period 2011 through 2015. There have been no material changes in PHI's projected capital expenditures from those presented in the Form 10-K, except with respect to the Mid-Atlantic Power Pathway (MAPP) project as discussed below.

Pepco Holdings and its subsidiaries expect to incur significant capital expenditures in connection with the following primary initiatives:

Reliability Enhancement Plans

The incremental cost of the reliability improvements over the next five years associated with Pepco's Comprehensive Reliability Enhancement Plans for Maryland and the District of Columbia, a substantial portion of which would be capitalized, is estimated to be $100 million in the Maryland service territory and $90 million in the District of Columbia service territory. The total amount of the expenditures may change when anticipated regulations imposing reliability standards are promulgated in Maryland and upon the completion of Pepco's analysis of the recently adopted modifications to the reliability standards in the District of Columbia.

Blueprint for the Future

Each of PHI's three utilities are participating in a PHI initiative referred to as "Blueprint for the Future," which is designed to meet the challenges of rising energy costs, concerns about the environment, improved reliability and government energy reduction goals. The initiative includes the implementation of various programs to help customers better manage their energy use, reduce the total cost of energy and provide other benefits. These programs also allow each utility to better manage and operate its electrical and natural gas distribution systems.

Significant developments in 2011 include:

- Full-scale implementation of Advanced Metering Infrastructure (AMI) began in the Pepco-Maryland service territory in June 2011.
- On June 15, 2011, Pepco filed a revised tariff in the District of Columbia related to the direct load control programs. This tariff proposes cost recovery through the establishment of a regulatory asset rather than a distribution bill surcharge.
- In March 2011, the Maryland Public Service Commission (MPSC) lifted the suspension on installation of smart thermostats for both DPL and Pepco in their Maryland service territories and accordingly smart thermostat installation has commenced.

During the six months ended June 30, 2011, Pepco and ACE received $15 million and $3 million, respectively, in stimulus funds awarded by the United States Department of Energy (DOE) under the American Recovery and Reinvestment Act of 2009. Through June 30, 2011, Pepco and ACE have received $30 million and $5 million, respectively, of the $149 million and $19 million, respectively, that DOE has awarded the companies to fund AMI, direct load control, distribution automation and communication infrastructure in their respective service territories.

MAPP Project

In October 2007, the PJM Board of Managers approved PHI's proposal to construct a new 230-mile, 500-kilovolt interstate transmission line referred to as MAPP, as part of PJM's regional transmission expansion plan to address the reliability objectives of the PJM RTO system. Since that time, there have been various modifications to the proposal that have redefined the length and route of the MAPP project. PJM has approved the use of advanced direct current technology for segments of the project, including the portion of the line that will traverse under the Chesapeake Bay. The direct current portion of the line will be 640 kilovolts and the remainder of the line will be 500 kilovolts. As currently approved by the PJM Board of Managers, MAPP is approximately 152 miles in length originating at the Possum Point substation in Virginia and ending at the Indian River substation in Delaware. The cost of the MAPP project is currently estimated to be $1.2 billion and the planned in-service date is June 1, 2015.

PJM currently is in its annual process of evaluating the region's overall transmission needs. The evaluation is expected to take into account changes in demand response, generation retirements and additions, as well as a revised load forecast for the PJM region that is lower than the load that was forecasted in prior PJM studies. PJM has stated that it expects to complete this evaluation in August 2011. While the PJM process is not complete, the outcome of the evaluation is expected to result in a delay of the in-service date for the MAPP project of several years beyond the currently planned in-service date of June 1, 2015.

The construction of MAPP requires various permits and approvals, including the approval of the MPSC. On April 27, 2011, Pepco and DPL, applicants in the filing pending before the MPSC seeking approval to build the MAPP project, requested a six-month delay to the procedural schedule to allow for the completion of the ongoing PJM review which was granted on May 10, 2011. The revised schedule calls for direct testimony of the parties to be filed in December 2011 and evidentiary hearings to be held in March 2012. In May 2011, PHI filed applications in Maryland and Delaware to obtain the state environmental permits required for the construction of the portion of the line from Chalk Point substation in Maryland to Indian River substation in Delaware.

Because the impact of the PJM review on the in-service date for MAPP will not be known until August 2011, PHI anticipates that $90 million to $110 million of the originally projected 2011 MAPP capital expenditures of $163 million will be deferred to later years. PHI also anticipates that non-MAPP transmission capital expenditures of approximately $45 million planned for later years will be incurred in 2011.

MAPP/DOE Loan Program

To assist in the funding of the MAPP project, PHI has applied for a $684 million loan guarantee from the DOE for a substantial portion of the MAPP project. The application has been made under a federal loan guarantee program for projects that employ innovative energy efficiency, renewable energy and advanced transmission and distribution technologies. If granted, PHI believes the guarantee could allow PHI to acquire financing at a lower cost than it would otherwise be able to obtain in the capital markets. Whether PHI's application will be granted and, if so, the amount of debt guaranteed is subject to the discretion of the DOE and the negotiation of terms that will satisfy the conditions of the guarantee program. On February 28, 2011, DOE issued a Notice of Intent to prepare an Environmental Impact Statement to assist the DOE in assessing the environmental impact of constructing the portion of the MAPP project to be supported by the loan guarantee. Since February 2011, the DOE has conducted field inspections of the entire route and has held public meetings to obtain input from the communities along the route.

Third Party Guarantees, Indemnifications, Obligations and Off-Balance Sheet Arrangements

For a discussion of PHI's third party guarantees, indemnifications, obligations and off-balance sheet arrangements, see Note (15), "Commitments and Contingencies," to the Consolidated Financial Statements of PHI included as Part I, Item 1, in this Form 10-Q.

Dividends

On July 28, 2011, Pepco Holdings' Board of Directors declared a dividend on common stock of 27 cents per share payable September 30, 2011 to shareholders of record on September 12, 2011. PHI had approximately $1,095 million and $1,059 million of retained earnings free of restrictions at June 30, 2011 and December 31, 2010, respectively.

Energy Contract Net Asset Activity

The following table provides detail on changes in the net asset or liability positions of both the Pepco Energy Services segment and the former Conectiv Energy segment with respect to energy commodity contracts for the six months ended June 30, 2011. The balances in the table are pre-tax and the derivative assets and liabilities reflect netting by counterparty before the impact of collateral.

	Energy Commodity Activities (a)
	(millions of dollars)
Total Fair Value of Energy Contract Net Liabilities at December 31, 2010	$ (218)
Current period unrealized losses	(5)
Effective portion of changes in fair value – recorded in Accumulated Other Comprehensive Loss	2
Cash flow hedge ineffectiveness – recorded in income	—
Recognition of realized losses on settlement of contracts	46
Derivative activity associated with Conectiv Energy	83
Total Fair Value of Energy Contract Net Liabilities at June 30, 2011	$ (92)
Detail of Fair Value of Energy Contract Net Liabilities at June 30, 2011 (see above)	
Derivative assets (current assets)	$ 11
Derivative assets (non-current assets)	—
Total Fair Value of Energy Contract Assets	11
Derivative liabilities (current liabilities)	(100)
Derivative liabilities (non-current liabilities)	(3)
Total Fair Value of Energy Contract Liabilities	(103)
Total Fair Value of Energy Contract Net Liabilities	$ (92)

(a) Includes all hedging and trading activities recorded at fair value through Accumulated Other Comprehensive Loss (AOCL) or trading activities recorded at fair value in the Consolidated Statements of Income, as required.

The $92 million net liability on energy contracts at June 30, 2011 was primarily attributable to losses on power swaps and natural gas futures held by Pepco Energy Services. Effective February 1, 2011, Conectiv Energy transferred its derivatives to an unaffiliated third party, which significantly contributed to the reduction in PHI's overall losses on derivatives from $218 million at December 31, 2010 to $92 million at June 30, 2011. Pepco Energy Services' net liability decreased to $92 million at June 30, 2011 from $135 million at December 31, 2010 primarily due to settlements of the derivatives. PHI expects that future revenues from existing customer sales obligations that are accounted for on an accrual basis will largely offset expected realized net losses on Pepco Energy Services' energy contracts.

PHI uses its best estimates to determine the fair value of Pepco Energy Services' commodity derivative contracts. The fair values in each category presented below reflect forward prices and volatility factors as of June 30, 2011 and are subject to change as a result of changes in these factors.

	Fair Value of Contracts at June 30, 2011 Maturities				
Source of Fair Value	**2011**	**2012**	**2013**	**2014 and Beyond**	**Total Fair Value**
	(millions of dollars)				
Energy Commodity Activities, net (a)					
Actively Quoted (i.e., exchange-traded) prices	$(19)	$(18)	$ (6)	$ (1)	$(44)
Prices provided by other external sources (b)	(17)	(21)	(6)	—	(44)
Modeled (c)	(3)	(1)	—	—	(4)
Total	$(39)	$(40)	$(12)	$ (1)	$(92)

(a) Includes all effective hedging activities recorded at fair value through AOCL and hedge ineffectiveness and trading activities on the Consolidated Statements of Income, as required.
(b) Prices provided by other external sources reflect information obtained from over-the-counter brokers, industry services, or multiple-party on-line platforms that are readily observable in the market.
(c) Modeled values include significant inputs not readily observable in the market.

Contractual Arrangements with Credit Rating Triggers or Margining Rights

Under certain contractual arrangements entered into by PHI's subsidiaries, the subsidiary may be required to provide cash collateral or letters of credit as security for its contractual obligations if the credit ratings of PHI or the subsidiary are downgraded. In the event of a downgrade, the amount required to be posted would depend on the amount of the underlying contractual obligation existing at the time of the downgrade. Based on contractual provisions in effect at June 30, 2011, a downgrade in the unsecured debt credit ratings of PHI and each of its rated subsidiaries to below "investment grade" would increase the collateral obligation of PHI and its subsidiaries by up to $254 million, none of which is related to discontinued operations of Conectiv Energy, and $143 million of which is the net settlement amount attributable to derivatives, normal purchase and normal sale contracts, collateral, and other contracts under master netting agreements as described in Note (13), "Derivative Instruments and Hedging Activities" to the Consolidated Financial Statements of PHI set forth in Part I, Item 1 of this Form 10-Q. The remaining $111 million of the collateral obligation that would be incurred in the event PHI was downgraded to below "investment grade" is attributable primarily to energy services contracts and accounts payable to independent system operators and distribution companies on full requirements contracts entered into by Pepco Energy Services. PHI believes that it and its utility subsidiaries currently have sufficient liquidity to fund their operations and meet their financial obligations.

Many of the contractual arrangements entered into by PHI's subsidiaries in connection with competitive energy and Default Electricity Supply activities include margining rights pursuant to which the PHI subsidiary or a counterparty may request collateral if the market value of the contractual obligations reaches levels in excess of the credit thresholds established in the applicable arrangements. Pursuant to these margining rights, the affected PHI subsidiary may receive, or be required to post, collateral due to energy price movements. As of June 30, 2011, Pepco Energy Services provided net cash collateral in the amount of $76 million in connection with these activities.

Regulatory And Other Matters

DPL Renewable Energy Portfolio Standards

On July 7, 2011, the Governor of the state of Delaware signed legislation that expands DPL's Renewable Energy Portfolio Standards (RPS) obligations beginning in 2012 from being required to obtain renewable energy credits (RECs) for energy delivered to Standard Offer Service (SOS) customers to energy delivered to all of its distribution customers. In addition, the legislation establishes that the energy output from fuel cells manufactured in Delaware capable of running on renewable fuels is an eligible resource for RECs under the Renewable Portfolio Standards Act. DPL is assessing the impact of the change in its REC requirements obligation as a result of the new legislation. However, DPL's costs associated with obtaining RECs to fulfill its RPS obligations are recoverable from its distribution customers by law.

Other

For a discussion of other material pending matters such as regulatory and legal proceedings, and other commitments and contingencies, see Note (15), "Commitments and Contingencies," to the Consolidated Financial Statements of PHI set forth in Part I, Item 1 of this Form 10-Q.

Critical Accounting Policies

For a discussion of Pepco Holdings' critical accounting policies, please refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in Pepco Holdings' Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes to PHI's critical accounting policies as disclosed in the Form 10-K.

New Accounting Standards and Pronouncements

For information concerning new accounting standards and pronouncements that have recently been adopted by PHI and its subsidiaries or that one or more of the companies will be required to adopt on or before a specified date in the future, see Note (3), "Newly Adopted Accounting Standards," and Note (4), "Recently Issued Accounting Standards, Not Yet Adopted," to the Consolidated Financial Statements of PHI set forth in Part I, Item 1 of this Form 10-Q.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding Pepco Holdings' intents, beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Any forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause PHI's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond Pepco Holdings' control and may cause actual results to differ materially from those contained in forward-looking statements:

- Changes in governmental policies and regulatory actions affecting the energy industry, including allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of transmission and distribution facilities and the recovery of purchased power expenses;

- Weather conditions affecting usage and emergency restoration costs;
- Population growth rates and changes in demographic patterns;
- Changes in customer demand for electricity and natural gas due to conservation measures and the use of more energy-efficient products;
- General economic conditions, including the impact of an economic downturn or recession on electricity and natural gas usage;
- Changes in and compliance with environmental and safety laws and policies;
- Changes in tax rates or policies;
- Changes in rates of inflation;
- Changes in accounting standards or practices;
- Unanticipated changes in operating expenses and capital expenditures;
- Rules and regulations imposed by federal and/or state regulatory commissions, PJM, the North American Electric Reliability Corporation and other applicable electric reliability organizations;
- Legal and administrative proceedings (whether civil or criminal) and settlements that affect PHI's business and profitability;
- Pace of entry into new markets;
- Interest rate fluctuations and the impact of credit and capital market conditions on the ability to obtain funding on favorable terms; and
- Effects of geopolitical events, including the threat of domestic terrorism.

Any forward-looking statements speak only as to the date of this Quarterly Report on Form 10-Q and Pepco Holdings undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Pepco Holdings to predict all such factors, nor can Pepco Holdings assess the impact of any such factor on Pepco Holdings' business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The foregoing review of factors should not be construed as exhaustive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Potomac Electric Power Company

Potomac Electric Power Company (Pepco) meets the conditions set forth in General Instruction H to the Form 10-Q, and accordingly information otherwise required under this Item has been omitted.

General Overview

Pepco is engaged in the transmission and distribution of electricity in the District of Columbia and major portions of Prince George's County and Montgomery County in suburban Maryland. Pepco also provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territories who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Standard Offer Service (SOS) in both the District of Columbia and Maryland. Pepco's service territory covers approximately 640 square miles and has a population of approximately 2.2 million. As of June 30, 2011, approximately 57% of delivered electricity sales were to Maryland customers and approximately 43% were to District of Columbia customers.

As a result of the implementation of a bill stabilization adjustment mechanism (BSA) for retail electric customers of Pepco in Maryland in June 2007 and in the District of Columbia in November 2009, Pepco recognizes distribution revenue based on the approved distribution charge per customer. From a revenue recognition standpoint, this has the effect of decoupling distribution revenue recognized in a reporting period from the amount of power delivered during the period. As a consequence, the only factors that will cause distribution revenue in Maryland and the District of Columbia to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. For customers to whom the BSA applies, changes in customer usage (such as due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue.

Reliability Enhancement Plans

During 2010, Pepco announced Comprehensive Reliability Enhancement Plans for Maryland and the District of Columbia. Each plan advances work on existing programs and initiates new activities for customers in the respective jurisdictions. These programs include enhanced vegetation management, identification and upgrading of underperforming feeder lines, addition of new facilities to support load growth, installation of distribution automation systems, replacement of underground residential cables, improvements to substation supply lines and selective undergrounding of existing above-ground service lines. By focusing on these areas, Pepco plans to increase the reliability of the distribution system by reducing both the frequency and the duration of power outages. Pepco's progress on this plan includes increasing tree-trimming personnel (including contractors) from 80 to 350, trimming trees along more than 2,200 miles of power lines, and replacing or upgrading over 150 miles of underground cable.

Pepco is a wholly owned subsidiary of Pepco Holdings, Inc. (PHI or Pepco Holdings). Because PHI is a public utility holding company subject to the Public Utility Holding Company Act of 2005 (PUHCA 2005), the relationship between PHI and Pepco and certain activities of Pepco are subject to the regulatory oversight of the Federal Energy Regulatory Commission (FERC) under PUHCA 2005.

Results of Operations

The following results of operations discussion compares the six months ended June 30, 2011 to the six months ended June 30, 2010. All amounts in the tables (except sales and customers) are in millions of dollars.

Operating Revenue

	2011	2010	Change
Regulated T&D Electric Revenue	$ 530	$ 482	$ 48
Default Electricity Supply Revenue	493	592	(99)
Other Electric Revenue	17	17	—
Total Operating Revenue	$1,040	$1,091	$ (51)

The table above shows the amount of Operating Revenue earned that is subject to price regulation (Regulated Transmission & Distribution (T&D) Electric Revenue and Default Electricity Supply Revenue) and that which is not subject to price regulation (Other Electric Revenue).

Regulated T&D Electric Revenue includes revenue from the distribution of electricity, including the distribution of Default Electricity Supply, to Pepco's customers within its service territory at regulated rates. Regulated T&D Electric Revenue also includes transmission service revenue that Pepco receives as a transmission owner from PJM Interconnection, LLC (PJM) at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Default Electricity Supply Revenue is the revenue received from the supply of electricity by Pepco at regulated rates to retail customers who do not elect to purchase electricity from a competitive energy supplier, and which is also known as SOS. The costs related to Default Electricity Supply are included in Purchased Energy. Default Electricity Supply Revenue also includes revenue in the form of transmission enhancement credits that Pepco receives as a transmission owner from PJM for approved regional transmission expansion plan costs.

Other Electric Revenue includes work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Regulated T&D Electric

	2011	2010	Change
Regulated T&D Electric Revenue			
Residential	$155	$134	$ 21
Commercial and industrial	311	289	22
Other	64	59	5
Total Regulated T&D Electric Revenue	$530	$482	$ 48

Other Regulated T&D Electric Revenue consists primarily of transmission service revenue.

	2011	2010	Change
Regulated T&D Electric Sales (Gigawatt hours (GWh))			
Residential	3,965	4,003	(38)
Commercial and industrial	9,109	9,277	(168)
Other	77	77	—
Total Regulated T&D Electric Sales	13,151	13,357	(206)

	2011	2010	Change
Regulated T&D Electric Customers (in thousands)			
Residential	712	707	5
Commercial and industrial	74	74	—
Other	—	—	—
Total Regulated T&D Electric Customers	786	781	5

Regulated T&D Electric Revenue increased by $48 million primarily due to:

- An increase of $24 million due to higher pass-through revenue (which is substantially offset by a corresponding increase in Other Taxes) primarily the result of rate increases in Montgomery County, Maryland utility taxes that are collected by Pepco on behalf of the county.
- An increase of $14 million due to distribution rate increases in the District of Columbia effective March 2010 and July 2010; and in Maryland effective July 2010.
- An increase of $5 million in transmission revenue primarily attributable to higher rates effective June 1, 2010 related to an increase in transmission plant investment.
- An increase of $3 million due to customer growth of 1% in 2011, primarily in the residential class.
- An increase of $2 million due to the implementation of the EmPower Maryland (a demand side management program) surcharge in March 2010 (which is substantially offset by a corresponding increase in Depreciation and Amortization).

Default Electricity Supply

	2011	2010	Change
Default Electricity Supply Revenue			
Residential	$355	$424	$ (69)
Commercial and industrial	135	162	(27)
Other	3	6	(3)
Total Default Electricity Supply Revenue	$493	$592	$ (99)

	2011	2010	Change
Default Electricity Supply Sales (GWh)			
Residential	3,415	3,680	(265)
Commercial and industrial	1,411	1,566	(155)
Other	4	5	(1)
Total Default Electricity Supply Sales	4,830	5,251	(421)

	2011	2010	Change
Default Electricity Supply Customers (in thousands)			
Residential	625	657	(32)
Commercial and industrial	46	49	(3)
Other	—	—	—
Total Default Electricity Supply Customers	671	706	(35)

Default Electricity Supply Revenue decreased by $99 million primarily due to:

- A decrease of $52 million as a result of lower Default Electricity Supply rates.
- A decrease of $37 million due to lower sales, primarily as a result of customer migration to competitive suppliers.
- A decrease of $17 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.

The aggregate amount of these decreases was partially offset by:

- An increase of $5 million due to higher non-weather related average customer usage.
- An increase of $3 million resulting from an approval by the District of Columbia Public Service Commission (DCPSC) of an increase in Pepco's cost recovery rate for providing Default Electricity Supply in the District of Columbia to provide for recovery of higher cash working capital costs incurred in prior periods. The higher cash working capital costs were incurred when the billing cycle for Default Electricity suppliers was shortened from a monthly to a weekly period, effective in June 2009.

The following table shows the percentages of Pepco's total distribution sales by jurisdictions that are derived from customers receiving Default Electricity Supply from Pepco. Amounts are for the six months ended June 30.

	2011	2010
Sales to District of Columbia customers	27%	29%
Sales to Maryland customers	44%	47%

Operating Expenses

Purchased Energy

Purchased Energy consists of the cost of electricity purchased by Pepco to fulfill its Default Electricity Supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased Energy decreased by $103 million to $473 million in 2011 from $576 million in 2010 primarily due to:

- A decrease of $59 million due to lower average electricity costs under Default Electricity Supply contracts.
- A decrease of $41 million primarily due to customer migration to competitive suppliers.
- A decrease of $16 million due to lower electricity sales primarily as a result of cooler weather during the 2011 spring months as compared to 2010.

The aggregate amount of these decreases was partially offset by:

- An increase of $11 million in deferred electricity expense primarily due to lower average electricity costs under Default Electricity Supply contracts, which resulted in a higher rate of recovery of Default Electricity Supply costs.

Other Operation and Maintenance

Other Operation and Maintenance increased by $41 million to $202 million in 2011 from $161 million in 2010 primarily due to:

- An increase of $18 million primarily due to higher tree trimming and preventative maintenance costs.
- An increase of $10 million in emergency restoration costs.
- An increase of $6 million in customer support and communication costs.
- An increase of $3 million primarily due to emergency restoration improvement projects and reliability compliance costs.
- An increase of $3 million in regulatory expenses due to an expense reduction recorded in February 2010 for recoverable District of Columbia distribution rate case costs.

Depreciation and Amortization

Depreciation and Amortization expense increased by $6 million to $84 million in 2011 from $78 million in 2010 primarily due to:

- An increase of $2 million in amortization of regulatory assets primarily associated with the EmPower Maryland (a demand side management program) surcharge that became effective in March 2010 (which is substantially offset by a corresponding increase in Regulated T&D Electric Revenue).
- An increase of $2 million due to utility plant additions.
- An increase of $1 million in amortization of deferred Demand Side Management expenses.

Other Taxes

Other Taxes increased by $23 million to $186 million in 2011 from $163 million in 2010. The increase was primarily due to rate increases in the Montgomery County, Maryland utility taxes that are collected and passed through by Pepco (substantially offset by a corresponding increase in Regulated T&D Electric Revenue).

Other Income (Expenses)

Other Expenses (which are net of Other Income) decreased by $8 million to a net expense of $36 million in 2011 from a net expense of $44 million in 2010. The decrease was primarily due to:

- An increase of $5 million in income related to Allowance for Funds Used During Construction that is applied to capital projects.
- An increase of $3 million in other income due to net proceeds from company owned life insurance policies.

Income Tax Expense

Pepco's effective tax rates for the six months ended June 30, 2011 and 2010 were 15.3% and 42.0%, respectively. The decrease in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions, refunds received on amended state tax returns and permanent differences related to deferred compensation funding.

During the second quarter of 2011, PHI reached a settlement with the Internal Revenue Service (IRS) with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that have been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, Pepco has recorded an additional tax benefit in the amount of $5 million (after-tax). This additional interest income was recorded in the second quarter of 2011.

In May 2011, Pepco received refunds of approximately $5 million, and recorded tax benefits of approximately $4 million (after-tax) related to the filing of amended state tax returns. These amended returns reduced state taxable income due to an increase in tax basis on certain prior years' asset dispositions.

In March 2011, Pepco accrued $3 million related to proceeds from life insurance policies on a former executive. This income is not taxable and is included in the permanent differences related to deferred compensation funding.

Capital Requirements

Capital Expenditures

Pepco's capital expenditures for the six months ended June 30, 2011, totaled $205 million. These expenditures were primarily related to capital costs associated with new customer services, distribution reliability and transmission. The expenditures also include an allocation by PHI of hardware and software expenditures that primarily benefit the Power Delivery business and are allocated to Pepco when the assets are placed in service.

In its Form 10-K for the year ended December 31, 2010, Pepco presented its projected capital expenditures for the five-year period 2011 through 2015. There have been no material changes in Pepco's projected capital expenditures from those presented in the Form 10-K, except with respect to the Mid-Atlantic Power Pathway (MAPP) project as discussed below.

Pepco expects to incur significant capital expenditures in connection with the following primary initiatives:

Reliability Enhancement Plans

The incremental cost of the reliability improvements over the next five years associated with Pepco's Comprehensive Reliability Enhancement Plans for Maryland and the District of Columbia, a substantial portion of which would be capitalized, is estimated to be $100 million in the Maryland service territory and $90 million in the District of Columbia service territory. The total amount of the expenditures may change when anticipated regulations imposing reliability standards are promulgated in Maryland or if modifications to the reliability standards currently imposed in the District of Columbia become effective.

Blueprint for the Future

Pepco is participating in a PHI initiative referred to as "Blueprint for the Future," which is designed to meet the challenges of rising energy costs, concerns about the environment, improved reliability and government energy reduction goals. The initiative includes the implementation of various programs to help customers better manage their energy use, reduce the total cost of energy and provide other benefits. These programs also allow each utility to better manage and operate its electrical and natural gas distribution systems.

Significant developments in 2011 include:

- Full-scale implementation of Advanced Metering Infrastructure (AMI) began in the Pepco-Maryland service territory in June 2011.
- On June 15, 2011, Pepco filed a revised tariff in the District of Columbia related to the direct load control programs. This tariff proposes cost recovery through the establishment of a regulatory asset rather than a distribution bill surcharge.
- In March 2011, the Maryland Public Service Commission (MPSC) lifted the suspension on installation of smart thermostats for both Delmarva Power & Light Company (DPL) and Pepco in their Maryland service territories and accordingly smart thermostat installation has commenced.

During the six months ended June 30, 2011, Pepco received $15 million in stimulus funds awarded by the United States Department of Energy (DOE) under the American Recovery and Reinvestment Act of 2009. Through June 30, 2011, Pepco received $30 million of the $149 million that DOE has awarded the company to fund AMI, direct load control, distribution automation and communication infrastructure in its service territories.

MAPP Project

In October 2007, the PJM Board of Managers approved PHI's proposal to construct a new 230-mile, 500-kilovolt interstate transmission line referred to as MAPP, as part of PJM's regional transmission expansion plan to address the reliability objectives of the PJM Regional Transmission Organization system. Since that time, there have been various modifications to the proposal that have redefined the length and route of the MAPP project. PJM has approved the use of advanced direct current technology for segments of the project, including the portion of the line that will traverse under the Chesapeake Bay. The direct current portion of the line will be 640 kilovolts and the remainder of the line will be 500 kilovolts. As currently approved by the PJM Board of Managers, MAPP is approximately 152 miles in length originating at the Possum Point substation in Virginia and ending at the Indian River substation in Delaware. The cost of the MAPP project is currently estimated to be $1.2 billion and the planned in-service date is June 1, 2015.

PJM currently is in its annual process of evaluating the region's overall transmission needs. The evaluation is expected to take into account changes in demand response, generation retirements and additions, as well as a revised load forecast for the PJM region that is lower than the load that was forecasted in prior PJM studies. PJM has stated that it expects to complete this evaluation in August 2011. While the PJM process is not complete, the outcome of the evaluation is expected to result in a delay of the in-service date for the MAPP project of several years beyond the currently planned in-service date of June 1, 2015.

The construction of MAPP requires various permits and approvals, including the approval of the MPSC. On April 27, 2011, Pepco and DPL, applicants in the filing pending before the MPSC seeking approval to build the MAPP project, requested a six-month delay to the procedural schedule to allow for the completion of the ongoing PJM review which was granted on May 10, 2011. The revised schedule calls for direct testimony of the parties to be filed in December 2011 and evidentiary hearings to be held in March 2012.

Because the impact of the PJM review on the in-service date for MAPP will not be known until August 2011, Pepco anticipates that $65 million to $79 million of the originally projected 2011 MAPP capital expenditures of $112 million will be deferred to later years. PHI also anticipates that non-MAPP transmission capital expenditures of approximately $8 million planned for later years will be incurred by Pepco in 2011.

MAPP/DOE Loan Program

To assist in the funding of the MAPP project, PHI has applied for a $684 million loan guarantee from the DOE for a substantial portion of the MAPP project. The application has been made under a federal loan guarantee program for projects that employ innovative energy efficiency, renewable energy and advanced transmission and distribution technologies. If granted, PHI believes the guarantee could allow PHI to acquire financing at a lower cost than it would otherwise be able to obtain in the capital markets. Whether PHI's application will be granted and, if so, the amount of debt guaranteed is subject to the discretion of the DOE and the negotiation of terms that will satisfy the conditions of the guarantee program. On February 28, 2011, DOE issued a Notice of Intent to prepare an Environmental Impact Statement to assist the DOE in assessing the environmental impact of constructing the portion of the MAPP project to be supported by the loan guarantee. Since February 2011, the DOE has conducted field inspections of the entire route and has held public meetings to obtain input from the communities along the route. In May 2011, PHI filed for the environmental permit in Maryland and Delaware for the construction of the portion of the line from Chalk Point substation in Maryland to Indian River substation in Delaware.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding Pepco's intents, beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Any forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause Pepco's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond Pepco's control and may cause actual results to differ materially from those contained in forward-looking statements:

- Changes in governmental policies and regulatory actions affecting the energy industry, including allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of transmission and distribution facilities and the recovery of purchased power expenses;
- Weather conditions affecting usage and emergency restoration costs;
- Population growth rates and changes in demographic patterns;
- Changes in customer demand for electricity due to conservation measures and the use of more energy-efficient products;
- General economic conditions, including the impact of an economic downturn or recession on electricity usage;
- Changes in and compliance with environmental and safety laws and policies;
- Changes in tax rates or policies;
- Changes in rates of inflation;
- Changes in accounting standards or practices;
- Unanticipated changes in operating expenses and capital expenditures;
- Rules and regulations imposed by federal and/or state regulatory commissions, PJM, the North American Electric Reliability Corporation and other applicable electric reliability organizations;
- Legal and administrative proceedings (whether civil or criminal) and settlements that affect Pepco's business and profitability;
- Interest rate fluctuations and the impact of credit and capital market conditions on the ability to obtain funding on favorable terms; and
- Effects of geopolitical events, including the threat of domestic terrorism.

Any forward-looking statements speak only as to the date of this Quarterly Report on Form 10-Q and Pepco undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Pepco to predict all such factors, nor can Pepco assess the impact of any such factor on Pepco's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The foregoing review of factors should not be construed as exhaustive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Delmarva Power & Light Company

Delmarva Power & Light Company (DPL) meets the conditions set forth in General Instruction H to the Form 10-Q, and accordingly information otherwise required under this Item has been omitted.

General Overview

DPL is engaged in the transmission and distribution of electricity in Delaware and portions of Maryland. DPL also provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territories who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Standard Offer Service (SOS) in both Delaware and Maryland. DPL's electricity distribution service territory covers approximately 5,000 square miles and has a population of approximately 1.3 million. As of June 30, 2011, approximately 65% of delivered electricity sales were to Delaware customers and approximately 35% were to Maryland customers. In northern Delaware, DPL also supplies and distributes natural gas to retail customers and provides transportation-only services to retail customers that purchase natural gas from other suppliers. DPL's natural gas distribution service territory covers approximately 275 square miles and has a population of approximately 500,000.

As a result of the implementation of a bill stabilization adjustment mechanism (BSA) for retail electric customers of DPL in Maryland in June 2007, DPL recognizes Maryland distribution revenue based on an approved distribution charge per customer. From a revenue recognition standpoint, this has the effect of decoupling distribution revenue recognized in a reporting period with the amount of power delivered during the period. As a consequence, the only factors that will cause distribution revenue in Maryland to fluctuate from period to period are changes in the number of customers and changes in the approved distribution charge per customer. For customers to whom the BSA applies, changes in customer usage (such as due to weather conditions, energy prices, energy efficiency programs or other reasons) from period to period have no impact on reported distribution revenue.

DPL is a wholly owned subsidiary of Conectiv, which is wholly owned by Pepco Holdings, Inc. (PHI or Pepco Holdings). Because PHI is a public utility holding company subject to the Public Utility Holding Company Act of 2005 (PUHCA 2005), the relationship between PHI and DPL and certain activities of DPL are subject to the regulatory oversight of the Federal Energy Regulatory Commission (FERC) under PUHCA 2005.

Results of Operations

The following results of operations discussion compares the six months ended June 30, 2011 to the six months ended June 30, 2010. All amounts in the tables (except sales and customers) are in millions of dollars.

Electric Operating Revenue

	2011	2010	Change
Regulated T&D Electric Revenue	$194	$176	$ 18
Default Electricity Supply Revenue	342	373	(31)
Other Electric Revenue	7	10	(3)
Total Electric Operating Revenue	$543	$559	$ (16)

The table above shows the amount of Electric Operating Revenue earned that is subject to price regulation (Regulated Transmission & Distribution (T&D) Electric Revenue and Default Electricity Supply Revenue) and that which is not subject to price regulation (Other Electric Revenue).

Regulated T&D Electric Revenue includes revenue from the distribution of electricity, including the distribution of Default Electricity Supply, to DPL's customers within its service territory at regulated rates. Regulated T&D Electric Revenue also includes transmission service revenue that DPL receives as a transmission owner from PJM Interconnection, LLC (PJM) at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Default Electricity Supply Revenue is the revenue received from the supply of electricity by DPL at regulated rates to retail customers who do not elect to purchase electricity from a competitive energy supplier, and which is also known as SOS. The costs related to Default Electricity Supply are included in Purchased Energy. Default Electricity Supply Revenue also includes transmission enhancement credits that DPL receives as a transmission owner from PJM for approved regional transmission expansion plan costs.

Other Electric Revenue includes work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Regulated T&D Electric

	2011	2010	Change
Regulated T&D Electric Revenue			
Residential	$ 92	$ 87	$ 5
Commercial and industrial	55	53	2
Other	47	36	11
Total Regulated T&D Electric Revenue	$194	$176	$ 18

Other Regulated T&D Electric Revenue consists primarily of transmission service revenue.

	2011	2010	Change
Regulated T&D Electric Sales (Gigawatt hours (GWh))			
Residential	2,608	2,558	50
Commercial and industrial	3,596	3,550	46
Other	24	25	(1)
Total Regulated T&D Electric Sales	6,228	6,133	95

	2011	2010	Change
Regulated T&D Electric Customers (in thousands)			
Residential	441	439	2
Commercial and industrial	59	59	—
Other	1	1	—
Total Regulated T&D Electric Customers	501	499	2

Regulated T&D Electric Revenue increased by $18 million primarily due to:

- An increase of $11 million in transmission revenue primarily attributable to higher rates effective June 1, 2010 related to an increase in transmission plant investment.
- An increase of $5 million due to a distribution rate increase in Delaware effective April 2010.
- An increase of $2 million due to higher non-weather related average customer usage.

Default Electricity Supply

	2011	2010	Change
Default Electricity Supply Revenue			
Residential	$ 259	$ 278	$ (19)
Commercial and industrial	77	90	(13)
Other	6	5	1
Total Default Electricity Supply Revenue	$ 342	$ 373	$ (31)

	2011	2010	Change
Default Electricity Supply Sales (GWh)			
Residential	2,450	2,499	(49)
Commercial and industrial	899	929	(30)
Other	15	21	(6)
Total Default Electricity Supply Sales	3,364	3,449	(85)

	2011	2010	Change
Default Electricity Supply Customers (in thousands)			
Residential	419	430	(11)
Commercial and industrial	44	46	(2)
Other	1	1	—
Total Default Electricity Supply Customers	464	477	(13)

Default Electricity Supply Revenue decreased by $31 million primarily due to:

- A decrease of $23 million as a result of lower Default Electricity Supply rates.
- A decrease of $17 million due to lower sales, primarily as a result of customer migration to competitive suppliers.
- A decrease of $9 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.

The aggregate amount of these decreases was partially offset by:

- An increase of $16 million due to higher non-weather related average customer usage.

The following table shows the percentages of DPL's total distribution sales by jurisdictions that are derived from customers receiving Default Electricity Supply from DPL. Amounts are for the six months ended June 30:

	2011	2010
Sales to Delaware customers	51%	52%
Sales to Maryland customers	60%	64%

Natural Gas Operating Revenue

	2011	2010	Change
Regulated Gas Revenue	$117	$111	$ 6
Other Gas Revenue	24	20	4
Total Natural Gas Operating Revenue	$141	$131	$ 10

The table above shows the amounts of Natural Gas Operating Revenue from sources that are subject to price regulation (Regulated Gas Revenue) and those that generally are not subject to price regulation (Other Gas Revenue). Regulated Gas Revenue includes the revenue DPL receives from on-system natural gas delivered sales and the transportation of natural gas for customers within its service territory at regulated rates. Other Gas Revenue includes off-system natural gas sales and the short-term release of interstate pipeline transportation and storage capacity not needed to serve customers. Off-system sales are made possible when low demand for natural gas by regulated customers creates excess pipeline capacity.

Regulated Gas

	2011	2010	Change
Regulated Gas Revenue			
Residential	$ 73	$ 69	$ 4
Commercial and industrial	39	38	1
Transportation and other	5	4	1
Total Regulated Gas Revenue	$117	$111	$ 6

	2011	2010	Change
Regulated Gas Sales (billion cubic feet)			
Residential	5	5	—
Commercial and industrial	3	3	—
Transportation and other	4	3	1
Total Regulated Gas Sales	12	11	1

	2011	2010	Change
Regulated Gas Customers (in thousands)			
Residential	114	113	1
Commercial and industrial	9	9	—
Transportation and other	—	—	—
Total Regulated Gas Customers	123	122	1

Regulated Gas Revenue increased by $6 million primarily due to:

- An increase of $16 million due to higher sales as a result of colder weather during the 2011 winter months as compared to 2010.
- An increase of $2 million due to distribution rate increases effective August 2010 and February 2011.

The aggregate amount of these increases was partially offset by:

- A decrease of $12 million due to lower non-weather related average customer usage.

Other Gas Revenue

Other Gas Revenue increased by $4 million primarily due to higher volumes of off-system sales to electric generators and gas marketers.

Operating Expenses

Purchased Energy

Purchased Energy consists of the cost of electricity purchased by DPL to fulfill its Default Electricity Supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased Energy decreased by $33 million to $327 million in 2011 from $360 million in 2010 primarily due to:

- A decrease of $17 million due to lower average electricity costs under Default Electricity Supply contracts.
- A decrease of $9 million primarily due to customer migration to competitive suppliers.
- A decrease of $8 million due to lower electricity sales primarily as a result of cooler weather during the 2011 spring months as compared to 2010.

Gas Purchased

Gas Purchased consists of the cost of gas purchased by DPL to fulfill its obligation to regulated gas customers and, as such, is recoverable from customers in accordance with the terms of public service commission orders. It also includes the cost of gas purchased for off-system sales. Total Gas Purchased increased by $5 million to $96 million in 2011 from $91 million in 2010 primarily due to:

- An increase of $14 million in deferred gas expense as a result of a higher rate of recovery of natural gas supply costs.
- An increase of $2 million in the cost of gas purchases for off-system sales as a result of higher volumes purchased.

The aggregate amount of these increases was partially offset by:

- A decrease of $6 million in the cost of gas purchases for on-system sales as a result of lower average gas prices.
- A decrease of $5 million from the settlement of financial hedges entered into as part of DPL's hedge program for regulated natural gas.

Other Operation and Maintenance

Other Operation and Maintenance decreased by $14 million to $112 million in 2011 from $126 million in 2010 primarily due to:

- A decrease of $8 million associated with certain adjustments recorded by DPL in the second quarter of 2011 to correct certain errors associated with the accounting for DPL Default Electricity Supply. These adjustments were primarily due to the under-recognition of allowed returns on the cost of working capital.
- A decrease of $4 million due to 2010 environmental remediation costs related to a 1999 oil release at the Indian River generating facility then owned by DPL, as further discussed under "Indian River Oil Release" in Note (12), "Commitments and Contingencies" to the financial statements of DPL.
- A decrease of $2 million in emergency restoration costs primarily due to the February 2010 severe winter storms.
- A decrease of $2 million due to an adjustment of self-insurance reserves for general and auto liability claims.

The aggregate amount of these decreases was partially offset by:

- An increase of $4 million primarily due to higher preventative maintenance and tree trimming costs.

Depreciation and Amortization

Depreciation and Amortization expense increased by $4 million to $44 million in 2011 from $40 million in 2010 primarily due to:

- An increase of $2 million due to utility plant additions.

- An increase of $1 million in amortization of regulatory assets primarily associated with the EmPower Maryland (a demand side management program) surcharge that became effective in March 2010 (which is substantially offset by a corresponding increase in Regulated T&D Electric Revenue).

Income Tax Expense

DPL's effective tax rates for the six months ended June 30, 2011 and 2010 were 32.8% and 44.4%, respectively. The decrease in the effective tax rate primarily resulted from changes in estimates and interest related to uncertain and effectively settled tax positions.

During the second quarter of 2011, PHI reached a settlement with the Internal Revenue Service (IRS) with respect to interest due on its federal tax liabilities related to the November 2010 audit settlement for years 1996 through 2002. In connection with this agreement, PHI reallocated certain amounts that have been on deposit with the IRS since 2006 among liabilities in the settlement years and subsequent years. Primarily related to the settlement and reallocations, DPL has recorded an additional $4 million (after-tax) interest benefit. This additional interest income was recorded in the second quarter of 2011. Also during the second of quarter 2011, DPL completed a reconciliation of its deferred taxes on certain regulatory assets and, as a result, recorded a $1 million decrease to income tax expenses.

Capital Requirements

Capital Expenditures

DPL's capital expenditures for the six months ended June 30, 2011, totaled $99 million. These expenditures were primarily related to capital costs associated with new customer services, distribution reliability and transmission. The expenditures also include an allocation by PHI of hardware and software expenditures that primarily benefit the Power Delivery business and are allocated to DPL when the assets are placed in service.

In its Form 10-K for the year ended December 31, 2010, DPL presented the projected capital expenditures for the five-year period 2011 through 2015. There have been no material changes in DPL's projected capital expenditures from those presented in the Form 10-K, except with respect to the Mid-Atlantic Power Pathway (MAPP) project as discussed below.

DPL expects to incur significant capital expenditures in connection with the following primary initiatives:

Blueprint for the Future

DPL is participating in a PHI initiative referred to as "Blueprint for the Future," which is designed to meet the challenges of rising energy costs, concerns about the environment, improved reliability and government energy reduction goals. The initiative includes the implementation of various programs to help customers better manage their energy use, reduce the total cost of energy and provide other benefits. These programs also allow each utility to better manage and operate its electrical and natural gas distribution systems.

Significant developments in 2011 include:

- In March 2011, the Maryland Public Service Commission (MPSC) lifted the suspension on installation of smart thermostats for both DPL and Potomac Electric Power Company (Pepco) in their Maryland service territories and accordingly smart thermostat installation has commenced.

MAPP Project

In October 2007, the PJM Board of Managers approved PHI's proposal to construct a new 230-mile, 500-kilovolt interstate transmission line referred to as MAPP, as part of PJM's regional transmission expansion plan to address the reliability objectives of the PJM Regional Transmission Organization system. Since that time, there have been various modifications to the proposal that have redefined the length and route of the MAPP project. PJM has approved the use of advanced direct current technology for segments of the project, including the portion of the line that will traverse under the Chesapeake Bay. The direct current portion of the line will be 640 kilovolts and the remainder of the line will be 500 kilovolts. As currently approved by the PJM Board of Managers, MAPP is approximately 152 miles in length originating at the Possum Point substation in Virginia and ending at the Indian River substation in Delaware. The cost of the MAPP project is currently estimated to be $1.2 billion and the planned in-service date is June 1, 2015.

PJM currently is in its annual process of evaluating the region's overall transmission needs. The evaluation is expected to take into account changes in demand response, generation retirements and additions, as well as a revised load forecast for the PJM region that is lower than the load that was forecasted in prior PJM studies. PJM has stated that it expects to complete this evaluation in August 2011. While the PJM process is not complete, the outcome of the evaluation is expected to result in a delay of the in-service date for the MAPP project of several years beyond the currently planned in-service date of June 1, 2015.

The construction of MAPP requires various permits and approvals, including the approval of the MPSC. On April 27, 2011, Pepco and DPL, applicants in the filing pending before the MPSC seeking approval to build the MAPP project, requested a six-month delay to the procedural schedule to allow for the completion of the ongoing PJM review which was granted on May 10, 2011. The revised schedule calls for direct testimony of the parties to be filed in December 2011 and evidentiary hearings to be held in March 2012.

Because the impact of the PJM review on the in-service date for MAPP will not be known until August 2011, DPL anticipates that $25 million to $31 million of the originally projected 2011 MAPP capital expenditures of $51 million will be deferred to later years. PHI also anticipates that non-MAPP transmission capital expenditures of approximately $28 million planned for later years will be incurred by DPL in 2011.

MAPP/DOE Loan Program

To assist in the funding of the MAPP project, PHI has applied for a $684 million loan guarantee from the United States Department of Energy (DOE) for a substantial portion of the MAPP project. The application has been made under a federal loan guarantee program for projects that employ innovative energy efficiency, renewable energy and advanced transmission and distribution technologies. If granted, PHI believes the guarantee could allow PHI to acquire financing at a lower cost than it would otherwise be able to obtain in the capital markets. Whether PHI's application will be granted and, if so, the amount of debt guaranteed is subject to the discretion of the DOE and the negotiation of terms that will satisfy the conditions of the guarantee program. On February 28, 2011, DOE issued a Notice of Intent to prepare an Environmental Impact Statement to assist the DOE in assessing the environmental impact of constructing the portion of the MAPP project to be supported by the loan guarantee. Since February 2011, the DOE has conducted field inspections of the entire route and has held public meetings to obtain input from the communities along the route. In May 2011, PHI filed for the environmental permit in Maryland and Delaware for the construction of the portion of the line from Chalk Point substation in Maryland to Indian River substation in Delaware.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding DPL's intents, beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Any forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause DPL's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond DPL's control and may cause actual results to differ materially from those contained in forward-looking statements:

- Changes in governmental policies and regulatory actions affecting the energy industry, including allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of transmission and distribution facilities and the recovery of purchased power expenses;
- Weather conditions affecting usage and emergency restoration costs;
- Population growth rates and changes in demographic patterns;
- Changes in customer demand for electricity and natural gas due to conservation measures and the use of more energy-efficient products;
- General economic conditions, including the impact of an economic downturn or recession on electricity and natural gas usage;
- Changes in and compliance with environmental and safety laws and policies;
- Changes in tax rates or policies;
- Changes in rates of inflation;
- Changes in accounting standards or practices;
- Unanticipated changes in operating expenses and capital expenditures;
- Rules and regulations imposed by federal and/or state regulatory commissions, PJM, the North American Electric Reliability Corporation and other applicable electric reliability organizations;
- Legal and administrative proceedings (whether civil or criminal) and settlements that affect DPL's business and profitability;
- Interest rate fluctuations and the impact of credit and capital market conditions on the ability to obtain funding on favorable terms; and
- Effects of geopolitical events, including the threat of domestic terrorism.

Any forward-looking statements speak only as to the date of this Quarterly Report on Form 10-Q and DPL undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for DPL to predict all such factors, nor can DPL assess the impact of any such factor on DPL's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The foregoing review of factors should not be construed as exhaustive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Atlantic City Electric Company

Atlantic City Electric Company (ACE) meets the conditions set forth in General Instruction H to the Form 10-Q, and accordingly information otherwise required under this Item has been omitted.

General Overview

ACE is engaged in the transmission and distribution of electricity in southern New Jersey. ACE also provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territory who do not elect to purchase electricity from a competitive energy supplier. Default Electricity Supply is known as Basic Generation Service (BGS) in New Jersey. ACE's service territory covers approximately 2,700 square miles and has a population of approximately 1.1 million.

ACE is a wholly owned subsidiary of Conectiv, which is wholly owned by Pepco Holdings, Inc. (PHI or Pepco Holdings). Because PHI is a public utility holding company subject to the Public Utility Holding Company Act of 2005 (PUHCA 2005), the relationship between PHI and ACE and certain activities of ACE are subject to the regulatory oversight of the Federal Energy Regulatory Commission (FERC) under PUHCA 2005.

Results of Operations

The following results of operations discussion compares the six months ended June 30, 2011 to the six months ended June 30, 2010. All amounts in the tables (except sales and customers) are in millions of dollars.

Operating Revenue

	2011	2010	Change
Regulated T&D Electric Revenue	$183	$188	$ (5)
Default Electricity Supply Revenue	426	436	(10)
Other Electric Revenue	10	8	2
Total Operating Revenue	$619	$632	$ (13)

The table above shows the amount of Operating Revenue earned that is subject to price regulation (Regulated Transmission & Distribution (T&D) Electric Revenue and Default Electricity Supply Revenue) and that which is not subject to price regulation (Other Electric Revenue).

Regulated T&D Electric Revenue includes revenue from the distribution of electricity, including the distribution of Default Electricity Supply, to ACE's customers within its service territory at regulated rates. Regulated T&D Electric Revenue also includes transmission service revenue that ACE receives as a transmission owner from PJM Interconnection, LLC (PJM) at rates regulated by FERC. Transmission rates are updated annually based on a FERC-approved formula methodology.

Default Electricity Supply Revenue is the revenue received from the supply of electricity by ACE at regulated rates to retail customers who do not elect to purchase electricity from a competitive energy supplier, also known as BGS. The costs related to Default Electricity Supply are included in "Purchased energy." Default Electricity Supply Revenue also includes revenue from Transition Bond Charges that

ACE receives, and pays to Atlantic City Electric Transitional Funding, LLC (ACE Funding), to fund the principal and interest payments on Transition Bonds issued by ACE Funding and revenue in the form of transmission enhancement credits that ACE receives as a transmission owner from PJM for approved regional transmission expansion plan costs (Transmission Enhancement Credits).

Other Electric Revenue includes work and services performed on behalf of customers, including other utilities, which is generally not subject to price regulation. Work and services includes mutual assistance to other utilities, highway relocation, rentals of pole attachments, late payment fees and collection fees.

Regulated T&D Electric

	2011	2010	Change
Regulated T&D Electric Revenue			
Residential	$ 75	$ 77	$ (2)
Commercial and industrial	59	65	(6)
Other	49	46	3
Total Regulated T&D Electric Revenue	$183	$188	$ (5)

Other Regulated T&D Electric Revenue consists primarily of transmission service revenue.

	2011	2010	Change
Regulated T&D Electric Sales (Gigawatt hours (GWh))			
Residential	2,057	2,089	(32)
Commercial and industrial	2,513	2,601	(88)
Other	22	22	—
Total Regulated T&D Electric Sales	4,592	4,712	(120)

	2011	2010	Change
Regulated T&D Electric Customers (in thousands)			
Residential	482	482	—
Commercial and industrial	65	65	—
Other	1	1	—
Total Regulated T&D Electric Customers	548	548	—

Regulated T&D Electric Revenue decreased by $5 million primarily due to:

- A decrease of $13 million due to a New Jersey Societal Benefit Charge rate decrease that became effective in January 2011 (which is offset in Deferred Electric Service Costs).
- A decrease of $2 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.
- A decrease of $2 million due to lower non-weather related average customer usage.

The aggregate amount of these decreases was partially offset by:

- An increase of $9 million due to a distribution rate increase that became effective in June 2010.
- An increase of $3 million in transmission revenue primarily attributable to higher rates effective June 1, 2010 related to an increase in transmission plant investment.

Default Electricity Supply

	2011	2010	Change
Default Electricity Supply Revenue			
Residential	$231	$237	$ (6)
Commercial and industrial	121	115	6
Other	74	84	(10)
Total Default Electricity Supply Revenue	$426	$436	$ (10)

Other Default Electricity Supply Revenue consists primarily of: (i) revenue from the resale in the PJM Regional Transmission Organization market of energy and capacity purchased under contracts with unaffiliated, non-utility generators (NUGs), and (ii) revenue from Transmission Enhancement Credits.

	2011	2010	Change
Default Electricity Supply Sales (GWh)			
Residential	1,834	2,087	(253)
Commercial and industrial	743	1,009	(266)
Other	18	22	(4)
Total Default Electricity Supply Sales	2,595	3,118	(523)

	2011	2010	Change
Default Electricity Supply Customers (in thousands)			
Residential	431	481	(50)
Commercial and industrial	51	60	(9)
Other	—	—	—
Total Default Electricity Supply Customers	482	541	(59)

Default Electricity Supply Revenue decreased by $10 million primarily due to:

- A decrease of $45 million due to lower sales, primarily as a result of commercial and residential customer migration to competitive suppliers.
- A decrease of $7 million in wholesale energy and capacity resale revenues primarily due to the sale of lower volumes of electricity and capacity purchased from NUGs.
- A decrease of $5 million due to lower sales as a result of cooler weather during the 2011 spring months as compared to 2010.
- A decrease of $3 million due to a decrease in revenue from Transmission Enhancement Credits.

The aggregate amount of these decreases was partially offset by:

- An increase of $50 million as a result of higher Default Electricity Supply rates, primarily due to a Non-utility Generation Charge rate increase that became effective in January 2011.

The decrease in total Default Electricity Supply Revenue includes a decrease of $6 million in unbilled revenue attributable to ACE's BGS. Under the BGS terms approved by the New Jersey Board of Public Utilities, ACE is entitled to recover from its customers all of its costs of providing BGS. If the costs of providing BGS exceed the BGS revenue, the excess costs are deferred in Deferred Electric Service Costs. ACE's BGS unbilled revenue is not included in the deferral calculation, and therefore has an impact on the results of operations in the period during which it is accrued. While the change in the amount of unbilled revenue from year to year typically is not significant, for the six months ended June 30, 2011, BGS unbilled revenue decreased by $6 million as compared to the six months ended June 30, 2010, which resulted in a $4 million decrease in ACE's net income. The decrease was primarily due to lower customer usage and increased customer migration during the unbilled revenue period at the end of the six months ended June 30, 2011, as compared to the corresponding period in 2010.

For the six months ended June 30, 2011 and 2010, the percentages of ACE's total distribution sales that are derived from customers receiving Default Electricity Supply are 57% and 66%, respectively.

Operating Expenses

Purchased Energy

Purchased Energy consists of the cost of electricity purchased by ACE to fulfill its Default Electricity Supply obligation and, as such, is recoverable from customers in accordance with the terms of public service commission orders. Purchased Energy decreased by $84 million to $394 million in 2011 from $478 million in 2010 primarily due to:

- A decrease of $55 million primarily due to customer migration to competitive suppliers.
- A decrease of $25 million due to lower average electricity costs under Default Electricity Supply contracts.
- A decrease of $4 million due to lower electricity sales primarily as a result of cooler weather during the 2011 spring months as compared to 2010.

Other Operation and Maintenance

Other Operation and Maintenance increased by $9 million to $106 million in 2011 from $97 million in 2010. Excluding an increase of $3 million primarily related to New Jersey Societal Benefit Program costs and bad debt expenses that are deferred and recoverable, Other Operation and Maintenance expense increased by $6 million. The $6 million increase was primarily due to:

- An increase of $5 million primarily due to higher tree trimming and preventative maintenance costs.
- An increase of $2 million in costs related to customer requested work.
- An increase of $1 million in employee-related costs, primarily due to higher accrued vacation and worker compensation adjustments.

The aggregate amount of these increases was partially offset by:

- A decrease of $4 million in emergency restoration costs primarily due to the February 2010 severe winter storms.

Depreciation and Amortization

Depreciation and Amortization expense increased by $17 million to $66 million in 2011, from $49 million in 2010 primarily due to:

- An increase of $13 million in amortization of stranded costs as the result of higher revenue due to rate increases effective October 2010 for the Transition Bond Charge and Market Transition Charge Tax (partially offset in Default Electricity Supply Revenue).
- An increase of $3 million due to utility plant additions.

Deferred Electric Service Costs

Deferred Electric Service Costs, which relate only to ACE, represent (i) the over or under recovery of electricity costs incurred by ACE to fulfill its Default Electricity Supply obligation and (ii) the over or under recovery of New Jersey Societal Benefit Program costs incurred by ACE. The cost of electricity purchased is reported under Purchased Energy and the corresponding revenue is reported under Default Electricity Supply Revenue. The cost of New Jersey Societal Benefit Programs is reported under Other Operation and Maintenance and the corresponding revenue is reported under Regulated T&D Electric Revenue.

Deferred Electric Service Costs increased by $50 million, to an expense reduction of $32 million in 2011 as compared to an expense reduction of $82 million in 2010, primarily due to an increase in deferred electricity expense as a result of higher Default Electricity Supply revenue rates and lower electricity supply costs.

Income Tax Expense

ACE's consolidated effective tax rates for the six months ended June 30, 2011 and 2010 were 44.2% and 48.9%, respectively. The decrease in the effective tax rate primarily resulted from the reversal of $6 million of accrued interest income on uncertain and effectively settled state income tax positions in 2010. In addition, in the second quarter of 2011, ACE completed a reconciliation of its deferred taxes associated with certain regulatory assets and recorded adjustments which resulted in an increase to income tax expense of $1 million.

Capital Requirements

Capital Expenditures

ACE's capital expenditures for the six months ended June 30, 2011, totaled $60 million. These expenditures were primarily related to capital costs associated with new customer services, distribution reliability and transmission. The expenditures also include an allocation by PHI of hardware and software expenditures that primarily benefit the Power Delivery business and are allocated to ACE when the assets are placed in service.

In its Form 10-K for the year ended December 31, 2010, ACE presented the projected capital expenditures for the five-year period 2011 through 2015. There have been no material changes in ACE's projected capital expenditures from those presented in the Form 10-K.

ACE expects to incur significant capital expenditures in connection with the following primary initiatives:

Blueprint for the Future

ACE is participating in a PHI initiative referred to as "Blueprint for the Future," which is designed to meet the challenges of rising energy costs, concerns about the environment, improved reliability and government energy reduction goals. The initiative includes the implementation of various programs to help customers better manage their energy use, reduce the total cost of energy and provide other benefits. These programs also allow each utility to better manage and operate its electrical and gas distribution systems. The New Jersey Board of Public Utilities is not expected to approve ACE's proposal for implementation of advanced meters in the near term.

During the six months ended June 30, 2011, ACE received $3 million in stimulus funds awarded by the United States Department of Energy (DOE) under the American Recovery and Reinvestment Act of 2009. Through June 30, 2011, ACE has received $5 million of the $19 million that DOE awarded the company to fund AMI, direct load control, distribution automation and communication infrastructure in its service territories.

Forward-Looking Statements

Some of the statements contained in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. These statements include declarations regarding ACE's intents, beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of such terms or other comparable terminology. Any forward-looking statements are not guarantees of future performance, and actual results could differ materially from those indicated by the forward-looking statements. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause ACE's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements.

The forward-looking statements contained herein are qualified in their entirety by reference to the following important factors, which are difficult to predict, contain uncertainties, are beyond ACE's control and may cause actual results to differ materially from those contained in forward-looking statements:

- Changes in governmental policies and regulatory actions affecting the energy industry, including allowed rates of return, industry and rate structure, acquisition and disposal of assets and facilities, operation and construction of transmission and distribution facilities and the recovery of purchased power expenses;
- Weather conditions affecting usage and emergency restoration costs;
- Population growth rates and changes in demographic patterns;
- Changes in customer demand for electricity due to conservation measures and the use of more energy-efficient products;
- General economic conditions, including the impact of an economic downturn or recession on electricity usage;
- Changes in and compliance with environmental and safety laws and policies;
- Changes in tax rates or policies;
- Changes in rates of inflation;

- Changes in accounting standards or practices;
- Unanticipated changes in operating expenses and capital expenditures;
- Rules and regulations imposed by federal and/or state regulatory commissions, PJM, the North American Electric Reliability Corporation and other applicable electric reliability organizations;
- Legal and administrative proceedings (whether civil or criminal) and settlements that affect ACE's business and profitability;
- Interest rate fluctuations and the impact of credit and capital market conditions on the ability to obtain funding on favorable terms; and
- Effects of geopolitical events, including the threat of domestic terrorism.

Any forward-looking statements speak only as to the date of this Quarterly Report on Form 10-Q and ACE undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for ACE to predict all such factors, nor can ACE assess the impact of any such factor on ACE's business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.

The foregoing review of factors should not be construed as exhaustive.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk management policies for PHI and its subsidiaries are determined by PHI's Corporate Risk Management Committee, the members of which are PHI's Chief Risk Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Chief Information Officer and other senior executives. The Corporate Risk Management Committee monitors interest rate fluctuation, commodity price fluctuation, and credit risk exposure, and sets risk management policies that establish limits on unhedged risk and determine risk reporting requirements. For information about PHI's derivative activities, other than the information disclosed herein, refer to Note (2), "Significant Accounting Policies – Accounting For Derivatives," and Note (15), "Derivative Instruments and Hedging Activities," of the Consolidated Financial Statements of PHI included in its Annual Report on Form 10-K for the year ended December 31, 2010 and Item 7A "Quantitative and Qualitative Disclosures About Market Risk" of PHI's Annual Report on Form 10-K for the year ended December 31, 2010.

Pepco Holdings, Inc.

Commodity Price Risk

The Pepco Energy Services segment engages in commodity risk management activities to reduce its financial exposure to changes in the value of its assets and obligations due to commodity price fluctuations. Certain of these risk management activities are conducted using instruments classified as derivatives based on Financial Accounting Standards Board (FASB) guidance on derivatives and hedging, Accounting Standards Codification 815. Pepco Energy Services also manages commodity risk with contracts that are not classified as derivatives. The primary risk management objective is to manage the spread between retail electricity and natural gas supply commitments and the cost of energy used to service those commitments in order to ensure stable and known cash flows and fix favorable prices and margins.

PHI's risk management policies place oversight at the senior management level through the Corporate Risk Management Committee, which has the responsibility for establishing corporate compliance requirements for energy market participation. PHI collectively refers to these energy market activities, including its commodity risk management activities, as "energy commodity" activities. PHI uses a value-at-risk (VaR) model to assess the market risk of the energy commodity activities of Pepco Energy Services. PHI also uses other measures to limit and monitor risk in its energy commodity activities, including limits on the nominal size of positions and periodic loss limits. VaR represents the potential fair value loss on energy contracts or portfolios due to changes in market prices for a specified time period and confidence level. PHI uses a delta-gamma VaR estimation model. The other parameters include a 95 percent, one-tailed confidence level and a one-day holding period. Since VaR is an estimate, it is not necessarily indicative of actual results that may occur.

The table below provides the VaR associated with energy contracts of the Pepco Energy Services segment for the six months ended June 30, 2011 in millions of dollars:

	VaR (a)
95% confidence level, one-day holding period, one-tailed	
Period end	$ 1
Average for the period	$ 1
High	$ 3
Low	$ 1

(a) This column represents all energy derivative contracts, normal purchase and normal sales contracts, modeled generation output and fuel requirements, and modeled customer load obligations for Pepco Energy Services' energy commodity activities.

Pepco Energy Services purchases electric and natural gas futures, swaps, options and forward contracts to hedge price risk in connection with the purchase of physical natural gas and electricity for distribution to customers. Pepco Energy Services accounts for its futures and swap contracts as cash flow hedges of forecasted transactions. Its options contracts and certain commodity contracts that do not qualify as cash flow hedges are marked to market through current earnings. Forward contracts that meet the requirements for normal purchase and normal sale accounting under FASB guidance on derivatives and hedging are accounted for using accrual accounting.

Credit and Nonperformance Risk

The following table provides information on the credit exposure on wholesale energy contracts, net of collateral, to wholesale counterparties as of June 30, 2011, in millions of dollars:

Rating	Exposure Before Credit Collateral (b)	Credit Collateral (c)	Net Exposure	Number of Counterparties Greater Than 10% (d)	Net Exposure of Counterparties Greater Than 10%
Investment Grade (a)	$ 1	$ —	$ 1	2	$ 1
Non-Investment Grade	—	—	—	—	—
No External Ratings	1	—	1	1	1
Credit reserves			—		

(a) Investment Grade - primarily determined using publicly available credit ratings of the counterparty. If the counterparty has provided a guarantee by a higher-rated entity (e.g., its parent), it is determined based upon the rating of its guarantor. Included in "Investment Grade" are counterparties with a minimum Standard & Poor's or Moody's Investor Service rating of BBB- or Baa3, respectively.

(b) Exposure before credit collateral - includes the marked to market (MTM) energy contract net assets for open/unrealized transactions, the net receivable/payable for realized transactions and net open positions for contracts not subject to MTM. Amounts due from counterparties are offset by liabilities payable to those counterparties to the extent that legally enforceable netting arrangements are in place. Thus, this column presents the net credit exposure to counterparties after reflecting all allowable netting, but before considering collateral held.

(c) Credit collateral - the face amount of cash deposits, letters of credit and performance bonds received from counterparties, not adjusted for probability of default, and, if applicable, property interests (including oil and gas reserves).

(d) Using a percentage of the total exposure.

For information regarding “Interest Rate Risk,” please refer to Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in Pepco Holdings’ Annual Report on Form 10-K for the year ended December 31, 2010.

INFORMATION FOR THIS ITEM IS NOT REQUIRED FOR PEPCO, DPL, AND ACE AS THEY MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND THEREFORE ARE FILING THIS FORM WITH A REDUCED FILING FORMAT.

Item 4. CONTROLS AND PROCEDURES

Pepco Holdings, Inc.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

PHI (the Company) maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (SEC) rules and forms, and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. This control system, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives. Under the supervision, and with the participation of management, including the CEO and the CFO, Pepco Holdings has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2011, and, based upon this evaluation, the CEO and the CFO of Pepco Holdings have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to Pepco Holdings and its subsidiaries that is required to be disclosed in reports filed with, or submitted to, the SEC under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) is accumulated and communicated to management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2011, there was no change in Pepco Holdings’ internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Pepco Holdings’ internal control over financial reporting.

Potomac Electric Power Company

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Pepco (the Company) maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. This control system, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives. Under the supervision, and with the participation of management, including the CEO and the CFO, Pepco has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2011, and, based upon this evaluation, the CEO and the CFO of Pepco have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to Pepco that is required to be disclosed in reports filed with, or submitted to, the SEC under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) is accumulated and communicated to management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2011, there was no change in Pepco's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Pepco's internal control over financial reporting.

Delmarva Power & Light Company

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

DPL (the Company) maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. This control system, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives. Under the supervision, and with the participation of management, including the CEO and the CFO, DPL has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2011, and, based upon this evaluation, the CEO and the CFO of DPL have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to DPL that is required to be disclosed in reports filed with, or submitted to, the SEC under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) is accumulated and communicated to management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2011, there was no change in DPL's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, DPL's internal control over financial reporting.

Atlantic City Electric Company

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

ACE (the Company) maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. This control system, no matter how well designed and operated, can provide only reasonable assurance that the objectives of the control system are met. Our disclosure controls and procedures were designed to provide reasonable assurance of achieving their stated objectives. Under the supervision, and with the participation of management, including the CEO and the CFO, ACE has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2011, and, based upon this evaluation, the CEO and the CFO of ACE have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to ACE and its subsidiary that is required to be disclosed in reports filed with, or submitted to, the SEC under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified by the SEC rules and forms and (ii) is accumulated and communicated to management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2011, there was no change in ACE's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, ACE's internal control over financial reporting.

Part II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Pepco Holdings

Other than ordinary routine litigation incidental to its and its subsidiaries' business, PHI is not a party to, and its subsidiaries' property is not subject to, any material pending legal proceedings except as described in Note (15), "Commitments and Contingencies," to the Consolidated Financial Statements of PHI included herein, which description is incorporated by reference herein.

Pepco

Other than ordinary routine litigation incidental to its business, Pepco is not a party to, and its property is not subject to, any material pending legal proceedings except as described in Note (10), "Commitments and Contingencies," to the Financial Statements of Pepco included herein, which description is incorporated by reference herein.

DPL

Other than ordinary routine litigation incidental to its business, DPL is not a party to, and its property is not subject to, any material pending legal proceedings except as described in Note (12), "Commitments and Contingencies," to the Financial Statements of DPL included herein, which description is incorporated by reference herein.

ACE

Other than ordinary routine litigation incidental to its business, ACE is not a party to, and its property is not subject to, any material pending legal proceedings except as described in Note (11), "Commitments and Contingencies," to the Consolidated Financial Statements of ACE included herein, which description is incorporated by reference herein.

Item 1A. RISK FACTORS

Pepco Holdings

For a discussion of the risk factors applicable to Pepco Holdings, Pepco, DPL and ACE, please refer to Item 1A "Risk Factors" in Pepco Holdings' Annual Report on Form 10-K for the year ended December 31, 2010. There have been no material changes to Pepco Holdings' risk factors as disclosed in the PHI Form 10-K, except that

(1) Each of the following risk factors supersedes the risk factor with the same heading in the Form 10-K. Except as otherwise noted, each risk factor set forth below applies to each of Pepco Holdings, Pepco, DPL and ACE:

Energy companies are subject to adverse publicity which makes them vulnerable to negative regulatory and litigation outcomes.

Utility companies, including PHI's utility subsidiaries, have been the subject of public criticism focused on the reliability of their distribution services and the speed with which they are able to respond to outages caused by storm damage. Adverse publicity of this nature may render legislatures, regulatory authorities and other government officials less likely to view energy companies such as PHI and its subsidiaries in a favorable light, and may cause PHI and its subsidiaries to be susceptible to less favorable legislative and regulatory outcomes. In this regard, in April 2011, Maryland adopted legislation under which electric utilities operating in Maryland, including Pepco and DPL, could be subject to fines for failure to meet minimum service quality and reliability standards to be developed by the Maryland Public Service Commission (MPSC). In July 2011, the DCPSC adopted regulations that raise the minimum service reliability standards applicable to Pepco in the District of Columbia. The regulations establish specific maximum outage frequency and outage duration levels beginning in 2013 and continuing through 2020. The DCPSC has stated that the regulations are intended to require Pepco to achieve a reliability level in the first quartile of all utilities in the nation by 2020. The existing regulations of the DCPSC provide that Pepco would be subject to civil penalties or other sanctions if it does not meet the required performance levels. Pepco supports objective, fair reliability performance requirements, but believes that the regulations in their current form require inappropriate adjustments to the method employed to track reliability. As a result, Pepco intends to file a motion with the DCPSC seeking reconsideration of certain aspects of the regulations. There can be no assurance that the requested changes will be implemented or the timing related thereto. While Pepco is currently evaluating the cost and operational changes necessary to comply with the new requirements, Pepco currently believes the standards as adopted may not be realistically achievable at an acceptable cost over the longer term. Other jurisdictions in which PHI utilities have operations have reliability and customer service quality standards, the violation of which could also result in the imposition of penalties.

Facilities may not operate as planned or may require significant maintenance expenditures, which could decrease revenues or increase expenses.

Operation of the Pepco, DPL and ACE transmission and distribution facilities and Pepco Energy Services' generating facilities (scheduled for deactivation in May 2012) involves many risks, including the breakdown or failure of equipment, accidents, labor disputes and performance below expected levels. Older facilities and equipment, even if maintained in accordance with sound engineering practices, may require significant capital expenditures for additions or upgrades to provide reliable operations or to comply with changing environmental requirements. Natural disasters and weather, including tornadoes, hurricanes and snow and ice storms, also can disrupt transmission and distribution systems. Disruption of the operation of transmission or distribution facilities or the operation of generation facilities below expected output levels, can reduce revenues and result in the incurrence of additional expenses that may not be recoverable from customers or through insurance, including deficiency charges imposed by the PJM Interconnection, LLC (PJM) on generating facilities at a rate of up to two times the capacity payment that the generating facility receives. Furthermore, the transmission and generating facilities of the PHI companies are subject to reliability standards imposed by the North American Electric Reliability Corporation. Failure to comply with the standards may result in substantial monetary penalties.

PHI's Blueprint for the Future program includes the replacement of customers' existing electric and gas meters with an advanced metering infrastructure (AMI) system. In addition to the replacement of existing meters, the AMI system involves the construction of a wireless network across the service territories of PHI's utility subsidiaries and the implementation and integration of new and existing information technology systems to collect and manage the data made available by the advanced meters. The implementation of the AMI system involves a combination of technologies provided by multiple vendors. If the AMI system results in lower than projected performance, PHI's utility subsidiaries could experience higher than anticipated maintenance expenditures.

The Energy Services business of Pepco Energy Services is highly competitive. Under its energy savings performance contracts, Pepco Energy Services may be liable for performance guarantees many years after an installation of a project is completed. (PHI only)

The Energy Services business of Pepco Energy Services is highly competitive. This competition generally has the effect of limiting margins and requiring a continual focus on controlling costs.

Among the factors on which the Energy Services business competes are the amount and duration of the guarantees provided in energy savings performance contracts. In connection with many of its energy efficiency installation projects, Pepco Energy Services guarantees a minimum level of annual energy cost savings over a period typically ranging up to 15 years. Currently, Pepco Energy Services does not insure against this risk, and accordingly could suffer financial losses if a project does not achieve the guaranteed level of performance.

(2) The following risk factor supersedes, as it relates to PHI, the risk factor in the Form 10-K with the heading having as its introductory sentence, "PHI's cash flow, ability to pay dividends and ability to satisfy debt obligations depend on the performance of its operating subsidiaries":

PHI's cash flow, ability to pay dividends and ability to satisfy debt obligations depend on the performance of its operating subsidiaries. PHI's unsecured obligations are effectively subordinated to the liabilities of its subsidiaries. (PHI only)

PHI is a holding company that conducts its operations entirely through its subsidiaries, and all of PHI's consolidated operating assets are held by its subsidiaries. Accordingly, PHI's cash flow, its ability to satisfy its obligations to creditors and its ability to pay dividends on its common stock are dependent upon the earnings of the subsidiaries and the distribution of such earnings to PHI in the form of dividends. The subsidiaries are separate legal entities and have no obligation to pay any amounts due on any debt or equity securities issued by PHI or to make any funds available for such payment. Because the claims of the creditors of PHI's subsidiaries are superior to PHI's entitlement to dividends, the unsecured debt and obligations of PHI are effectively subordinated to all existing and future liabilities of its subsidiaries.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Pepco Holdings

None.

INFORMATION FOR THIS ITEM IS NOT REQUIRED FOR PEPCO, DPL, AND ACE AS THEY MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND THEREFORE ARE FILING THIS FORM WITH A REDUCED FILING FORMAT.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Pepco Holdings

None.

INFORMATION FOR THIS ITEM IS NOT REQUIRED FOR PEPCO, DPL, AND ACE AS THEY MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND THEREFORE ARE FILING THIS FORM WITH A REDUCED FILING FORMAT.

Item 4. RESERVED

Item 5. OTHER INFORMATION

The following matters are being reported by each of PHI, Pepco, DPL and ACE, as applicable, in this Quarterly Report on Form 10-Q, in lieu of filing a Current Report on Form 8-K with respect thereto.

Amended and Restated Credit Agreement

On August 1, 2011, PHI, Pepco, DPL and ACE entered into a Second Amended and Restated Credit Agreement with respect to their $1.5 billion unsecured credit facility. The other parties to the second amended and restated credit agreement were the lenders party thereto, Wells Fargo Bank, National Association, as agent, issuer and swingline lender, Bank of America, N.A., as syndication agent and issuer, The Royal Bank of Scotland plc and Citicorp USA, Inc., as co-documentation agents, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as active joint lead arrangers and joint book runners, and Citigroup Global Markets Inc. and RBS Securities, Inc. as passive joint lead arrangers and joint book runners. The second amended and restated credit agreement amends, restates and supersedes in its entirety that certain Amended and Restated Credit Agreement, dated as of May 2, 2007, among PHI, Pepco, DPL, ACE, the lenders party thereto, Wachovia Bank, National Association, as administrative agent and swingline lender, Citicorp USA, Inc., as syndication agent, The Royal Bank of Scotland, plc, The Bank of Nova Scotia and JPMorgan Chase Bank, N.A., as documentation agents, and Wachovia Capital Markets, LLC and Citigroup Global Markets Inc., as joint lead arrangers and joint book runners.

A brief description of the terms and conditions of the second amended and restated credit agreement, and the amended and restated credit agreement being superseded thereby, that are material to PHI, Pepco, DPL and ACE has been provided in Note (9), "Debt," to the Consolidated Financial Statements of PHI included herein, and in Part I, Item 2 of this Quarterly Report on Form 10-Q under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Pepco Holdings, Inc. – Capital Resources and Liquidity – Credit Facilities," which description is incorporated by reference in response to this Item 5. This description is qualified in its entirety by reference to the more detailed provisions of the second amended and restated credit agreement, filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q, and the amended and restated credit agreement, filed as Exhibit 10 to PHI's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

Some or all of the parties to these credit agreements, or their affiliates, have in the past provided investment or commercial banking services to PHI, Pepco, PDL and ACE and their affiliates, including as an underwriter of their securities, for which they received customary fees, underwriting discounts and commissions, and they are likely to provide similar services in the future.

Benefit Plan Modifications

On July 28, 2011, PHI's Board of Directors approved revisions to certain of existing PHI's benefit programs, including its tax-qualified, defined benefit pension plan, the Pepco Holdings, Inc. Retirement Plan (the "Retirement Plan"). The changes to the Retirement Plan were effected by PHI in order to establish a more unified approach to PHI's retirement programs and to further align the benefits offered under its retirement programs. The changes to the Retirement Plan will be effective on or after January 1, 2012 and affect the retirement benefits payable to approximately 750 of PHI's employees. All full time employees of PHI and certain subsidiaries are eligible to participate in the Retirement Plan. Retirement benefits for all other employees remain unchanged.

As part of this process, PHI's Board of Directors also approved a new, non-tax-qualified Supplemental Executive Retirement Plan ("SERP") which will replace PHI's two pre-existing supplemental retirement plans, effective August 1, 2011. Following the effective date of the SERP, pursuant to amendments to such plans, the Conectiv SERP Plan and the PHI Combined SERP Plan will be closed to new participants. The principal purposes of the SERP are to provide competitive retirement benefits, to protect eligible participants against reductions in retirement benefits due to tax law limitations on qualified plans, to encourage the continued employment of and to attract new employees to work for PHI and to establish a more unified approach to its retirement programs. The establishment of the new SERP is consistent with PHI's efforts to align retirement benefits for PHI and its subsidiaries with current market practices, as recommended by the Compensation/Human Resources Committee's independent compensation consultant. The SERP is intended to provide a supplemental retirement benefit for participants so as to provide similarly situated participants with retirement benefits that are the same or similar in value as compared to the benefits provided under the existing SERPs. Where the existing SERP arrangements provide a greater benefit than the retirement benefit established under the SERP that greater benefit will continue to apply to participants who previously participated in the existing plan.

Eligibility for participation in the SERP is determined by the Compensation/Human Resources Committee administering the SERP (a "participant"). Since the SERP is a supplemental retirement plan, participation will be limited to certain members of PHI's management whose benefits may be limited due to restrictions on benefits payable under PHI's tax-qualified plan. All participants currently participating in PHI's existing SERP plans will be eligible to participate in the new SERP as of its effective date

The SERP provides a supplemental retirement benefit to participants based on two factors, which are the same factors used to provide benefits under the existing SERPs. First, the SERP will protect eligible participants from reductions in retirement benefits due to tax law limitations placed on the benefits available under the Retirement Plan. Under provisions of the Internal Revenue Code, the level of a participant's pension benefit under a tax-qualified pension plan, such as the Retirement Plan, and the amount of compensation that may be taken into account in calculating that benefit are limited (the "Qualified Plan Limitations"). In addition, under the terms of the Retirement Plan, salary deferrals elected by the participant under PHI's deferred compensation plans (other than the participant's pre-tax contributions made under the Retirement Savings Plan) are not taken into account as compensation for purposes of calculating a participant's retirement benefit (the "Deferred Compensation Exclusion"). If applicable, these provisions have the effect of reducing the participant's retirement benefit under the Retirement Plan relative to what the participant otherwise would be entitled to receive under the plan's benefit formula. If a participant's retirement benefits under the Retirement Plan are reduced by either or both of these limitations, PHI, under the SERP, will pay a supplemental retirement benefit to the participant equal to the difference between (i) the participant's actual benefit under the Retirement Plan and (ii) what the participant would have received under the Retirement Plan (A) were the Qualified Plan Limitations not applicable and (B) had the amount of the Deferred Compensation Exclusion been included in the compensation base. Second, the SERP will pay a supplemental retirement benefit to the participant calculated as if the final average pay included the average of the three highest awards under the executive incentive compensation plan within the five consecutive years immediately preceding retirement.

Vesting will occur under the SERP when a participant is eligible for a retirement annuity (including an annuity which is distributed in the form of an actuarially reduced benefit). Generally, a participant will become vested upon the later of attaining age 65 or being credited with five years of service. Earlier vesting is permitted under the SERP when a participant attains age 55 or older and is credited with at least 10 years of service under the SERP. The benefit payable under the SERP is the excess (if any) of the retirement benefit determined using the formula described below, over the retirement benefit provided to the participant under PHI's tax qualified pension benefit plan and the retirement benefit provided under PHI's two pre-existing supplemental executive retirement plans. Generally, the formula used for determining retirement benefits uses years of benefit service and "final average pay" to establish the amount that should be payable as an annual benefit for the participant's lifetime starting at normal retirement age. For all participants, the formula is 1.45% of final average pay multiplied by the participant's years of service. This new formula results in benefits that generally target median peer group retirement benefits based upon the research provided by the Compensation/Human Resources Committee's independent consultant Pearl Meyer and Partners, Inc.

Generally, the only form of benefit intended to be provided under the SERP will be a lifetime annuity. This benefit will be a single life annuity for participants who are not married at the time the benefit starts to be paid, and will be in the form of a 50% joint and survivor annuity for married participants paid in the form of level payments during the life of the participant, and, thereafter, to the participant's surviving spouse, if any, at a rate of 50% of the rate paid to the participant for the surviving spouse's lifetime. The only exceptions to this annuity benefit are (1) in the case of any participant in the SERP who also participates in the Conectiv Supplemental Executive Retirement Plan (which itself pays benefits in the form of a lump sum), a lump sum payment of the value of the benefit payable under the SERP will be paid out if the value of the benefit payable under the SERP is considered to be "de minimis" (as explained below), and (2) a lump sum payment of the value of the benefit payable under the SERP will be paid out to any participant in the SERP who does not participate in any other supplemental executive retirement plan, but only if the value of the benefit payable under this Plan is considered to be "de minimis." Lump sums instead of annuities are also payable in certain limited circumstances following a Change of Control (as defined below). A benefit shall be considered to be de minimis if the present value is less than the “applicable amount” as defined in Section 402(g)(1)(B) of the Internal Revenue Code (the limitation on elective contributions to 401(k) plans, which is currently $16,500, and is adjusted annually for inflation).

The benefit payment under the SERP will commence immediately following the participant’s separation from service. Generally, a participant can retire and receive an unreduced annuity benefit under the SERP at the later of age 65 or being credited with five years of service. In addition, an unreduced annuity is payable under the SERP to a participant with 20 years of service at or after attaining age 62 or to a participant with 35 years of service at or after attaining age 58. A participant who is not eligible for an unreduced annuity but who retires after age 55 and with at least 10 years of service will be eligible for and will receive an annuity that is reduced based on the extent to which the participant’s separation from service is prior to the date the participant would have been eligible for an unreduced annuity (i.e., at age 65 generally, but age 62 for participants with 20 or more years of service and age 58 for participants with 35 or more years of service). To the extent required under applicable IRS rules, the commencement of the payment of benefits under the SERP will be delayed six months, with the first payment being equal to the full amount that would have been payable during such period absent the delay. The reduction for determining the reduced annuity for benefits commencing prior to eligibility for unreduced benefit will be 3% per year (0.25% for each month early).

In the event a participant dies while employed by PHI, but after the date the participant has become vested in his or her benefit under the SERP (i.e., after attaining age 55 or older with 10 or more years of service, or after attaining age 65), and the participant is married at the time of his or her death, a death benefit will be paid to the surviving spouse in the form of an annuity equal to the annuity that would have been paid had the participant retired on the day of his or her death, commenced an annuity in the form of a 50% joint and survivor annuity, and then died next day. No death benefit is payable under the SERP in the case of a single participant if a single participant dies during the term of his or her employment with PHI or if the death of the single participant occurs after the single participant has started to receive an annuity payment under the SERP.

Any participant who terminates employment prior to becoming vested under the SERP will forfeit any benefits accrued thereunder. In addition, regardless of a participant’s years of service, his or her benefit under the SERP will be forfeited if the participant’s employment is terminated for “cause” (as determined by the committee administering the SERP).

In the event there is a change of control as defined in the SERP, each participant shall be fully vested in his or her accrued benefit under the SERP. The payment of benefits shall be as described above for any participant who would have been vested without regard to the change of control at the time of his or her separation from service. In all other cases, including any participant who separates from service prior to the date such participant is eligible for an annuity benefit, the participant will receive a lump sum payment of the actuarial present value of his or her accrued benefit paid as soon as practicable following the participant’s separation from service. Payments are subject to the six month delay rule where applicable (for a participant who is a “specified employee”). The definition of the term “change of control” contained in this SERP is substantially similar to the definition of “change in control” under the existing supplemental benefit plans of PHI.

The foregoing is a description of the material provisions of the SERP and is qualified in its entirety by reference to the more detailed provisions of the SERP and the amendments to each of the Pepco Holdings, Inc. Combined Executive Retirement Plan and the Conectiv Supplemental Executive Retirement Plan, each of which is attached hereto as Exhibits 10.2, 10.3 and 10.4, respectively, to this Quarterly Report on Form 10-Q.

Item 6. EXHIBITS

The documents listed below are being filed, furnished or submitted on behalf of PHI, Pepco, DPL and/or ACE, as indicated. The warranties, representations and covenants contained in any of the agreements included or incorporated by reference herein or which appear as exhibits hereto should not be relied upon by buyers, sellers or holders of PHI's or its subsidiaries' securities and are not intended as warranties, representations or covenants to any individual or entity except as specifically set forth in such agreement.

Exhibit No.	Registrant(s)	Description of Exhibit	Reference
4.1	DPL	Form of First Mortgage Bond, Series 2001C Collateral Bonds due May 1, 2026	Included in Exhibit 4.3 hereto.
4.2	DPL	One Hundred and Seventh Supplemental Indenture	Filed herewith.
4.3	DPL	One Hundred and Eighth Supplemental Indenture	Exhibit 4.2 to DPL's Form 8-K, June 3, 2011.
10.1	PHI, Pepco, DPL, ACE	Second Amended and Restated Credit Agreement, dated as of August 1, 2011, among PHI, Pepco, DPL and ACE, the lenders party thereto, Wells Fargo Bank, National Association, as agent, issuer and swingline lender, Bank of America, N.A., as syndication agent and issuer, The Royal Bank of Scotland plc and Citicorp USA, Inc., as co-documentation agents, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as active joint lead arrangers and joint book runners, and Citigroup Global Markets Inc. and RBS Securities, Inc. as passive joint lead arrangers and joint book runners	Filed herewith.
10.2	PHI	The Pepco Holdings, Inc. 2011 Supplemental Executive Retirement Plan	Filed herewith.
10.3	PHI	Amendment to the Pepco Holdings, Inc. Combined Executive Retirement Plan	Filed herewith.
10.4	DPL	Amendment to the Conectiv Supplemental Executive Retirement Plan	Filed herewith.
12.1	PHI	Statements Re: Computation of Ratios	Filed herewith.
12.2	Pepco	Statements Re: Computation of Ratios	Filed herewith.
12.3	DPL	Statements Re: Computation of Ratios	Filed herewith.
12.4	ACE	Statements Re: Computation of Ratios	Filed herewith.
31.1	PHI	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.2	PHI	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.3	Pepco	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.4	Pepco	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.5	DPL	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.6	DPL	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.7	ACE	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.8	ACE	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
32.1	PHI	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.

Exhibit No.	Registrant(s)	Description of Exhibit	Reference
32.2	Pepco	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.
32.3	DPL	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.
32.4	ACE	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350	Furnished herewith.
101.INS	PHI, Pepco, DPL, ACE	XBRL Instance Document	Submitted herewith.
101.SCH	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Schema Document	Submitted herewith.
101.CAL	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Calculation Linkbase Document	Submitted herewith.
101.DEF	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Definition Linkbase Document	Submitted herewith.
101.LAB	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Label Linkbase Document	Submitted herewith.
101.PRE	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Presentation Linkbase Document	Submitted herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEPCO HOLDINGS, INC. (PHI)
POTOMAC ELECTRIC POWER COMPANY (Pepco)
DELMARVA POWER & LIGHT COMPANY (DPL)
ATLANTIC CITY ELECTRIC COMPANY (ACE)
(Registrants)

August 3, 2011

By /s/ ANTHONY J. KAMERICK
Anthony J. Kamerick
Senior Vice President and Chief Financial Officer, PHI, Pepco and DPL
Chief Financial Officer, ACE

INDEX TO EXHIBITS FILED HEREWITH OR INCORPORATED BY REFERENCE HEREIN

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4.3	DPL	One Hundred and Eighth Supplemental Indenture	Exhibit 4.2 to DPL's Form 8-K, June 3, 2011.
10.1	PHI, Pepco, DPL, ACE	Second Amended and Restated Credit Agreement, dated as of August 1, 2011, among PHI, Pepco, DPL and ACE, the lenders party thereto, Wells Fargo Bank, National Association, as agent, issuer and swingline lender, Bank of America, N.A., as syndication agent and issuer, The Royal Bank of Scotland plc and Citicorp USA, Inc., as co-documentation agents, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, as active joint lead arrangers and joint book runners, and Citigroup Global Markets Inc. and RBS Securities, Inc. as passive joint lead arrangers and joint book runners	Filed herewith.
10.2	PHI	The Pepco Holdings, Inc. 2011 Supplemental Executive Retirement Plan	Filed herewith.
10.3	PHI	Amendment to the Pepco Holdings, Inc. Combined Executive Retirement Plan	Filed herewith.
10.4	DPL	Amendment to the Conectiv Supplemental Executive Retirement Plan	Filed herewith.
12.1	PHI	Statements Re: Computation of Ratios	Filed herewith.
12.2	Pepco	Statements Re: Computation of Ratios	Filed herewith.
12.3	DPL	Statements Re: Computation of Ratios	Filed herewith.
12.4	ACE	Statements Re: Computation of Ratios	Filed herewith.
31.1	PHI	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.2	PHI	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.3	Pepco	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.4	Pepco	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.5	DPL	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.6	DPL	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.
31.7	ACE	Rule 13a-14(a)/15d-14(a) Certificate of Chief Executive Officer	Filed herewith.
31.8	ACE	Rule 13a-14(a)/15d-14(a) Certificate of Chief Financial Officer	Filed herewith.

INDEX TO EXHIBITS FURNISHED HEREWITH

Exhibit No.	Registrant(s)	Description of Exhibit
32.1	PHI	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
32.2	Pepco	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
32.3	DPL	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
32.4	ACE	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350

INDEX TO EXHIBITS SUBMITTED HEREWITH

Exhibit No.	Registrant(s)	Description of Exhibit
101.INS	PHI, Pepco, DPL, ACE	XBRL Instance Document
101.SCH	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Schema Document
101.CAL	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	PHI, Pepco, DPL, ACE	XBRL Taxonomy Extension Presentation Linkbase Document

<u>Exhibit 4.2</u>

CONFORMED COPY

This Instrument Prepared By:

<u>/s/Charlene Anderson</u>
Charlene Anderson
Delmarva Power & Light Company
800 King Street
Wilmington, DE 19801

DELMARVA POWER & LIGHT COMPANY

TO

THE BANK OF NEW YORK MELLON,
Trustee.

ONE HUNDRED AND SEVENTH SUPPLEMENTAL
INDENTURE

Dated as of January 1, 2011
(but executed on the dates shown on the execution page)

This **ONE HUNDRED AND SEVENTH SUPPLEMENTAL INDENTURE**, dated as of the first day of January, 2011 (but executed on the dates hereinafter shown), made and entered into by and between DELMARVA POWER & LIGHT COMPANY, a corporation of the State of Delaware and the Commonwealth of Virginia, hereinafter called the Company and THE BANK OF NEW YORK MELLON, a national banking association, hereinafter called the Trustee;

WITNESSETH:

WHEREAS, the Company heretofore executed and delivered its Indenture of Mortgage and Deed of Trust (hereinafter in this One Hundred and Seventh Supplemental Indenture called the "Original Indenture"), dated as of October 1, 1943, to the New York Trust Company, a corporation of the State of New York, as Trustee, to which The Bank of New York Mellon is successor Trustee, to secure the First Mortgage Bonds of the Company, unlimited in aggregate principal amount and issuable in series, from time to time, in the manner and subject to the conditions set forth in the Original Indenture granted and conveyed unto the Trustee, upon the trusts, uses and purposes specifically therein set forth, certain real estate, franchises and other property therein described, including property acquired after the date thereof, except as therein otherwise provided; and

WHEREAS, by one hundred and six indentures supplemental to said Original Indenture dated as of October 1, 1943, of which one hundred and six supplemental indentures the One Hundred and Sixth Supplemental Indenture is dated as of January 1, 2010, the Original Indenture has been modified and supplemented (hereinafter, as so supplemented and amended, called the "Indenture"); and

WHEREAS, the execution and delivery of this One Hundred and Seventh Supplemental Indenture has been duly authorized by Unanimous Written Consent of the Board of Directors of the Company, and all conditions and requirements necessary to make this One Hundred and Seventh Supplemental Indenture a valid, binding and legal instrument in accordance with its terms, for the purposes herein expressed, and the execution and delivery hereof, have been in all respects duly authorized; and

WHEREAS, it is provided in and by the Original Indenture, inter alia, as follows:

> "IT IS HEREBY AGREED by the Company that all the property, rights and franchises acquired by the Company after the date hereof (except any hereinbefore or hereinafter expressly excepted) shall (subject to the provisions of Section 9.01 hereof and to the extent permitted by law) be as fully embraced within the lien hereof as if such property, rights and franchises were now owned by the Company and/or specifically described herein and conveyed hereby;"

and

WHEREAS, the Company has acquired certain other property, real, personal and mixed, which heretofore has not been specifically conveyed to the Trustee;

NOW, THEREFORE, this ONE HUNDRED AND SEVENTH SUPPLEMENTAL INDENTURE WITNESSETH that for and in consideration of the premises and in pursuance of the provisions of the Indenture:

The Company has granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over and confirmed, and by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Trustee and to its successors in the trust in the Indenture created, to its and their assigns forever, all the following described properties of the Company, and does confirm that the Company will not cause or consent to a partition, either voluntary or through legal proceedings, of property, whether herein described or heretofore or hereafter acquired, in which its ownership shall be as tenant in common, except as permitted by, and in conformity with, the provisions of the Indenture and particularly of Article IX thereof:

State and County
DELAWARE
Sussex

Property Name	Received For Record	Book	Page	Tax Map No.
Tunnell Parcel	03/09/2010	3765	206	Map 233-9 Parcel 45
Tunnell Parcel	03/09/2010	3765	203	Map 233-9 Parcel 46
Moore Parcel	12/09/2010	3849	231	Map 233-14 Parcel 3
Moore Parcel	12/09/2010	3849	242	Map 233-14 Parcel 4
Wilkinson Holdings Parcel	03/04/2010	3767	8	Map 235-30 Parcel 37.08

State and County
MARYLAND
Cecil

Property Name	Received For Record	Book	Page	Tax Map No.
High Valley South Parcel	11/19/2010	2934	100	Map 19 Parcel 113

State and County
MARYLAND
Dorchester

Property Name	Received For Record	Book	Page	Tax Map No.
Parham Parcel	04/072010	973	145	Map 32 Parcel 144
Windsor Parcel	05/06/2010	979	27	Map 32 Parcel 184
Lou’s Lake Parcel	05/19/2010	981	69	Map 56 Parcel 12
Anatidae Farm Parcel	07/13/2010	989	297	Map 56 Parcel 163
Hubbard Family Parcel	09/28/2010	999	128	Map 32 Parcel 90

State and County
MARYLAND
Talbot

Property Name	Received For Record	Book	Page	Tax Map No.
Trappe East Parcel	11/23/2010	1848	209	Map 55 Parcel 85

State and County
MARYLAND
Wicomico

Property Name	Received For Record	Book	Page	Tax Map No.
Bogg Parcel	02/01/2010	3155	118	Map 8 Parcel 453

State and County
VIRGINIA
Accomack

Property Name	Received For Record	Book	Page	Tax Map No.
Wells Parcel	11/3/09	3123	099	Map 8 Parcel 112
Richardson Parcel	12/30/09	3143	075	Map 8 Parcel 6
Mt. Pleasant AUMP	12/30/09	3143	067	Map 8 Parcel 164

Together with all other property, real, personal and mixed, tangible and intangible (except such property as in said Indenture expressly excepted from the lien and operation thereof), acquired by the Company on or prior to December 31, 2009, and not heretofore specifically subjected to the lien of the Indenture.

Also without limitation of the generality of the foregoing, the easements and rights-of-way and other rights in or not used in connection with the Company's operations, which are conveyed to the Company and recorded in the following Real Property Deed Records to which reference is made for a more particular description, to wit:

State and County
DELAWARE
New Castle

Received For Record	Instrument No.	Tax ID No.
02/05/10	20100205-0006285	10-049.00-073
03/05/10	20100305-0011199	08-054.30-260
03/05/10	20100305-0011200	15-015.00-106
03/05/10	20100305-0011201	06-011.00-090
04/27/10	20100427-0020012	10-005.10-114 & 10-005.10-029
04/27/10	20100427-0020011	13-014.30-393, 13-014.30-394, 13-014.30-395, 13-014.30-396
04/27/10	20100427-0020016	11-023.00-057
04/27/10	20100427-0020015	11-021.30-008 thru 11-021.30-031, 11-021.40-001 thru 11-021.40-005, 11-026.10-001 thru 11-026.10-203

Received For Record	Instrument No.	Tax ID No.
04/27/10	20100427-0020014	13-008.40-093, 13-008.40-116, 13-008.40-100, 13-008.40-101, 13-008.40-109, 13-008.40-093, 13-008.40-110, 13-008.40-099, 13-008.40-106, 13-008.40-114, 13-008.40-103, 13-008.40-098, 13-008.40-095, 13-008.40-104, 13-008.40-108, 13-008.40-113, 13-008.40-097, 13-008.40-105, 13-008.40-102, 13-008.40-112, 13-008.40-117, 13-008.40-094, 13-008.40-096, 13-008.40-111, 13-008.40-107, 13-008.40-115, 13-008.40-118, 13-008.40-119
04/27/10	20100427-0020013	11-012.00-042
07/14/10	200100714-0036674	09-022.00-118
07/14/10	20100714-0036673	26-026.40-472 thru 26-026.40-474, 26-026.20-314, 26-027.30-001, 26-027.30-504 thru 27-027.30-507, 26-027.30-002, 26-027.10-159
07/14/10	20100714-0036676	14-019.00-170
07/14/10	20100714-0036675	09-034.00-005 thru .010, 09-034-00-051 & 09-030.00-058
09/02/10	20100902-0046271	07-046.20-269, 07-046.20-270 & 07-046.20-001
09/02/10	20100902-0046272	06-089.00-095
09/02/10	20100902-0046273	26-029.20-323, 26-029.20-327, 26-029.20-398, 26-029.20-398 thru 26-029.20-406
09/02/10	20100902-0046274	26-026.40-002, 26-026.20-015
11/05/10	20101105-0059779	15-022.00-063
11/15/10	20101105-0059778	See below for the list of lots this grant of easements covers

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
1	13-013.21-097	29	13-013.21-146	57	13-013.21-174
2	13-013.21-096	30	13-013.21-213	58	13-013.21-217
3	13-013.21-095	31	13-013.21-147	59	13-013.21-175
4	13-013.21-094	32	13-013.21-148	60	13-013.21-176
5	13-013.21-093	33	13-013.21-149	61	13-013.21-177
6	13-013.21-092	34	13-013.21-151	62	13-013.21-218
7	13-013.21-091	35	13-013.21-152	63	13-013.21-178
8	13-013.21-090	36	13-013.21-153	64	13-013.21-179
9	13-013.21-089	37	13-013.21-154	65	13-013.21-180
10	13-013.21-088	38	13-013.21-155	66	13-013.21-219
11	13-013.21-087	39	13-013.21-156	67	13-013.21-181
12	13-013.21-086	40	13-013.21-214	68	13-013.21-182
13	13-013.21-085	41	13-013.21-157	69	13-013.21-220
14	13-013.21-084	42	13-013.21-158	70	13-013.21-183
15	13-013.21-131	43	13-013.21-159	71	13-013.21-184
16	13-013.21-132	44	13-013.21-160	72	13-013.21-189
17	13-013.21-133	45	13-013.21-161	73	13-013.21-190
18	13-013.21-134	46	13-013.21-215	74	13-013.21-191
19	13-013.21-135	47	13-013.21-162	75	13-013.21-192
20	13-013.21-136	49	13-013.21-164	76	13-013.21-193
21	13-013.21-137	48	13-013.21-163	77	13-013.21-194
22	13-013.21-138	50	13-013.21-165	78	13-013.21-195
23	13-013.21-139	51	13-013.21-166	79	13-013.21-196
24	13-013.21-140	52	13-013.21-169	80	13-013.21-222
25	13-013.21-142	53	13-013.21-171	81	13-013.21-197
26	13-013.21-143	54	13-013.21-170	82	13-013.21-223
27	13-013.21-144	55	13-013.21-172	83	13-013.21-224
28	13-013.21-145	56	13-013.21-173	84	13-013.21-198

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
85	13-013.21-225	116	13-008.43-178	147	13-008.43-217
86	13-013.21-199	117	13-008.43-235	148	13-008.43-216
87	13-013.21-112	118	13-008.43-234	149	13-008.43-215
88	13-013.21-230	119	13-008.43-233	150	13-008.43-214
89	13-013.21-111	120	13-008.43-232	151	13-008.43-140
90	13-013.21-110	121	13-008.43-231	152	13-008.43-141
91	13-013.21-100	122	13-008.43-230	153	13-008.43-142
92	13-013.21-101	123	13-008.43-229	154	13-008.43-143
93	13-013.21-102	124	13-008.43-228	155	13-008.43-144
94	13-013.21-103	125	13-008.43-227	156	13-008.43-145
95	13-013.21-104	126	13-008.43-213	157	13-008.43-146
96	13-013.21-105	127	13-008.43-212	158	13-008.43-194
97	13-013.21-106	128	13-008.43-211	159	13-008.43-195
98	13-013.21-107	129	13-008.43-210	160	13-008.43-196
99	13-008.43-138	130	13-008.43-209	161	13-008.43-197
100	13-008.43-139	131	13-008.43-208	162	13-008.43-198
101	13-008.43-226	132	13-008.43-187	163	13-008.43-199
102	13-008.43-225	133	13-008.43-186	164	13-008.43-200
103	13-008.43-224	134	13-008.43-185	165	13-008.43-201
104	13-008.43-223	135	13-008.43-184	166	13-008.43-202
105	13-008.43-177	136	13-008.43-183	167	13-008.43-203
106	13-008.43-176	137	13-008.43-192	168	13-008.43-204
107	13-008.43-175	138	13-008.43-191	169	13-008.43-205
108	13-008.43-174	139	13-008.43-190	170	13-008.43-206
109	13-008.43-173	140	13-008.43-189	171	13-008.43-207
110	13-008.43-172	141	13-008.43-188	172	13-008.41-049
111	13-008.43-171	142	13-008.43-222	173	13-008.41-048
112	13-008.43-182	143	13-008.43-221	174	13-008.41-047
113	13-008.43-181	144	13-008.43-220	175	13-008.41-046
114	13-008.43-180	145	13-008.43-219	176	13-008.41-045
115	13-008.43-179	146	13-008.43-218	177	13-008.41-044

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
178	13-008.43-156	209	13-008.41-029	240	13-008.41-001
179	13-008.43-157	210	13-008.41-028	241	13-008.32-029
180	13-008.43-158	211	13-008.41-027	242	13-008.32-028
181	13-008.43-159	212	13-008.41-026	243	13-008.32-027
182	13-008.41-054	213	13-008.41-025	244	13-008.32-026
183	13-008.41-053	214	13-008.41-024	245	13-008.32-025
184	13-008.41-052	215	13-008.41-023	246	13-008.32-024
185	13-008.41-051	216	13-008.41-022	247	13-008.32-023
186	13-008.41-050	217	13-008.41-021	248	13-008.32-022
187	13-008.43-152	218	13-008.41-020	249	13-008.32-021
188	13-008.43-153	219	13-008.41-019	250	13-008.32-020
189	13-008.43-154	220	13-008.41-018	251	13-008.32-019
190	13-008.43-155	221	13-008.41-017	252	13-008.32-018
191	13-008.41-043	222	13-008.41-016	253	13-008.32-044
192	13-008.41-042	223	13-008.41-015	254	13-008.32-043
193	13-008.41-041	224	13-008.41-014	255	13-008.32-042
194	13-008.41-040	225	13-008.41-013	256	13-008.32-041
195	13-008.41-039	226	13-008.41-012	257	13-008.32-040
196	13-008.43-150	227	13-008.41-011	258	13-008.32-039
197	13-008.43-151	228	13-008.43-167	259	13-008.32-038
198	13-008.43-148	229	13-008.43-168	260	13-008.32-037
199	13-008.43-149	230	13-008.43-169	261	13-008.32-036
200	13-008.41-038	231	13-008.41-010	262	13-008.32-035
201	13-008.41-037	232	13-008.41-009	263	13-008.32-034
202	13-008.41-036	233	13-008.41-008	264	13-008.32-033
203	13-008.41-035	234	13-008.41-007	265	13-008.32-032
204	13-008.41-034	235	13-008.41-006	266	13-008.32-031
205	13-008.41-033	236	13-008.41-005	267	13-008.32-030
206	13-008.41-032	237	13-008.41-004	268	13-008.32-054
207	13-008.41-031	238	13-008.41-003	269	13-008.32-053
208	13-008.41-030	239	13-008.41-002	270	13-008.32-052

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
271	13-008.32-051	302	13-008.32-079	333	13-008.34-282
272	13-008.32-050	303	13-008.32-080	334	13-008.34-283
273	13-008.32-049	304	13-008.32-081	335	13-008.34-013
274	13-008.32-048	305	13-008.32-082	336	13-008.34-284
275	13-008.32-047	306	13-008.34-001	337	13-008.34-285
276	13-008.32-046	307	13-008.34-003	338	13-008.34-035
277	13-008.32-045	308	13-008.34-002	339	13-008.34-336
278	13-008.32-055	309	13-008.32-007	340	13-008.34-337
279	13-008.32-056	310	13-008.32-008	341	13-008.34-338
280	13-008.32-057	311	13-008.32-009	342	13-008.34-339
281	13-008.32-058	312	13-008.32-010	343	13-008.34-340
282	13-008.32-059	313	13-008.32-011	344	13-008.34-341
283	13-008.32-060	314	13-008.32-012	345	13-008.34-019
284	13-008.32-061	315	13-008.32-013	346	13-008.34-020
285	13-008.32-062	316	13-008.32-014	347	13-008.34-298
286	13-008.32-063	317	13-008.32-015	348	13-008.34-299
287	13-008.32-064	318	13-008.32-016	349	13-008.34-300
288	13-008.32-065	319	13-008.32-017	350	13-008.34-301
289	13-008.32-066	320	13-008.34-268	351	13-008.34-021
290	13-008.32-067	321	13-008.34-269	352	13-008.34-302
291	13-008.32-068	322	13-008.34-005	353	13-008.34-303
292	13-008.32-069	323	13-008.34-006	354	13-008.34-304
293	13-008.32-070	324	13-008.34-271	355	13-008.34-343
294	13-008.32-071	325	13-008.34-272	356	13-008.34-344
295	13-008.32-072	326	13-008.34-273	357	13-008.34-345
296	13-008.32-073	327	13-008.34-007	358	13-008.34-036
297	13-008.32-074	328	13-008.34-274	359	13-008.34-037
298	13-008.32-075	329	13-008.34-275	360	13-008.34-347
299	13-008.32-076	330	13-008.34-276	361	13-008.34-348
300	13-008.32-077	331	13-008.34-012	362	13-008.34-349
301	13-008.32-078	332	13-008.34-281	363	13-008.34-350

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
364	13-008.34-038	395	13-008.34-172	426	13-008.34-057
365	13-008.34-039	396	13-008.34-171	427	13-008.34-058
366	13-008.34-351	397	13-008.34-170	428	13-008.34-390
367	13-008.34-048	398	13-008.34-169	429	13-008.34-391
368	13-008.34-374	399	13-008.34-168	430	13-008.34-059
369	13-008.34-375	400	13-008.34-152	431	13-008.34-061
370	13-008.34-376	401	13-008.34-153	432	13-008.34-392
371	13-008.34-049	402	13-008.34-154	433	13-008.34-393
372	13-008.34-142	403	13-008.34-155	434	13-008.34-394
373	13-008.34-425	404	13-008.34-156	435	13-008.34-062
374	13-008.34-424	405	13-008.34-157	436	13-008.34-063
375	13-008.34-143	406	13-008.34-158	437	13-008.34-395
376	13-008.34-144	407	13-008.34-159	438	13-008.34-396
377	13-008.34-145	408	13-008.34-160	439	13-008.34-397
378	13-008.34-146	409	13-008.34-161	440	13-008.34-066
379	13-008.34-147	410	13-008.34-162	441	13-008.34-248
380	13-008.34-148	411	13-008.34-163	442	13-008.34-398
381	13-008.34-149	412	13-008.34-164	443	13-008.34-399
382	13-008.34-150	413	13-008.34-139	444	13-013.21-076
383	13-008.34-151	414	13-008.34-138	445	13-013.21-077
384	13-008.34-167	415	13-008.34-137	446	13-013.21-078
385	13-008.34-166	416	13-008.34-136	447	13-013.21-079
386	13-008.43-012	417	13-008.34-053	448	13-013.21-080
387	13-008.43-013	418	13-008.34-385	449	13-013.21-081
388	13-008.43-014	419	13-008.34-054	450	13-013.21-082
389	13-008.43-015	420	13-008.34-386	451	13-008.43-109
390	13-008.43-016	421	13-008.34-055	452	13-008.43-110
391	13-008.43-017	422	13-008.34-387	453	13-008.43-111
392	13-008.43-018	423	13-008.34-056	454	13-008.43-112
393	13-008.43-019	424	13-008.34-388	455	13-008.43-114
394	13-008.34-173	425	13-008.34-389	456	13-008.43-115

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
457	13-008.43-116	488	13-008.43-055	519	13-008.34-080
458	13-008.43-117	489	13-008.43-054	520	13-008.43-093
459	13-008,43-118	490	13-008.43-053	521	13-008.43-094
460	13-008.43-119	491	13-008.43-052	522	13-008.43-095
461	13-008.43-120	492	13-008.43-050	523	13-008.43-096
462	13-008.43-121	493	13-008.43-049	524	13-008.43-097
463	13-008.43-122	494	13-008.43-048	525	13-008.43-098
464	13-008.43-034	495	13-008.43-047	526	13-008.43-099
465	13-008.43-033	496	13-008.43-046	527	13-008.43-100
466	13-008.43-032	497	13-008.43-045	528	13-008.43-101
467	13-008.43-031	498	13-008.43-063	529	13-008.43-102
468	13-008.43-030	499	13-008.43-064	530	13-008.43-103
469	13-008.43-029	500	13-008.43-065	531	13-008.34-236
470	13-008.43-028	501	13-008.43-066	532	13-008.34-237
471	13-008.43-027	502	13-008.43-082	533	13-008.34-238
472	13-008.43-026	503	13-008.43-081	534	13-008.34-239
473	13-008.43-025	504	13-008.43-079	535	13-008.34-240
474	13-008.43-024	505	13-008.43-078	536	13-008.34-241
475	13-008.43-023	506	13-008.43-077	537	13-008.43-084
476	13-008.43-022	507	13-008.43-076	538	13-008.43-085
477	13-008.43-021	508	13-008.43-075	539	13-008.43-086
478	13-008.43-040	509	13-008.43-074	540	13-008.43-087
479	13-008.43-041	510	13-008.43-073	541	13-008.43-088
480	13-008.43-042	511	13-008.43-072	542	13-008.43-089
481	13-008.43-043	512	13-008.43-071	543	13-008.43-090
482	13-008.43-061	513	13-008.43-070	544	13-008.43-091
483	13-008.43-060	514	13-008.43-068	545	13-008.43-092
484	13-008.43-059	515	13-008.43-067	546	13-008.43-108
485	13-008.43-058	516	13-008.34-083	547	13-013.21-068
486	13-008.43-057	517	13-008.43-069	548	13-013.21-069
487	13-008.43-056	518	13-008.34-081	549	13-013.21-070

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
550	13-013.21-071	581	13-008.34-088	612	13-008.34-129
551	13-013.21-072	582	13-008.34-087	613	13-008.34-128
552	13-013.12-009	583	13-008.34-409	614	13-008.34-127
553	13-013.12-010	584	13-008.34-086	615	13-008.34-126
554	13-013.12-011	585	13-008.34-085	616	13-008.34-125
555	13-013.12-012	586	13-008.34-408	617	13-008.34-415
556	13-013.12-033	587	13-008.34-084	618	13-008.34-124
557	13-013.21-067	588	13-008.34-104	619	13-008.34-123
558	13-013.21-066	589	13-008.34-103	620	13-008.34-122
559	13-013.21-065	590	13-008.34-102	621	13-008.34-121
560	13-013.21-064	591	13-008.34-101	622	13-008.34-120
561	13-008.43-249	592	13-008.34-100	623	13-008.34-414
562	13-008.43-107	593	13-008.34-411	624	13-008.34-119
563	13-008.43-106	594	13-008.34-099	625	13-008.34-118
564	13-008.34-079	595	13-008.34-098	626	13-008.34-135
565	13-008.34-078	596	13-008.34-410	627	13-008.34-419
566	13-008.34-077	597	13-008.34-097	628	13-008.34-331
567	13-008.34-076	598	13-008.34-096	629	13-008.34-134
568	13-008.34-075	599	13-008.34-095	630	13-008.34-213
569	13-008.34-407	600	13-008.34-094	631	13-008.34-247
570	13-008.34-074	601	13-008.34-093	632	13-008.34-214
571	13-008.34-073	602	13-008.34-116	633	13-008.34-215
572	13-008.34-072	603	13-008.34-413	634	13-008.34-216
573	13-008.34-071	604	13-008.34-115	635	13-008.34-217
574	13-013.12-027	605	13-008.34-114	636	13-008.34-218
575	13-013.12-014	606	13-008.34-113	637	13-008.34-219
576	13-013.12-015	607	13-008.34-112	638	13-008.34-220
577	13-013.12-016	608	13-008.34-111	639	13-008.34-221
578	13-008.34-091	609	13-008.34-110	640	13-008.34-222
579	13-008.34-090	610	13-008.34-412	641	13-008.34-223
580	13-008.34-089	611	13-008.34-109	642	13-008.34-224

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
643	13-008.34-225	674	13-008.34-174	705	13-008.41-060
644	13-008.34-226	675	13-008.34-254	706	13-008.41-059
645	13-008.34-227	676	13-008.34-175	707	13-008.41-058
646	13-008.34-228	677	13-008.34-176	708	13-008.41-057
647	13-008.34-229	678	13-008.34-177	709	13-008.41-056
648	13-008.34-230	679	13-008.34-193	710	13-008.41-055
649	13-008.34-231	680	13-008.34-192	711	13-008.43-160
650	13-008.34-232	681	13-008.34-191	712	13-008.43-161
651	13-008.34-233	682	13-008.34-190	713	13-008.43-162
652	13-008.34-234	683	13-008.34-189	714	13-008.43-163
653	13-008.34-235	684	13-008.34-188	715	13-008.43-164
654	13-008.34-194	685	13-008.34-187	716	13-008.43-039
655	13-008.34-195	686	13-008.34-186	717	13-008.43-038
656	13-008.34-196	687	13-008.34-185	718	13-008.43-037
657	13-008.34-197	688	13-008.34-184	719	13-008.43-036
658	13-008.34-198	689	13-008.34-183	720	13-008.43-035
659	13-008.34-199	690	13-008.34-182	721	13-008.43-124
660	13-008.34-200	691	13-008.34-181	722	13-008.43-125
661	13-008.34-252	692	13-008.34-180	723	13-008.43-126
662	13-008.34-201	693	13-008.34-179	724	13-008.43-127
663	13-008.34-202	694	13-008.34-178	725	13-008.43-128
664	13-008.34-203	695	13-008.43-165	726	13-008.43-129
665	13-008.34-204	696	13-008.43-166	727	13-008.43-130
666	13-008.34-205	697	13-008.41-068	728	13-008.43-113
667	13-008.34-206	698	13-008.41-067	729	13-013.21-205
668	13-008.34-207	699	13-008.41-066	730	13-013.21-130
669	13-008.34-208	700	13-008.41-065	731	13-013.21-129
670	13-008.34-253	701	13-008.41-064	732	13-013.21-128
671	13-008.34-209	702	13-008.41-063	733	13-013.21-127
672	13-008.34-210	703	13-008.41-062	734	13-013.21-126
673	13-008.34-211	704	13-008.41-061	735	13-013.21-125

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
736	13-013.21-124	767	13-013.21-226	798	13-008.34-067
737	13-013.21-123	768	13-013.21-200	799	13-008.34-070
738	13-013.21-122	769	13-013.21-201	800	13-008.34-404
739	13-013.21-121	770	13-013.21-227	801	13-008.34-405
740	13-008.43-132	771	13-013.21-228	802	13-008.34-251
741	13-008.43-131	772	13-013.21-202	803	13-008.34-406
742	13-013.21-120	773	13-013.21-229	804	13-013.12-020
743	13-013.21-119	774	13-013.21-203	805	13-013.12-002
744	13-013.21-118	775	13-013.21-115	806	13-013.12-021
745	13-008.43-133	776	13-013.21-212	807	13-013.12-022
746	13-008.43-134	777	13-013.21-114	808	13-013.12-003
747	13-008.43-135	778	13-013.21-113	809	13-013.12-023
748	13-008.43-136	779	13-008.43-105	810	13-013.12-024
749	13-008.43-137	780	13-008.43-104	811	13-013.12-025
750	13-013.21-231	781	13-008.34-108	812	13-013.12-005
751	13-013.21-109	782	13-008.34-107	813	13-013.12-017
752	13-008.43-250	783	13-008.34-106	814	13-013.12-026
753	13-013.21-108	784	13-008.34-105	815	13-013.12-018
754	13-013.21-117	785	13-008.34-133	816	13-013.12-028
755	13-013.21-116	786	13-008.34-418	817	13-013.12-029
756	13-013.00-231	787	13-008.34-132	818	13-013.12-019
757	13-008.34-010	788	13-008.34-131	819	13-013.12-006
758	13-013.21-150	789	13-008.34-417	820	13-013.12-030
759	13-013.21-216	790	13-008.34-416	821	13-013.12-031
760	13-013.21-167	791	13-008.34-130	822	13-013.12-032
761	13-013.21-168	792	13-008.34-400	823	13-013.12-007
762	13-013.21-185	793	13-008.34-249	824	13-013.12-008
763	13-013.21-221	794	13-008.34-250	825	13-013.21-075
764	13-013.21-186	795	13-008.34-401	826	13-008.34-377
765	13-013.21-187	796	13-008.34-402	827	13-008.34-378
766	13-013.21-188	797	13-008.34-403	828	13-008.34-379

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
829	13-008.34-050	860	13-008.34-306	891	13-008.34-032
830	13-008.34-380	861	13-008.34-307	892	13-008.34-328
831	13-008.34-381	862	13-008.34-308	893	13-008.34-329
832	13-008.34-051	863	13-008.34-023	894	13-008.34-330
833	13-008.34-382	864	13-008.34-309	895	13-008.34-033
834	13-008.34-383	865	13-008.34-024	896	13-008.34-332
835	13-008.34-384	866	13-008.34-310	897	13-008.34-333
836	13-008.34-052	867	13-008.34-311	898	13-008.34-334
837	13-008.34-423	868	13-008.34-312	899	13-008.34-335
838	13-008.34-141	869	13-008.34-313	900	13-008.34-034
839	13-008.34-422	870	13-008.34-025	901	13-008.34-352
840	13-008.34-421	871	13-008.34-314	902	13-008.34-353
841	13-008.34-140	872	13-008.34-315	903	13-008.34-040
842	13-008.34-014	873	13-008.34-316	904	13-008.34-354
843	13-008.34-286	874	13-008.34-317	905	13-008.34-355
844	13-008.34-287	875	13-008.34-318	906	13-008.34-356
845	13-008.34-288	876	13-008.34-026	907	13-008.34-041
846	13-008.34-015	877	13-008.34-027	908	13-008.34-357
847	13-008.34-016	878	13-008.34-319	909	13-008.34-358
848	13-008.34-289	879	13-008.34-320	910	13-008.34-359
849	13-008.34-290	880	13-008.34-321	911	13-008.34-360
850	13-008.34-291	881	13-008.34-028	912	13-008.34-042
851	13-008.34-292	882	13-008.34-322	913	13-008.34-043
852	13-008.34-017	883	13-008.34-323	914	13-008.34-361
853	13-008.34-293	884	13-008.34-324	915	13-008.34-362
854	13-008.34-294	885	13-008.34-325	916	13-008.34-363
855	13-008.34-295	886	13-008.34-029	917	13-008.34-364
856	13-008.34-296	887	13-008.34-030	918	13-008.34-044
857	13-008.34-018	888	13-008.34-326	919	13-008.34-045
858	13-008.34-305	889	13-008.34-327	920	13-008.34-365
859	13-008.34-022	890	13-008.34-031	921	13-008.34-366

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
922	13-008.34-367		13-008.32-095		13-008.41-071
923	13-008.34-368		13-008.34-011		13-008.43-020
924	13-008.34-046		13-008.34-092		13-008.43-083
925	13-008.34-369		13-008.34-117		13-008.43-170
926	13-008.34-370		13-008.34-165		13-008.43-193
927	13-008.34-371		13-008,34-165		13-008.43-236
928	13-008.34-372		13-008.34-212		13-008.43-237
929	13-008.34-047		13-008.34-242		13-008.43-238
930	13-008.34-008		13-008.34-243		13-008.43-239
931	13-008.34-277		13-008.34-244		13-008.43-242
932	13-008.34-278		13-008.34-245		13-008.43-243
933	13-008.34-009		13-008.34-255		13-008.43-244
934	13-008.34-279		13-008.34-256		13-008.43-245
935	13-008.34-280		13-008.34-257		13-008.43-246
936	13-008.32-093		13-008.34-258		13-008.43-247
937	13-008.32-092		13-008.34-259		13-008.43-248
938	13-008.32-091		13-008.34-260		13-008.43-251
939	13-008.32-006		13-008.34-261		13-008.43-252
940	13-008.32-005		13-008.34-262		13-008.43-253
941	13-008.32-090		13-008.34-263		13-013.12-001
942	13-008.32-089		13-008.34-264		13-013.12-013
943	13-008.32-004		13-008.34-265		13-013.21-083
944	13-008.32-003		13-008.34-270		13-013.21-098
945	13-008.32-088		13-008.34-297		13-013.21-141
946	13-008.32-087		13-008.34-342		13-013.21-204
947	13-008.32-086		13-008.34-346		13-013.21-206
948	13-008.32-002		13-008.34-373		13-013.21-207
949	13-008.32-085		13-008.34-420		13-013.21-208
950	13-008.32-084		13-008.34-426		13-013.21-209
951	13-008.32-001		13-008.41-069		13-013.21-211
	13-008.32-094		13-008.41-070		13-013.21-232

Lot #	Tax Parcel Number	Lot #	Tax Parcel Number	Lot #	Tax Parcel Number
	13-013.21-233				
	13-008.32-083				
	13-008.34-246				
	13-008.34-266				
	13-008.34-267				
	13-013.21-210				
	13-013.23-037				
	13-008.34-004				
	13-008.43-147				
	13-013.21-099				

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DELAWARE

Kent

Received For Record	Instrument No.	Tax ID No.
03/08/10	2010-165889	7-00-10902-02-0600-0001
03/08/10	2010-165888	4-00-03800-01-0102-00001
07/15/10	2010-172918	6-09-18005-01-4201-00001
07/15/10	2010-172917	6-09-18005-01-4201-00001
07/15/10	2010-17216	7-00-104.20-01-30.00
09/03/10	2010-175511	Map 8-00-139.00-01-11.04-00001 Par 55431
09/03/10	2010-175512	Map 3-00-01600-01-7817-00001 Par 7817
10/13/10	2010-174460	05-075.00-01-3.00
11/29/10	2010-180200	NM-00-094.00-02-42.00-000 & NM-00-094.19-01-48.00-00
11/29/10	2010-180201	7-20-09401-01-0400-00001,7-20-09401-01-0200-0001,7-20-09401-01-0300-00001,7-20-09401-01-0400-00001,7-20-09401-01-0500-00001,7-20-09401-01-0600-00001,7-20-09401-0700-00001,7-20-09401-0800-00001,7-20-09401-01-0900-00001
11/29/10	2010-180202	7-00-11900-1202-000
11/29/10	2010-180203	4-00-04700-01-2000-00001

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Sussex

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01/20/10	3753	82	Map 1-34-17.00 Par 51.00
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04/27/10	3779	150	2-34 2.00 26.00
04/27/10	3779	146	5-31 12.00 84.04
04/27/10	3779	144	2-34 29.00 61.00
06/30/10	3801	94	3-30 15.13 44.00
06/30/10	3801	92	2-3 12.00 45.05
06/30/10	3801	90	2-30 26.00 19.00
06/30/10	3801	96	1-34 8.00 42.00
06/30/10	3801	88	2-34 5.00 10.00
07/16/10	3805	336	1-32 12.00 114.05
07/16/10	3805	341	1-35 19.08 162
07/16/10	3805	338	4 13.00 171.01
11/08/10	3839	244	3-32 1.00 59.00

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Caroline

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04/28/10	906	499	Map 21 Par 20 Lots 1-5
04/28/10	906	501	Map 25 Lot 3 P 1st Lot 4P 1st
04/28/10	906	503	Map 25 Lot 3 & 4 P 3rd
09/03/10	923	307 313	Map 23 Par 7
11/08/10	932	470	Par 722
11/08/10	932	472	Par 170
11/08/10	932	474	Map 104 Par 855

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Cecil

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03/09/10	2806	116	Map 32 Par 468
03/09/10	2806	118	Map 32 Par 495
03/09/10	2806	120	Map 21 Par 197 (All inclusive)
03/09/10	2806	122	Map 500 Par 77
07/16/10	2868	258	Map Cecil 3-F-8 Par 511
07/16/10	2868	256	Map Cecil 3-F-8 Par 511
07/16/10	2868	260	Map 30 Par 11
07/16/10	2686	265	Map 22 Par 253
07/16/10	2868	267	Map 26 Par 675 (Lot 1)
07/16/10	2868	269	Map 26 Par 270
07/16/10	2868	271	Map 26 Par 675 (Lot 2 & 3)
07/16/10	2868	262	Map Cecil 3-H-5 600 Par 54
09/20/10	2898	193	Map 8 Par 127
09/20/10	2898	191	Map 8 Par 234
09/20/10	2898	188	Map 8 Par 206
09/20/10	2898	201	Map 26 Par 621 (Lot 3A)
09/20/10	2898	195	Map 5 Par 65
09/20/10	2898	197	Map 315 Par 2377 (All lots inclusive)
09/20/10	2898	199	Map 19 Par 49
09/20/10	2898	186	Map 16 Par 2
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09/21/10	2899	081	Map 22 Par 252
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12/13/10	2947	142	Par 301 Map 37
12/13/10	2947	140	Par 75 Map 37
12/13/10	2947	151	Par 40 Map 43
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12/13/10	2947	156	Par 49 Map 19 Lt 4
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12/13/10	2947	160	Par 176 Map 02
12/13/10	2947	162	Par 21 Map 02
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State and County

VIRGINIA

Accomack

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The following is a schedule of bonds issued under the Eighty-Eighth Supplemental Indenture and Credit Line Deed of Trust, effective as of October 1, 1994, that can be designated as First Mortgage Bonds, Series I, which may also be designated as Secured Medium Term Notes, Series I; and First Mortgage Bonds, Pledged Series I.

First Mortgage Bonds, Series I/Secured Medium Term Notes, Series I

Issuance Date	Tranche	Maturity	Principal
06/19/95	7.71% Bonds	06/01/25	$ 100,000,000
06/19/95	6.95% Amortizing Bonds	06/01/08	$ 25,800,000
11/25/08	6.40% Bonds	12/01/13	$ 250,000,000

First Mortgage Bonds, Pledged Series I

Issuance Date	Tranche	Maturity	Principal
10/12/94	1994	10/01/29	$ 33,750,000
Total Bonds Issued:			$ 409,550,000

As supplemented and amended by this One Hundred and Seventh Supplemental Indenture, the Original Indenture and all indentures supplemental thereto are in all respects ratified and confirmed and the Original Indenture and the aforesaid supplemental indentures and this One Hundred and Seventh Supplemental Indenture shall be read, taken and construed as one and the same instrument.

This One Hundred and Seventh Supplemental Indenture shall be simultaneously executed in several counterparts, and all such counterparts executed and delivered, each as an original, shall constitute but one and the same instrument.

The recitals of fact contained herein shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same.

The debtor and its mailing address are Delmarva Power & Light Company, Mailstop 92DC42, 500 N. Wakefield Drive, Newark, Delaware 19702-5440. The secured party and its address, from which information concerning the security interest hereunder may be obtained, is The Bank of New York Mellon, 525 William Penn Place — 38th Floor, Pittsburgh, Pennsylvania 15259, Attn.: Corporate Finance.

The Company acknowledges that it received a true and correct copy of this One Hundred and Seventh Supplemental Indenture.

This One Hundred and Seventh Supplemental Indenture is executed and delivered pursuant to the provisions of Section 5.11 and paragraph (a) of Section 17.01 of the Indenture for the purpose of conveying, transferring and assigning to the Trustee and of subjecting to the lien of the Indenture with the same force and effect as though included in the granting clause thereof the above described property so acquired by the Company on or prior to the date of execution, and not heretofore specifically subject to the lien of the Indenture; but nothing contained in this One Hundred and Seventh Supplemental Indenture shall be deemed in any manner to affect (except for such purposes) or to impair the provisions, terms and conditions of the Original Indenture, or of any indenture supplemental thereto and the provisions, terms and conditions thereof are hereby expressly confirmed.

The recitals hereinabove set forth are made solely by the Company and the Trustee shall have no responsibility therefor.

(SIGNATURE PAGE FOLLOWS)

IN WITNESS WHEREOF, the Company has caused this instrument to be signed in its name and behalf by its President, and its corporate seal to be hereunto affixed and attested by its Assistant Secretary and the Trustee has caused this instrument to be signed in its name and behalf by a Vice President and its corporate seal to be hereunto affixed and attested by an authorized officer, effective as of the 1st day of January, 2011.

DELMARVA POWER & LIGHT COMPANY

Date of Execution

April 8, 2011

By /s/ David M. Velazquez
DAVID M. VELAZQUEZ, PRESIDENT

Attest:

/s/ Jeffery E. Snyder
JEFFERY E. SNYDER, ASSISTANT SECRETARY

THE BANK OF NEW YORK MELLON,
as Trustee

Date of Execution

April 12, 2011

By /s/ Thomas J. Provenzano
THOMAS J. PROVENZANO, VICE PRESIDENT

Attest:

/s/ Jake McGlynn
Trust Associate,

DISTRICT OF COLUMBIA: SS.

BE IT REMEMBERED that on this 8th day of April, 2011, personally came before me, a notary public for the District of Columbia, David M. Velazquez, President of DELMARVA POWER & LIGHT COMPANY, a corporation of the State of Delaware and the Commonwealth of Virginia (the “Company”), party to the foregoing instrument, known to me personally to be such, and acknowledged the instrument to be his own act and deed and the act and deed of the Company; that his signature is in his own proper handwriting; that the seal affixed is the common or corporate seal of the Company; and that his act of signing, sealing, executing and delivering such instrument was duly authorized by resolution of the Board of Directors of the Company.

GIVEN under my hand and official seal the day and year aforesaid.

/s/ Linda J. Epperly
Notary Public, District of Columbia
My commission expires January 1, 2015

Certification

This document was prepared under the supervision of an attorney admitted to practice before the Court of Appeals of Maryland, or by or on behalf of one of the parties named in the within instrument.

/s/ Charlene Anderson
Charlene Anderson

COMMONWEALTH OF PENNSYLVANIA)
) SS.
COUNTY OF ALLEGHENY)

BE IT REMEMBERED that on this 12th day of April, 2011, personally came before me, a Notary Public for the Commonwealth of Pennsylvania, Thomas J. Provenzano, Vice President of THE BANK OF NEW YORK MELLON, a national banking association (the “Trustee”), party to the foregoing instrument, known to me personally to be such, and acknowledged the instrument to be her own act and deed and the act and deed of the Trustee; that her signature is her own proper handwriting; that the seal affixed is the common or corporate seal of the Trustee; and that her act of signing, sealing, executing and delivering said instrument was duly authorized by resolution of the Board of Directors of the Trustee.

GIVEN under my hand and official seal the day and year aforesaid.

/s/ Leslie Lockhart
Notary Public, Commonwealth of Pennsylvania
My commission expires June 4, 2014

[Seal]

CERTIFICATE OF RESIDENCE

THE BANK OF NEW YORK MELLON, successor Trustee to the Trustee within named, hereby certifies that it has a residence at 525 William Penn Place — 38th Floor, Pittsburgh, Pennsylvania 15259.

THE BANK OF NEW YORK MELLON

By /s/ Thomas J. Provenzano

Exhibit 10.1

EXECUTION COPY

CUSIP Number: 713292AJ9

$1,500,000,000

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

AMONG

PEPCO HOLDINGS, INC.,

POTOMAC ELECTRIC POWER COMPANY,

DELMARVA POWER & LIGHT COMPANY

and

ATLANTIC CITY ELECTRIC COMPANY,
as Borrowers,

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Agent, Issuer and Swingline Lender,

BANK OF AMERICA, N.A.,
as Syndication Agent and Issuer,

and

THE ROYAL BANK OF SCOTLAND PLC

and

CITICORP USA, INC.,
as Co-Documentation Agents

with

WELLS FARGO SECURITIES, LLC

and

MERRILL LYNCH, PIERCE, FENNER AND SMITH INCORPORATED,
as Active Joint Lead Arrangers and Joint Book Runners

and

CITIGROUP GLOBAL MARKETS INC.

and

RBS SECURITIES, INC.
as Passive Joint Lead Arrangers and Joint Book Runners

Dated as of August 1, 2011

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SECOND AMENDED AND RESTATED CREDIT AGREEMENT

This SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of August 1, 2011, is among Pepco Holdings, Inc. ("PHI"), Potomac Electric Power Company ("PEPCO"), Delmarva Power & Light Company ("DPL"), Atlantic City Electric Company ("ACE" and, together with PHI, PEPCO and DPL, each a "Borrower" and collectively the "Borrowers"), various financial institutions (together with their respective successors and assigns and any financial institution that becomes party hereto pursuant to Sections 2.2 or 2.4 hereof, each a "Lender" and collectively the "Lenders"), Bank of America, N.A., as syndication agent (the "Syndication Agent") and as an Issuer (as defined below), and Wells Fargo Bank, National Association, as Agent (as defined below), as Swingline Lender (as defined below) and as an Issuer.

W I T N E S S E T H:

WHEREAS, the Borrowers have requested that the Lenders, the Swingline Lender and the Issuers make loans and other financial accommodations to the Borrowers in an aggregate amount of up to $1,500,000,000, as such amount may be increased or decreased pursuant to the terms hereof, as more particularly described herein; and

WHEREAS, the Lenders, Swingline Lender and the Issuers have agreed to make such loans and other financial accommodations to the Borrowers and to amend and restate the Existing Credit Agreement (as defined below) on the terms and conditions contained herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, such parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. As used in this Agreement:

"ACE" is defined in the preamble.

"Administrative Questionnaire" means an administrative questionnaire, substantially in the form supplied by the Agent, completed by a Lender and furnished to the Agent in connection with this Agreement.

"Advance" means a borrowing hereunder (i) made by the Lenders on the same Borrowing Date or (ii) converted or continued by the Lenders on the same date of conversion or continuation, consisting, in either case, of the aggregate amount of the several Revolving Loans of the same Type made to the same Borrower and, in the case of Eurodollar Loans, for the same Interest Period. "Advance" shall include the borrowing of Swingline Loans.

"Affected Lender" is defined in Section 3.7.

"Affiliate" of any Person means any other Person directly or indirectly controlling, controlled by or under common control with such Person. A Person shall be deemed to control another Person if the controlling Person owns 10% or more of any class of voting securities (or other ownership interests) of the controlled Person or possesses, directly or indirectly, the power to direct or cause the direction of the management or policies of the controlled Person, whether through ownership of stock, by contract or otherwise. For purposes of Section 5.20, no person shall be an "Affiliate" of PHI solely by reason of owning less than a majority of any class of voting securities of PHI.

"Agent" means Wells Fargo in its capacity as contractual representative of the Lenders as more fully defined pursuant to Article X, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Article X.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders, (a) as increased from time to time pursuant to Section 2.2 or (b) as reduced from time to time pursuant to the terms hereof.

"Agreement" means this Second Amended and Restated Credit Agreement as amended, restated, supplemented or otherwise modified from time to time.

"Agreement Accounting Principles" means generally accepted accounting principles as in effect from time to time, applied, with respect to each Borrower, in a manner consistent with that used in preparing such Borrower's financial statements referred to in Section 5.4.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to (a) the highest of (i) the Prime Rate for such day, (ii) the sum of the Federal Funds Effective Rate for such day plus 0.5% and (iii) the sum of (A) the Eurodollar Base Rate for an Interest Period of one (1) month commencing on such day plus (B) 1.0%, in each instance as of such date of determination plus (b) the Applicable Margin. To the extent that the provisions of Section 3.3 shall be in effect in determining the Eurodollar Base Rate pursuant to clause (iii) hereof, the Alternate Base Rate shall be the greater of (1) the Prime Rate in effect for such day and (2) the Federal Funds Effective Rate in effect on such day plus 0.5%. Any change in the Alternate Base Rate due to a change in any of the foregoing will become effective on the effective date of such change in the Federal Funds Rate, the Prime Rate or Eurodollar Rate for an Interest Period of one (1) month.

"Alternate LC Issuer" means, with respect to Letters of Credit issued hereunder after the Closing Date, any Lender other than Wells Fargo or Bank of America, N.A. that issues a Letter of Credit upon the request of any Borrower, which Lender is reasonably acceptable to the Agent.

"Applicable Governmental Authorities" means, with respect to any Borrower, FERC and any other federal or state governmental authority that has the power to regulate the amount, terms or conditions of short-term debt of such Borrower.

"Applicable Margin" means, with respect to Eurodollar Advances or Floating Rate Advances to any Borrower at any time, the percentage rate per annum which is applicable at such time with respect to Eurodollar Advances or Floating Rate Advances to such Borrower in accordance with the provisions of the Pricing Schedule.

"Arranger" means each of Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner and Smith Incorporated, in its capacity as an active joint lead arranger and active joint book runner, and each of Citigroup Global Markets Inc. and The Royal Bank of Scotland plc, in its capacity as a passive joint lead arranger and joint book runner, and each of their respective successors.

"Assignment Agreement" means an agreement substantially in the form of Exhibit B.

"Authorized Officer" means, with respect to any Borrower, any of the President, any Vice President, the Chief Financial Officer, the Treasurer or any Assistant Treasurer of such Borrower, acting singly.

"Bankruptcy Code" means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

"Borrower" is defined in the preamble.

"Borrowing Date" means a date on which an Advance is made hereunder.

"Borrowing Notice" is defined in Section 2.10.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Charlotte, North Carolina and New York, New York for the conduct of substantially all of their commercial lending activities, interbank wire transfers can be made on the Fedwire system and dealings in Dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Charlotte, North Carolina for the conduct of substantially all of their commercial lending activities and interbank wire transfers can be made on the Fedwire system.

"Capitalized Lease" of a Person means any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Capitalized Lease Obligations" of a Person means the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with Agreement Accounting Principles.

"Cash Collateral Account" is defined in Section 2.22.1(ii).

"Cash Collateralize" means to pledge and deposit with or deliver to the Agent, for the benefit of an Issuer and the Non-Defaulting Lenders, as collateral for LC Obligations or obligations in respect of Swingline Loans, (a) cash or deposit account balances, (b) a letter of credit (which is not a Letter of Credit) or (c) if an Issuer benefiting from such collateral shall agree in its sole discretion, other credit support, in each of cases (a) through (c), pursuant to documentation in form and substance reasonably satisfactory to (1) the Agent and (2) the applicable Issuer. "Cash Collateral" shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Change in Control" means an event or series of events by which (a) any Person, or two or more Persons acting in concert, acquire beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934) of 30% or more (by number of votes) of the outstanding shares of Voting Stock of PHI; or (b) individuals who on the Closing Date were directors of PHI (the "Approved Directors") shall cease for any reason to constitute a majority of the board of directors of PHI; provided that any individual becoming a member of such board of directors subsequent to such date whose election or nomination for election by PHI's shareholders was approved by a majority of the Approved Directors shall be deemed to be an Approved Director, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any Person, or two or more Persons acting in concert, other than a solicitation for the election of one or more directors by or on behalf of the board of directors.

“Change in Law” means the occurrence, after the Closing Date, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any rule, guideline or directive by any Governmental Authority; provided, that notwithstanding anything herein to the contrary, (i) all rules, guidelines or directives promulgated under or issued in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act after the Closing Date and (ii) all rules, guidelines or directives promulgated, issued, adopted or implemented by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to “Basel III: A global regulatory framework for more resilient banks and banking systems,” after the Closing Date shall, in the case of each of (i) and (ii) above, be deemed to be a “Change in Law”.

“Closing Date” means the date on which all conditions precedent to the execution and delivery of this Agreement by the parties have been satisfied.

“Code” means the Internal Revenue Code of 1986.

“Commitment” means, for each Lender, the obligation of such Lender to make Revolving Loans and to participate in Swingline Loans and in Letters of Credit, in an aggregate amount not exceeding the amount set forth on Schedule 2 or as set forth in any Assignment Agreement relating to any assignment that has become effective pursuant to Section 12.3.2, as such amount may be modified from time to time pursuant to the terms hereof.

“Consent Date” is defined in Section 2.4.

“Consenting Lender” is defined in Section 2.4.

“Contingent Obligation” of a Person means any agreement, undertaking or arrangement by which such Person assumes, guarantees, endorses, contingently agrees to purchase or provide funds for the payment of, or otherwise becomes or is contingently liable upon, the obligation or liability of any other Person, or agrees to maintain the net worth or working capital or other financial condition of any other Person, or otherwise assures any creditor of such other Person against loss, including any comfort letter, operating agreement, take or pay contract, application for a letter of credit or the obligations of any such Person as general partner of a partnership with respect to the liabilities of such partnership; provided that Contingent Obligations shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed equal to the stated or determinable amount of the primary obligation of such other Person or, if such amount is not stated or is indeterminable, the maximum reasonably anticipated liability of such Person in respect thereof.

“Controlled Group” means all members of a controlled group of corporations or other business entities and all trades or businesses (whether or not incorporated) under common control which, together with any Borrower or any of its Subsidiaries, are treated as a single employer under Section 414 of the Code.

“Conversion/Continuation Notice” is defined in Section 2.11.

“Credit Extension” means the making of an Advance or the issuance of, or extension of the expiry date for or increase in the amount of, a Letter of Credit.

"Debtor Relief Laws" means the Bankruptcy Code and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect.

"Default" means an event described in Article VII.

"Defaulting Lender" means, subject to Section 2.23.2, any Lender that, (a) has failed to (i) fund all or any portion of its Loans within two Business Days of the date such Loans were required to be funded hereunder unless such Lender notifies the Agent and the Borrowers in writing that such failure is the result of such Lender's determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable Default, shall be specifically identified in such writing) has not been satisfied, or (ii) pay to the Agent, any Issuer, any Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two Business Days of the date when due, (b) has notified the Borrowers, the Agent or any Issuer or Swingline Lender in writing that it does not intend to comply with its funding obligations hereunder, or has made a public statement to that effect (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's determination that a condition precedent to funding (which condition precedent, together with any applicable Default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) has failed, within five (5) Business Days after written request by the Agent or the Borrowers, to confirm in writing to the Agent and the Borrowers that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Agent and the Borrowers), or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, or (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Agent that a Lender is a Defaulting Lender under clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.23.2) upon delivery of written notice of such determination to the Borrowers, each Issuer, each Swingline Lender and each Lender.

"Defaulting Lender Amount" is defined in Section 2.23.1(iv).

"Dollar" and "$" means lawful currency of the United States.

"DPL" is defined in the preamble.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, judicial decisions, regulations, ordinances, rules, judgments, orders, decrees, plans, injunctions, permits, concessions, grants, franchises, licenses, agreements and other governmental restrictions relating to (i) the protection of the environment, (ii) the effect of the environment on human health, (iii) emissions, discharges or releases of pollutants, contaminants, hazardous substances or wastes into surface water, ground water or land, or (iv) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, hazardous substances or wastes or the clean-up or other remediation thereof.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"Eurodollar Advance" means an Advance which, except as otherwise provided in Section 2.13, bears interest at the applicable Eurodollar Rate or, if such Advance is a Swingline Loan, the Eurodollar Market Index Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1.0%) appearing on Reuters Screen LIBOR01 Page (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 A.M. (London time) two (2) Business Days prior to the first day of such Interest Period having a maturity equal to such Interest Period. If for any reason such rate is not available, then "Eurodollar Base Rate" means the rate per annum at which, as determined by the Agent in accordance with its customary practices, Dollars in an amount comparable to the Loans then requested are being offered to leading banks at approximately 11:00 A.M. (London time), two (2) Business Days prior to the commencement of the applicable Interest Period for settlement in immediately available funds by leading banks in the London interbank market for a period equal to the Interest Period selected.

"Eurodollar Loan" means a Loan which, except as otherwise provided in Section 2.13, bears interest at the applicable Eurodollar Rate or, if such Loan is a Swingline Loan, the Eurodollar Market Index Rate.

"Eurodollar Market Index Rate" means, with respect to a Swingline Loan, for any day, the sum of (i) the quotient of (a) the Eurodollar Base Rate for an Interest Period of one (1) month, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Eurodollar Rate" means, with respect to a Eurodollar Advance (other than a Swingline Loan) for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Excluded Taxes" means, in the case of each Lender or applicable Lending Installation, each Issuer, the Swingline Lender and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which such Lender, such Issuer, the Swingline Lender or the Agent is incorporated or organized or (ii) the jurisdiction in which such Lender's, such Issuer's, the Swingline Lender's or the Agent's principal executive office or such Lender's applicable Lending Installation is located.

"Existing Credit Agreement" means that certain Amended and Restated Credit Agreement, dated as of May 2, 2007, by and among the Borrowers, the lenders party thereto, Citicorp USA, Inc., as syndication agent and Wells Fargo Bank, National Association (successor-by-merger to Wachovia Bank, National Association), as administrative agent.

"Existing Letters of Credit" means the letters of credit listed on Schedule 5.

"Extension Date" is defined in Section 2.4.

“Extension Notice” is defined in Section 2.4.

“Facility Fee Rate” means, at any time for any Borrower, the “Facility Fee Rate” applicable for such Borrower at such time in accordance with the provisions of the Pricing Schedule.

“Facility Termination Date” means, with respect to any Borrower, the fifth anniversary of the Closing Date, as such date may be extended from time to time pursuant to Section 2.4, or any earlier date on which such Borrower’s Sublimit is reduced to zero or the obligations of the Lenders to make Credit Extensions to such Borrower is terminated pursuant to Section 8.1.

“Federal Funds Effective Rate” means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published on the next succeeding Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

“FERC” means the Federal Energy Regulatory Commission.

“Floating Rate Advance” means an Advance which, except as otherwise provided in Section 2.13, bears interest at the Alternate Base Rate.

“Floating Rate Loan” means a Loan which, except as otherwise provided in Section 2.13, bears interest at the Alternate Base Rate.

“FRB” means the Board of Governors of the Federal Reserve System and any successor thereto.

“Fronting Exposure” means, at any time there is a Defaulting Lender, (a) with respect to any Issuer, such Defaulting Lender’s Pro Rata Share of the outstanding LC Obligations with respect to Letters of Credit issued by such Issuer other than LC Obligations as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders, funded by such Defaulting Lender or Cash Collateralized by such Defaulting Lender in accordance with the terms hereof, and (b) with respect to any Swingline Lender, such Defaulting Lender’s Pro Rata Share of outstanding Swingline Loans made by such Swingline Lender other than Swingline Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders, funded by such Defaulting Lender or Cash Collateralized by such Defaulting Lender in accordance with the terms hereof.

“Governmental Authority” means the government of the United States, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Granting Lender” is defined in Section 12.5.

“Hybrid Securities” means any trust preferred securities, or deferrable interest subordinated debt with a maturity of at least 20 years, which provides for the optional or mandatory deferral of interest or distributions, issued by any Borrower, or any business trusts, limited liability companies, limited partnerships or similar entities (i) substantially all of the common equity, general partner or similar interest of which are owned (either directly or indirectly through one or more wholly owned Subsidiaries) at all times by such Borrower or any of its Subsidiaries, (ii) that have been formed for the purpose of issuing hybrid securities or deferrable interest subordinated debt, and (iii) substantially all the assets of which consist of (A) subordinated debt of such Borrower or a Subsidiary of such Borrower, and (B) payments made from time to time on the subordinated debt.

"Increase Notice" is defined in Section 2.2.

"Indebtedness" of a Person means, without duplication, such Person's (i) obligations for borrowed money, (ii) obligations representing the deferred purchase price of Property or services (other than accounts payable arising in the ordinary course of such Person's business payable on terms customary in the trade), (iii) obligations, whether or not assumed, secured by Liens or payable out of the proceeds or production from Property now or hereafter owned or acquired by such Person, (iv) obligations which are evidenced by notes, bonds, debentures, acceptances or similar instruments, (v) obligations of such Person to purchase accounts, securities or other Property arising out of or in connection with the sale of the same or substantially similar accounts, securities or Property, (vi) Capitalized Lease Obligations, (vii) net liabilities under interest rate swap, exchange or cap agreements, obligations or other liabilities with respect to accounts or notes, (viii) obligations under any Synthetic Lease which, if such Synthetic Lease were accounted for as a Capitalized Lease, would appear on a balance sheet of such Person, (ix) unpaid reimbursement obligations in respect of letters of credit issued for the account of such Person and (x) Contingent Obligations in respect of Indebtedness of the types described above.

"Initial Sublimit" means, with respect to each Borrower, the amount set forth opposite its name in the table below:

Borrower	Initial Sublimit
PHI	$750,000,000
PEPCO	$250,000,000
DPL	$250,000,000
ACE	$250,000,000

"Intangible Transition Property" means assets described as "bondable transition property" in the New Jersey Transition Bond Statute.

"Interest Period" means, with respect to a Eurodollar Advance (other than a Swingline Loan), a period of one, two, three or six months commencing on a Business Day selected by the applicable Borrower pursuant to this Agreement; provided that with respect to any period during the period commencing 30 days prior to the Facility Termination Date, the applicable Borrower may select a period of one or two weeks commencing on a Business Day selected by such Borrower pursuant to this Agreement. Such one, two, three or six month Interest Period shall end on the day which corresponds numerically to such date one, two, three or six months thereafter, provided that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, provided that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day. No Borrower may select an Interest Period which ends after the scheduled Facility Termination Date. No more than eight (8) Eurodollar Loans may be in effect at any time.

"ISP" means, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

"Issuer" means (a) with respect to Letters of Credit issued hereunder after the Closing Date, Wells Fargo, Bank of America, N.A. or an Alternate LC Issuer, in each case in its capacity as issuer of such Letters of Credit and (b) with respect to the Existing Letters of Credit, the issuer of such Existing Letters of Credit as set forth on Schedule 5, which such Existing Letters of Credit may each be replaced or renewed with a Letter of Credit issued by Wells Fargo, Bank of America, N.A. or an Alternate LC Issuer.

"Issuer Documents" means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the Issuer and a Borrower (or any Subsidiary) or in favor of the Issuer and relating to such Letter of Credit.

"LC Fee Rate" means, at any time for any Borrower, the "LC Fee Rate" applicable for such Borrower at such time in accordance with the provisions of the Pricing Schedule.

"LC Obligations" means, with respect to any Borrower at any time, the sum, without duplication, of (a) the aggregate undrawn stated amount of all Letters of Credit issued for the account of such Borrower at such time plus (b) all Reimbursement Obligations of such Borrower at such time. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"Lender" is defined in the preamble.

"Lender Termination Date" is defined in Section 2.4.

"Lending Installation" means, with respect to a Lender, the office, branch, subsidiary or affiliate of such Lender specified as such in its Administrative Questionnaire or otherwise selected by such Lender pursuant to Section 2.19.

"Letter of Credit" means any letter of credit issued pursuant to Section 2.21.1 and any Existing Letter of Credit.

"Letter of Credit Application" is defined in Section 2.21.3.

"Letter of Credit Payment Date" is defined in Section 2.21.5.

"Letter of Credit Sublimit" means the lesser of (a) $500,000,000 and (b) the Aggregate Commitment. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitment.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including the interest of a vendor or lessor under any conditional sale, Capitalized Lease or other title retention agreement, but excluding the interest of a lessor under any operating lease).

"Loans" means the collective reference to the Revolving Loans and the Swingline Loans.

"Loan Documents" means this Agreement, the Notes, the Letters of Credit and the Letter of Credit Applications.

"Material Adverse Effect" means, with respect to any Borrower, a material adverse effect on (i) the business, Property, financial condition or results of operations of such Borrower and its Subsidiaries taken as a whole, (ii) the ability of such Borrower to perform its obligations under the Loan Documents or (iii) the validity or enforceability of any of the Loan Documents to which such Borrower is a party or the rights or remedies of the Agent, the Issuers, the Swingline Lender or the Lenders against such Borrower thereunder; provided that in no event shall any Permitted PHI Asset Sale, individually or in the aggregate, be deemed to cause or result in a Material Adverse Effect.

"Material Indebtedness" is defined in Section 7.5.

"Maximum Sublimit"

Borrower	Maximum Sublimit
PHI	$1,250,000,000
ACE	Lesser of (a) $500,000,000 and (b) the maximum amount of short-term debt that ACE is authorized to have outstanding by Applicable Governmental Authorities minus any other applicable short-term debt of ACE.
DPL	Lesser of (a) $500,000,000 and (b) the maximum amount of short-term debt that DPL is authorized to have outstanding by Applicable Governmental Authorities minus any other applicable short-term debt of DPL.
PEPCO	Lesser of (a) $500,000,000 and (b) the maximum amount of short-term debt that PEPCO is authorized to have outstanding by Applicable Governmental Authorities minus any other applicable short-term debt of PEPCO.

"Modify" and "Modification" are defined in Section 2.21.1.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a Plan maintained pursuant to a collective bargaining agreement or any other arrangement to which any Borrower or any other member of the Controlled Group is a party to which more than one employer is obligated to make contributions.

"Net Worth" means, with respect to any Borrower at any time, the sum, without duplication, at such time of (a) such Borrower's stockholders' equity plus (b) all Preferred Stock of such Borrower (excluding any Preferred Stock which is mandatorily redeemable on or prior to the scheduled Facility Termination Date).

"New Jersey Transition Bond Statute" means the New Jersey Electric Discount and Energy Corporation Act as in effect on the date hereof.

"Non-Consenting Lender" is defined in Section 2.4.

"Non-Defaulting Lender" means, at any time, each Lender that is not a Defaulting Lender at such time.

"Nonrecourse Indebtedness" means, with respect to a Borrower, Indebtedness of such Borrower or any Subsidiary of such Borrower (excluding Nonrecourse Transition Bond Debt) secured by a Lien on the Property of such Borrower or such Subsidiary, as the case may be, the sole recourse for the payment of which is such Property and where neither PHI nor any of its Subsidiaries is liable for any deficiency after the application of the proceeds of such Property.

"Nonrecourse Transition Bond Debt" means obligations evidenced by Transition Bonds rated investment grade or better by S&P or Moody's, representing a securitization of Intangible Transition Property as to which obligations no Borrower nor any Subsidiary of a Borrower (other than a Special Purpose Subsidiary) has any direct or indirect liability (whether as primary obligor, guarantor, surety, provider of collateral security, through a put option, asset repurchase agreement, capital maintenance agreement or debt subordination agreement, or through any other right or arrangement of any nature providing direct or indirect assurance of payment or performance of any such obligation in whole or in part), except for liability to repurchase Intangible Transition Property conveyed to the securitization vehicle, on terms and conditions customary in receivables securitizations, in the event such Intangible Transition Property violates representations and warranties of scope customary in receivables securitizations.

"Non-U.S. Lender" is defined in Section 3.5(iv).

"Note" means any promissory note substantially in the form of Exhibit C issued at the request of a Lender or the Swingline Lender pursuant to Section 2.15.

"Obligations" means, with respect to any Borrower, all unpaid principal of the Loans to such Borrower, all Reimbursement Obligations of such Borrower, all accrued and unpaid interest on such Loans and Reimbursement Obligations, all accrued and unpaid fees payable by such Borrower and all expenses, reimbursements, indemnities and other obligations payable by such Borrower to the Agent, any Issuer, the Swingline Lender, any Lender or any other Indemnified Party arising under any Loan Document.

"OFAC" means the U.S. Department of the Treasury's Office of Foreign Assets Control.

"Other Taxes" is defined in Section 3.5(ii).

"Outstanding Credit Extensions" means, with respect to any Borrower, the sum of the aggregate principal amount of all outstanding Loans to such Borrower plus all LC Obligations of such Borrower.

"Participants" is defined in Section 12.2.1.

"Payment Date" means the last Business Day of each March, June, September and December.

"PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

"PCI" means Potomac Capital Investment Corporation.

"PEPCO" is defined in the preamble.

"Permitted ACE Liens" means the Lien of the Mortgage and Deed of Trust dated January 15, 1937 between ACE and The Bank of New York Mellon.

"Permitted DPL Liens" means the Lien of the Mortgage and Deed of Trust dated October 1, 1943 between DPL and The Bank of New York Mellon.

"Permitted PEPCO Liens" means (a) the Lien of the Mortgage and Deed of Trust dated July 1, 1936 from PEPCO to The Bank of New York Mellon and (b) the Lien created by the $152,000,000 sale/leaseback on November 30, 1994 of PEPCO's control center.

"Permitted PHI Asset Sale" means the sale of (a) the centralized steam and chilled water production facility located on an approximately three-quarter acre site on the northeastern corner of the intersection of Atlantic and Ohio Avenues in Atlantic City, New Jersey and related distribution facilities; (b) the centralized steam and chilled water production facility located at 800 King Street in Wilmington, Delaware and related distribution facilities, (c) ownership interests in cross-border leveraged leases and related assets owned by PCI and its Subsidiaries and (d) the assets of PHI permitted to be sold or otherwise disposed of pursuant to that certain consent to the Existing Credit Agreement, dated as of May 5, 2010, by and among the Borrowers, the Required Lenders and Wells Fargo, as administrative agent, attached hereto on Schedule 6.

"Permitted PHI Liens" means (a) Liens on assets of Conectiv Energy Supply, Inc. or any other Subsidiary of PHI (other than a Subsidiary Borrower or any Subsidiary thereof) which is engaged primarily in the energy trading business (a "Trading Subsidiary") to secure obligations arising under energy trading agreements entered into in the ordinary course of business and Liens on cash collateral to secure guaranties by PHI of the obligations of any Trading Subsidiary under such energy trading agreements, provided that the aggregate amount of all such cash collateral granted by PHI shall not at any time exceed (i) $175,000,000 from the Closing Date until December 31, 2011, (ii) $100,000,000 from January 1, 2012 until November 30, 2012 and (iii) $25,000,000 thereafter; (b) Liens on the interests of (i) Pepco Energy Services, Inc., or any other Subsidiary of PHI (other than a Subsidiary Borrower or any Subsidiary thereof) which may hereafter own the stock of Conectiv Thermal Systems, Inc. ("CTS") (such Subsidiary, the "CTS Parent"), in the capital stock of CTS, (ii) CTS in Atlantic Jersey Thermal Systems, Inc. ("AJTS"), Thermal Energy Limited Partnership I ("TELP I") and ATS Operating Services, Inc. and (iii) AJTS in TELP I, in each case securing Indebtedness of CTS for which neither PHI nor any of its Subsidiaries (other than CTS and its Subsidiaries and, solely with respect to the pledge of its interest in the capital stock of CTS, the CTS Parent) has any liability (contingent or otherwise); (c) Liens granted by a bankruptcy remote Subsidiary (the "SPV") of PHI to facilitate a structured financing in an amount not exceeding $200,000,000; and (d) Liens on the stock or assets of one or more Subsidiaries of PHI, other than PEPCO, DPL or ACE, in favor of the SPV.

"Person" means any natural person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"PHI" is defined in the preamble.

"Plan" means an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code to which any Borrower or any other member of the Controlled Group sponsors, maintains or contributes or has an obligation to contribute.

"Preferred Stock" means, with respect to any Person, equity interests issued by such Person that are entitled to a preference or priority over any other equity interests issued by such Person upon any distribution of such Person's property and assets, whether by dividend or upon liquidation.

"Pricing Schedule" means Schedule 1 hereto.

"Prime Rate" means, at any time, the rate of interest per annum publicly announced from time to time by Wells Fargo at its principal office in Charlotte, North Carolina as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day such change in the Prime Rate occurs. The parties hereto acknowledge that the rate announced publicly by Wells Fargo as its Prime Rate is an index or base rate and shall not necessarily be the lowest or best rate charged to its customers or other banks.

"Prior Facility Termination Date" is defined in Section 2.4.

"Property" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"Pro Rata Share" means, with respect to any Lender, the percentage which such Lender's Commitment constitutes of the Aggregate Commitment (and/or, to the extent the Commitments have terminated, the percentage which such Lender's Revolving Loans, participation in Swingline Loans and participation in LC Obligations constitutes of the aggregate principal amount of all Loans and LC Obligations). The initial Pro Rata Share of each Lender is set forth on Schedule 2.

"Public Reports" means, with respect to each Borrower, its annual report on Form 10-K for the year ended December 31, 2010, its quarterly report on Form 10-Q for the quarter ended March 31, 2011 and its current reports on Form 8-K filed with the SEC.

"Purchasers" is defined in Section 12.3.1.

"Reimbursement Obligations" means, with respect to any Borrower at any time, the aggregate amount of all obligations of such Borrower then outstanding under Section 2.21.6 to reimburse any Issuer for amounts paid by such Issuer in respect of one or more drawings under Letters of Credit.

"Reportable Event" means a reportable event, as defined in Section 4043 of ERISA, with respect to a Plan, excluding, however, such events as to which the PBGC has waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event, provided that a failure to meet the minimum funding standard of Section 412 of the Code and of Section 302 of ERISA shall be a Reportable Event regardless of the issuance of any such waiver of the notice requirement in accordance with either Section 4043(a) of ERISA or Section 412(c) of the Code.

"Requested Commitment Increase" is defined in Section 2.2.

"Required Lenders" means Lenders in the aggregate having more than 50% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, more than 50% of the aggregate unpaid principal amount of the Outstanding Credit Extensions to all Borrowers; provided that if any Lender shall be a Defaulting Lender at such time, then there shall be excluded from the determination of Required Lenders, Obligations (including participations therein) owing to such Defaulting Lender and such Defaulting Lender's Commitments.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D of the FRB on Eurocurrency liabilities.

"Revolving Loan" means, with respect to a Lender, any revolving loan made by such Lender pursuant to Article II (or any conversion or continuation thereof), but excluding any Swingline Loan.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"SEC" means the Securities and Exchange Commission.

"Securitization Transaction" means any sale, assignment or other transfer by a Borrower or a Subsidiary thereof of accounts receivable or other payment obligations owing to such Borrower or such Subsidiary or any interest in any of the foregoing, together in each case with any collections and other proceeds thereof, any collection or deposit accounts related thereto, and any collateral, guaranties or other property or claims in favor of such Borrower or such Subsidiary supporting or securing payment by the obligor thereon of, or otherwise related to, any such receivables.

"Significant Subsidiary" means, with respect to any Borrower, a "significant subsidiary" (as defined in Regulation S-X of the SEC as in effect on the date of this Agreement) of such Borrower; provided that each of PEPCO, DPL and ACE shall at all times be a Significant Subsidiary of PHI.

"Single Employer Plan" means, with respect to a Borrower, a Plan maintained by such Borrower or any member of the Controlled Group for employees of such Borrower or any member of the Controlled Group.

"SPC" is defined in Section 12.5.

"SPV" is defined in the definition of Permitted PHI Liens.

"Special Purpose Subsidiary" means a direct or indirect wholly owned corporate Subsidiary of ACE, substantially all of the assets of which are Intangible Transition Property and proceeds thereof, formed solely for the purpose of holding such assets and issuing Transition Bonds and, which complies with the requirements customarily imposed on bankruptcy-remote corporations in receivables securitizations.

“Sublimit” means, with respect to each Borrower, its Initial Sublimit, as the same may be modified from time to time pursuant to Sections 2.2 and 2.7; *provided* that a Borrower’s Sublimit shall at no time exceed such Borrower’s Maximum Sublimit.

“Subsidiary” of a Person means (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, limited liability company, association, business trust, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled.

“Subsidiary Borrower” means each of PEPCO, DPL and ACE; and “Subsidiary Borrowers” means all of the foregoing.

“Substantial Portion” means, at any time with respect to the Property of any Person, Property which represents more than 10% of the consolidated assets of such Person and its Subsidiaries as shown in the consolidated financial statements of such Person and its Subsidiaries as at the last day of the preceding fiscal year of such Person.

“Swingline Lender” means Wells Fargo in its capacity as swingline lender hereunder.

“Swingline Loan” means any swingline loan made by the Swingline Lender to any Borrower pursuant to Section 2.1(b).

“Swingline Sublimit” means, at any time, an amount equal to ten percent (10%) of the Aggregate Commitment. The Swingline Sublimit is part of, and not in addition to, the Aggregate Commitment.

“Syndication Agent” is defined in the preamble.

“Synthetic Lease” means (a) a so-called synthetic, off-balance sheet or tax retention lease or (b) any other agreement pursuant to which a Person obtains the use or possession of property and which creates obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as indebtedness of such Person (without regard to accounting treatment).

“Taxes” means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing which arise from or relate to any payment made hereunder or under any Note or Letter of Credit Application, but *excluding* Excluded Taxes and Other Taxes.

“Total Capitalization” means, with respect to any Borrower at any time, the sum of the Total Indebtedness of such Borrower plus the Net Worth of such Borrower, each calculated at such time.

“Total Indebtedness” means, with respect to any Borrower at any time, all Indebtedness of such Borrower and its Subsidiaries at such time determined on a consolidated basis in accordance with Agreement Accounting Principles, excluding, to the extent otherwise included in Indebtedness of such Borrower or any of its Subsidiaries, (a) any Nonrecourse Transition Bond Debt; (b) any other Nonrecourse Indebtedness of PHI and its Subsidiaries (excluding any Subsidiary Borrower and its Subsidiaries) to the extent that the aggregate amount of such Nonrecourse Indebtedness does not exceed $200,000,000; and (c) all Indebtedness of PCI and, without duplication, of PHI the proceeds of which were used to make loans or advances to PCI, in an aggregate amount not exceeding the lesser of (i) the fair market value of the equity collateral accounts in PCI's energy leveraged lease portfolio or (ii) $700,000,000.

"Transferee" is defined in Section 12.4.

"Transition Bonds" means bonds described as "transition bonds" in the New Jersey Transition Bond Statute.

"Type" means, with respect to any Advance, its nature as a Floating Rate Advance or a Eurodollar Advance.

"Unmatured Default" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default.

"United States" means the United States of America.

"Voting Stock" means, with respect to any Person, voting stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wells Fargo" means Wells Fargo Bank, National Association, a national banking association, and its successors.

1.2 Interpretation.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of such terms.

(b) Article, Section, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) The term "including" is not limiting and means "including without limitation."

(d) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(e) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of this Agreement; and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such statute or regulation.

(f) Unless otherwise expressly provided herein, references herein shall be references to Eastern time (daylight or standard as applicable).

1.3 Accounting.

(a) Except as provided to the contrary herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with Agreement Accounting Principles, except that any calculation or determination which is to be made on a consolidated basis shall be made for the applicable Borrower and all of its Subsidiaries, including those Subsidiaries of such Borrower, if any, which are unconsolidated on such Borrower's audited financial statements.

(b) If at any time any change in Agreement Accounting Principles would affect the computation of any financial ratio or requirement set forth herein with respect to any Borrower and either such Borrower or the Required Lenders shall so request, the Agent, the Lenders and such Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in Agreement Accounting Principles (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with Agreement Accounting Principles as in effect prior to such change and (ii) such Borrower shall provide to the Agent and the Lenders financial statements and other documents required under this Agreement setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in Agreement Accounting Principles.

ARTICLE II

THE CREDITS

2.1 Commitments.

(a) Revolving Loans. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Revolving Loans to any Borrower, to participate in Swingline Loans made to any Borrower and to participate in Letters of Credit issued upon the request of any Borrower, in amounts not to exceed in the aggregate at any one time outstanding the amount of such Lender's Commitment; provided that, except as set forth in Section 2.23.1(ii), (i) the aggregate principal amount of all Revolving Loans by such Lender to any Borrower shall not exceed such Lender's Pro Rata Share of the aggregate principal amount of all Revolving Loans to such Borrower; (ii) such Lender's participation in Letters of Credit issued for the account of any Borrower shall not exceed such Lender's Pro Rata Share of all LC Obligations of such Borrower; (iii) such Lender's participation in Swingline Loans to any Borrower shall not exceed such Lender's Pro Rata Share of all Swingline Loans to such Borrower; (iv) for any Borrower, the Outstanding Credit Extensions to such Borrower shall at no time exceed such Borrower's respective Sublimit and (v) the LC Obligations of all Borrowers collectively shall not at any time exceed the Letter of Credit Sublimit. Within the foregoing limits, each Borrower may from time to time borrow, prepay pursuant to Section 2.9 and reborrow hereunder prior to the Facility Termination Date for such Borrower.

(b) Swingline Loans.

(i) Subject to the terms and conditions set forth in this Agreement, the Swingline Lender, in its individual capacity, shall make Swingline Loans to any Borrower from time to time from the Closing Date through, but not including, the Facility Termination Date; provided, that the aggregate principal amount of all outstanding Swingline Loans (after giving effect to any amount requested), shall not exceed the Swingline Sublimit. To request a Swingline Loan, a Borrower shall notify the Agent in accordance with Section 2.10 hereof. The Borrowers shall be entitled to borrow, repay and reborrow Swingline Loans in accordance with the terms and subject to the conditions of this Agreement.

(ii) The Swingline Lender may, at any time and from time to time, give written notice to the Agent (a "Swingline Borrowing Notice"), on behalf of the applicable Borrower (and each Borrower hereby irrevocably authorizes and directs the Swingline Lender to act on its behalf), requesting that the Lenders (including the Swingline Lender) make Revolving Loans to such Borrower in an amount equal to the unpaid principal amount of any Swingline Loan. The Swingline Borrowing Notice shall include the information with respect to each Revolving Loan set forth in Section 2.10. The Swingline Lender shall provide a copy of any such notice to the applicable Borrower. Subject to Section 2.23.1(ii), each Lender shall make a Revolving Loan in same day funds in an amount equal to its respective Pro Rata Share of Revolving Loans as required to repay the Swingline Loan outstanding to the Swingline Lender promptly upon receipt of a Swingline Borrowing Notice but in no event later than 1:00 p.m. on the next succeeding Business Day after such Swingline Borrowing Notice is received. On the date of such Revolving Loan, the Swingline Loan (including the Swingline Lender's Pro Rata Share thereof, in its capacity as a Lender) shall be deemed to be repaid with the proceeds thereof and shall thereafter be reflected as a Revolving Loan on the books and records of the Agent. Except as set forth in Section 2.23.1(ii), no Lender's obligation to fund its respective Pro Rata Share of a Swingline Loan shall be affected by any other Lender's failure to fund its Pro Rata Share of any Swingline Loan, nor shall any Lender's Pro Rata Share be increased as a result of any such failure of any other Lender to fund its Pro Rata Share of any Swingline Loan.

(iii) If not repaid earlier, each Borrower shall pay to the Swingline Lender the amount of each Swingline Loan within 14 days of receipt of such Swingline Loan. If any portion of any such amount paid to the Swingline Lender shall be recovered by or on behalf of any Borrower from the Swingline Lender in bankruptcy or otherwise, the loss of the amount so recovered shall be ratably shared among all the Lenders in accordance with their respective Pro Rata Share (unless the amounts so recovered by or on behalf of such Borrower pertain to a Swingline Loan extended after the occurrence and during the continuance of a Default of which the Agent has received notice in the manner required pursuant to Section 10.9 and which such Default has not been waived pursuant to the terms hereof).

(iv) Each Lender acknowledges and agrees that its obligation to repay Swingline Loans in accordance with the terms of this Section is absolute and unconditional and shall not be affected by any circumstance whatsoever, including, without limitation, non-satisfaction of the conditions set forth in Article IV. Further, each Lender agrees and acknowledges that if prior to the repayment of any outstanding Swingline Loans pursuant to this Section, one of the events described in Section 7.6 or 7.7 shall have occurred, or if a Revolving Loan may not be (as determined in the reasonable discretion of the Agent), or is not, made in accordance with the foregoing provisions, each Lender will, subject to Section 2.23.1(ii), on the date the applicable Revolving Loan would have been made, purchase an undivided participating interest in such Swingline Loan in an amount equal to its Pro Rata Share of the aggregate amount of such Swingline Loan. Each Lender will immediately transfer to the Swingline Lender, in immediately available funds, the amount of its participation and upon receipt thereof the Swingline Lender will deliver to such Lender a certificate evidencing such participation dated the date of receipt of such funds and for such amount. Whenever, at any time after the Swingline Lender has received from any Lender such Lender's participating interest in a Swingline Loan, the Swingline Lender receives any payment on account thereof, the Swingline Lender will distribute to such Lender (including pursuant to a participation made by the Swingline Lender) its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's participating interest was outstanding and funded).

2.2 Increase in Commitments.

(a) At any time prior to the Facility Termination Date, the Borrowers shall have the ability, in consultation with the Agent and through written notice to the Agent, substantially in the form of Exhibit D (the "Increase Notice"), to request increases in the Aggregate Commitment (each, a "Requested Commitment Increase"); provided that (i) no Lender shall have any obligation to participate in any Requested Commitment Increase, (ii) the aggregate principal amount of all such increases shall not exceed $500,000,000, (iii) each such Requested Commitment Increase shall be in a minimum principal amount of $50,000,000 or, if less, the maximum remaining amount permitted pursuant to clause (ii) above, (iv) any such increase shall be allocated among each Borrower's Sublimit in accordance with the Increase Notice (it being understood that any such Sublimit changes shall not count as one of the eight Sublimit reallocations the Borrowers are permitted each fiscal year under Section 2.7 (c)), (v) the other terms and documentation in respect of such Requested Commitment Increase shall be reasonably satisfactory to the Agent and (vi) no Default or Unmatured Default shall have occurred and be continuing or would result from the proposed Requested Commitment Increase.

(b) The Agent shall promptly give notice of such Requested Commitment Increase to the Lenders. Each Lender shall notify the Agent within ten (10) Business Days (or such longer period of time which may be agreed upon by the Agent and the Borrowers and communicated to the Lenders) from the date of delivery of such notice to the Lenders whether or not it offers to increase its Commitment and, if so, by what amount. Any Lender not responding within such time period shall be deemed to have declined to offer to increase its Commitment. The Agent shall notify the Borrowers of the Lenders' responses to each request made hereunder. The Borrowers shall have the right at their sole discretion to accept or reject in whole or in part any offered Commitment increase or at their own expense to solicit a Commitment from any third party financial institution reasonably acceptable to the Agent. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement, as a Lender pursuant to a joinder agreement in form and substance reasonably satisfactory to the Agent and the Borrowers.

(c) Upon the completion of each Requested Commitment Increase, (i) entries in the accounts maintained pursuant to Section 2.15 will be revised to reflect the revised Commitments and Pro Rata Shares of each of the Lenders (including each new Lender becoming a party to this Agreement pursuant to clause (b) above), (ii) subject to Section 2.23.1(ii), the outstanding Revolving Loans will be reallocated on the effective date of such increase among the Lenders in accordance with their revised Pro Rata Shares and the Lenders (including each new Lender becoming a party to this Agreement pursuant to clause (b) above) agree to make all payments and adjustments necessary to effect such reallocation and the Borrowers shall pay any and all costs required in connection with such reallocation as if such reallocation were a prepayment and (iii) the Maximum Sublimit of each Borrower shall be increased in accordance with the Increase Notice (provided that no Borrower's Maximum Sublimit shall exceed the Aggregate Commitment).

2.3 Required Payments; Termination. All outstanding Advances to any Borrower and all other unpaid Obligations of such Borrower shall be paid in full by such Borrower on the Facility Termination Date for such Borrower.

2.4 Extension of Facility Termination Date.

(a) The Borrowers may, no earlier than 60 days and no later than 30 days prior to each anniversary of the Closing Date (such anniversary, an "Extension Date"), request through written notice to the Agent substantially in the form of Exhibit E (the "Extension Notice"), that the Lenders extend the then existing Facility Termination Date for an additional one year period;

provided that the Borrowers may not extend the then-existing Facility Termination Date pursuant to this Section 2.4 more than two (2) times during the term of this Agreement. Each Lender, acting in its sole discretion, shall, by notice to the Agent no earlier than 30 days prior to the applicable Extension Date and no later than the applicable Extension Date (except with respect to the year in which the then existing Facility Termination Date shall occur, in which case such written notice shall be delivered by the Lenders no later than 30 days prior to the then existing Facility Termination Date) (such date, the "Consent Date"), advise the Agent in writing of its desire to extend (any such Lender, a "Consenting Lender") or not to so extend (any such Lender, a "Non-Consenting Lender") such date. Any Lender that does not advise the Agent by the Consent Date shall be deemed to be a Non-Consenting Lender. No Lender shall be under any obligation or commitment to extend the then existing Facility Termination Date. The election of any Lender to agree to such extension shall not obligate any other Lender to agree to such extension.

(b) If (and only if) Lenders holding Commitments that aggregate more than 50% of the Aggregate Commitment on the Consent Date shall have agreed to such extension, then the then existing Facility Termination Date applicable to the Consenting Lenders shall be extended to the date that is one year after the then existing Facility Termination Date. All Revolving Loans of each Non-Consenting Lender shall be subject to the then existing Facility Termination Date, without giving effect to such extension (such date, the "Prior Facility Termination Date"). In the event of an extension of the then existing Facility Termination Date pursuant to this Section 2.4, the Borrowers shall have the right, at their own expense, to solicit commitments from existing Lenders and/or third party financial institutions reasonably acceptable to the Agent to replace the Commitment of any Non-Consenting Lenders for the remaining duration of the Facility. Any such financial institution (if not already a Lender hereunder) shall become a party to this Agreement, as a Lender pursuant to a joinder agreement in form and substance reasonably satisfactory to the Agent and the Borrowers. The Commitment of each Non-Consenting Lender and all Revolving Loans and other amounts payable hereunder to each Non-Consenting Lender shall terminate on the date (such date, the "Lender Termination Date") that is the earlier of (i) the Prior Facility Termination Date and (ii) the date such Non-Consenting Lender has been replaced pursuant to this Section 2.4(b), and, to the extent such Non-Consenting Lender's Commitment is not replaced as provided above, the Aggregate Commitment hereunder shall be reduced by the amount of the Commitments of such Non-Consenting Lenders so terminated on the Lender Termination Date. Any such reduction in the Aggregate Commitment shall be allocated among each Borrower's Sublimit in accordance with the written notice of the Borrowers to the Agent.

(c) Effective on and after the Lender Termination Date, (i) each of the Non-Consenting Lenders shall be automatically released from their respective risk participation obligations under Section 2.21 with respect to any outstanding Letters of Credit, (ii) the risk participation obligation of each Lender (other than the Non-Consenting Lenders) under Section 2.21 with respect to any outstanding Letters of Credit (and the related LC Obligations) shall be automatically adjusted to equal such Lender's Pro Rata Share of such Letters of Credit (and the related LC Obligations), (iii) each of the Non-Consenting Lenders shall be automatically released from their respective risk participation obligations under Section 2.1(b) with respect to any outstanding Swingline Loans, and (iv) the risk participation obligation of each Lender (other than the Non-Consenting Lenders) under Section 2.1(b) with respect to any outstanding Swingline Loans shall be automatically adjusted to equal such Lender's Pro Rata Share of such Swingline Loans.

2.5 Ratable Loans. Except as set forth in Section 2.23.1(ii), each Advance (other than Swingline Loans) hereunder shall be made by the Lenders ratably in accordance with their Pro Rata Shares.

2.6 Types of Advances. The Advances (other than Swingline Loans) to any Borrower may be Floating Rate Advances or Eurodollar Advances, or a combination thereof, as selected by such Borrower in accordance with Sections 2.10 and 2.11.

2.7 Facility Fee; Reductions in Aggregate Commitment; Changes to Sublimits.

(a) Subject to Section 2.23.1(v), each Borrower agrees to pay to the Agent for the account of the Lenders according to their Pro Rata Shares a facility fee at a per annum rate equal to the Facility Fee Rate for such Borrower on the daily amount of each Borrower's Sublimit; provided that if the obligations of the Lenders to make Credit Extensions to a Borrower have been terminated pursuant to Section 8.1, the facility fee shall be based on the Outstanding Credit Extensions to such Borrower. Facility fees payable by each Borrower shall accrue from the Closing Date to the Facility Termination Date for such Borrower (or, if later, to the date all of such Borrower's Obligations have been paid in full) and shall be payable on each Payment Date and on the Facility Termination Date (and, if applicable, thereafter on demand).

(b) The Borrowers may reduce the Aggregate Commitment (and, in turn, the Borrowers' Sublimits shall be adjusted so that the sum of the Sublimits of all of the Borrowers equals such reduced Aggregate Commitment) ratably among the Lenders in accordance with their Pro Rata Shares, and in integral multiples of $10,000,000, upon at least three Business Days' written notice to the Agent, which notice shall specify the amount of any such reduction, provided that no Borrower's Sublimit may be reduced below the amount of the Outstanding Credit Extensions to such Borrower.

(c) The Borrowers may reallocate amounts of the Aggregate Commitment among the respective Sublimits of the Borrowers (i.e., increase the Sublimits of one or more Borrowers and decrease the Sublimits of one or more other Borrowers by the same aggregate amount); provided that (i) each Sublimit shall be a multiple of $10,000,000 at all times, (ii) the Borrowers shall provide at least three Business Days' written notice to the Agent, which notice shall specify the amount of any such reallocation, (iii) no Borrower's Sublimit may be reduced below the amount of the Outstanding Credit Extensions to such Borrower nor increased to an amount greater than such Borrower's Maximum Sublimit, (iv) the sum of the Sublimits of the respective Borrowers shall at all times equal the aggregate amount of the Aggregate Commitment, (v) the aggregate number of reallocations that the Borrowers may undertake pursuant to this subsection (c) shall not exceed eight (8) reallocations per fiscal year during the term of this Agreement (it being understood that increasing or decreasing the Sublimits of any or all of the Borrowers on a single occasion shall constitute only one (1) reallocation), and (vi) any such increase in a Borrower's Sublimit shall be accompanied or preceded by evidence reasonably satisfactory to the Agent as to appropriate corporate authorization therefor.

2.8 Minimum Amount of Each Advance. Each Advance shall be in the amount of $10,000,000 or a higher integral multiple of $1,000,000 (or, in the case of a Swingline Loan, in the amount of $500,000 or a higher integral multiple of $100,000); provided that any Floating Rate Advance may be in the amount of the unused Aggregate Commitment or in the amount of the applicable Borrower's unused Sublimit.

2.9 Prepayments.

(a) Mandatory. If at any time, a Borrower's Outstanding Credit Extensions exceed such Borrower's Sublimit, such Borrower shall immediately prepay Loans (or if all Loans to such Borrower have been paid, prepay LC Obligations) in an amount (rounded upward, if necessary, to an integral multiple of $1,000,000) sufficient to eliminate such excess.

(b) Voluntary. Any Borrower may from time to time prepay, without penalty or premium, all outstanding Floating Rate Advances to such Borrower, or any portion of the outstanding Floating Rate Advances to such Borrower in the amount of $10,000,000 or a higher integral multiple of $1,000,000, upon one Business Day's prior notice to the Agent. Any Borrower may from time to time prepay, without penalty or premium, all outstanding Swingline Loans to such Borrower, or any portion of the outstanding Swingline Loans to such Borrower in the amount of $500,000 or a higher integral multiple of $100,000, on any Business Day if notice is given to the Agent by 1:00 p.m. on such Business Day. Any Borrower may from time to time prepay, all outstanding Eurodollar Advances (other than Swingline Loans) to such Borrower, or any portion of the outstanding Eurodollar Advances to such Borrower in the amount of $10,000,000 or a higher integral multiple of $1,000,000, upon three Business Days' prior notice to the Agent.

(c) Any prepayment of Eurodollar Advances shall be without premium or penalty but shall be subject to the payment of any funding indemnification amounts covered by Section 3.4.

2.10 Method of Selecting Types and Interest Periods for New Advances. The applicable Borrower shall select the Type of Advance and, in the case of each Eurodollar Advance (other than a Swingline Loan), the Interest Period applicable thereto from time to time. All Swingline Loans shall bear interest at the Eurodollar Market Index Rate. The applicable Borrower shall give the Agent irrevocable notice (a "Borrowing Notice") not later than 11:00 a.m. (Charlotte, North Carolina time) on the Borrowing Date of each Floating Rate Advance and each Swingline Loan to such Borrower and three Business Days before the Borrowing Date for each Eurodollar Advance (other than a Swingline Loan) to such Borrower, specifying:

(i) the Borrowing Date, which shall be a Business Day, of such Advance,

(ii) the aggregate amount of such Advance,

(iii) the Type of Advance selected, and

(iv) in the case of each Eurodollar Advance (other than a Swingline Loan), the Interest Period applicable thereto.

Not later than 1:00 p.m. (Charlotte, North Carolina time) on each Borrowing Date for each Revolving Loan, each Lender shall make available its Revolving Loan or Revolving Loans in funds immediately available in Charlotte, North Carolina to the Agent at its address specified pursuant to Article XIII. The Agent will promptly make the funds so received from the Lenders available to the applicable Borrower at the Agent's aforesaid address. Not later than 1:00 p.m. (Charlotte, North Carolina time) on each Borrowing Date for each Swingline Loan, the Swingline Lender shall make available its Swingline Loan in funds immediately available to the applicable Borrower at the Agent's aforesaid address.

2.11 Conversion and Continuation of Outstanding Advances. Floating Rate Advances shall continue as Floating Rate Advances unless and until such Floating Rate Advances are converted into Eurodollar Advances pursuant to this Section 2.11 or are repaid in accordance with Section 2.9. Each

Eurodollar Advance (other than Swingline Loans) shall continue as a Eurodollar Advance until the end of the then applicable Interest Period therefor, at which time such Eurodollar Advance shall be automatically converted into a Floating Rate Advance unless (x) such Eurodollar Advance is or was repaid in accordance with Section 2.9 or (y) the applicable Borrower shall have given the Agent a Conversion/Continuation Notice requesting that, at the end of such Interest Period, such Eurodollar Advance continue as a Eurodollar Advance for a subsequent Interest Period. Subject to the terms of Section 2.8 any Borrower may elect from time to time to convert all or any part of a Floating Rate Advance into a Eurodollar Advance. Such Borrower shall give the Agent irrevocable notice (a "Conversion/Continuation Notice") of each conversion of a Floating Rate Advance into a Eurodollar Advance or continuation of a Eurodollar Advance not later than 11:00 a.m. (Charlotte, North Carolina time) at least three Business Days prior to the date of the requested conversion or continuation, specifying:

(i) the requested date, which shall be a Business Day, of such conversion or continuation,

(ii) the aggregate amount and Type of the Advance which is to be converted or continued, and

(iii) the amount of such Advance which is to be converted into or continued as a Eurodollar Advance and the duration of the Interest Period applicable thereto.

2.12 Changes in Interest Rate, etc. Each Floating Rate Advance shall bear interest on the outstanding principal amount thereof, for each day from the date such Advance is made or is converted from a Eurodollar Advance into a Floating Rate Advance pursuant to Section 2.11 to the date it is paid or is converted into a Eurodollar Advance pursuant to Section 2.11, at a rate per annum equal to the Alternate Base Rate for such day. Changes in the rate of interest on that portion of any Advance maintained as a Floating Rate Advance will take effect simultaneously with each change in the Alternate Base Rate. Each Eurodollar Advance (other than Swingline Loans) shall bear interest on the outstanding principal amount thereof from the first day of each Interest Period applicable thereto to the last day of such Interest Period at the Eurodollar Rate applicable to such Eurodollar Advance based upon the applicable Borrower's selections under Sections 2.10 and 2.11 and otherwise in accordance with the terms hereof. Each Swingline Loan shall bear interest on the outstanding principal amount thereof at either the Alternate Base Rate or the Eurodollar Market Index Rate and otherwise in accordance with the terms hereof.

2.13 Rates Applicable After Default. Notwithstanding anything to the contrary contained in Section 2.10 or 2.11, during the continuance of a Default or Unmatured Default with respect to a Borrower, (a) the Required Lenders may, at their option, by notice to such Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that no Advance to such Borrower may be made as, converted into or continued as a Eurodollar Advance and (b) the Swingline Lender may, at its option, declare that no Swingline Loans shall be made to such Borrower. During the continuance of a Default with respect to a Borrower, the Required Lenders may, at their option, by notice to such Borrower (which notice may be revoked at the option of the Required Lenders notwithstanding any provision of Section 8.2 requiring unanimous consent of the Lenders to changes in interest rates), declare that (i) each Eurodollar Advance to such Borrower shall bear interest for the remainder of the applicable Interest Period at the rate otherwise applicable to such Interest Period plus 2% per annum, (ii) each Floating Rate Advance and each Swingline Loan to such Borrower shall bear interest at a rate per annum equal to the Alternate Base Rate in effect from time to time plus 2% per annum and (iii) the LC Fee Rate payable by such Borrower shall be increased by 2% per annum, provided that during the continuance of a Default under Section 7.6 or 7.7 with respect to any Borrower, the interest rates set forth in clauses (i) and

(ii) above and the increase in the LC Fee Rate set forth in clause (iii) above shall be applicable to all Outstanding Credit Extensions to such Borrower without any election or action on the part of the Agent or any Lender.

2.14 Method of Payment. All payments of the Obligations hereunder shall be made, without setoff, deduction, or counterclaim, in immediately available funds to the Agent at the Agent's address specified pursuant to Article XIII, or at any other office of the Agent specified in writing by the Agent to the Borrowers, by 1:00 p.m. (Charlotte, North Carolina time) on the date when due and shall be applied ratably by the Agent among the Lenders. Each payment delivered to the Agent for the account of any Lender shall be delivered promptly by the Agent to such Lender in the same type of funds that the Agent received at its address specified pursuant to Article XIII or at any Lending Installation specified in a notice received by the Agent from such Lender. The Agent is hereby authorized to charge the account of the applicable Borrower maintained with Wells Fargo for each payment of principal, Reimbursement Obligations, interest and fees as it becomes due hereunder.

2.15 Noteless Agreement; Evidence of Indebtedness.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each Loan made by such Lender to such Borrower from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Agent shall also maintain accounts in which it will record (i) the amount of each Loan to each Borrower made hereunder, the Type thereof and the Interest Period with respect thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder, (iii) the stated amount of each Letter of Credit and the amount of the LC Obligations outstanding at any time and (iv) the amount of any sum received by the Agent hereunder from each Borrower and each Lender's share thereof.

(c) The entries maintained in the accounts maintained pursuant to clauses (a) and (b) above shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; provided that the failure of the Agent or any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the applicable Borrower to repay the Obligations of such Borrower in accordance with their terms.

(d) Any Lender may request that its Loans to any Borrower be evidenced by a Note. In such event, such Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Thereafter, the Loans evidenced by such Note and interest thereon shall at all times (including after any assignment pursuant to Section 12.3) be represented by one or more Notes payable to the order of the payee named therein or any assignee pursuant to Section 12.3, except to the extent that any such Lender or assignee subsequently returns any such Note for cancellation and requests that such Loans once again be evidenced as described in clauses (a) and (b) above.

2.16 Telephonic Notices. Each Borrower hereby authorizes the Lenders and the Agent to extend, convert or continue Advances, to effect selections of Types of Advances and to transfer funds based on telephonic notices made by any person the Agent or any Lender in good faith believes to be acting on behalf of such Borrower, it being understood that the foregoing authorization is specifically intended to allow Borrowing Notices and Conversion/Continuation Notices to be given telephonically. Each Borrower agrees that upon the request of the Agent or any Lender, such Borrower will deliver promptly to the Agent a written confirmation signed by an Authorized Officer of such Borrower, of each telephonic notice given by such Borrower pursuant to the preceding sentence. If the written confirmation differs in any material respect from the action taken by the Agent and the Lenders, the records of the Agent and the Lenders shall govern absent manifest error.

2.17 Interest Payment Dates; Interest and Fee Basis. Interest accrued on each Floating Rate Advance and each Swingline Loan shall be payable on each Payment Date, on any date on which such Floating Rate Advance is prepaid, whether due to acceleration or otherwise, and at maturity. Interest accrued on that portion of the outstanding principal amount of any Floating Rate Advance converted into a Eurodollar Advance (other than Swingline Loans) on a day other than a Payment Date shall be payable on the date of conversion. Interest accrued on each Eurodollar Advance shall be payable on the last day of its applicable Interest Period (and, in the case of a six-month Interest Period, on the day which is three months after the first day of such Interest Period), on any date on which such Eurodollar Advance is prepaid, whether by acceleration or otherwise, and at maturity. Interest on Floating Rate Advances which are bearing interest at the Prime Rate shall be calculated for actual days elapsed on the basis of a 365-day year or, when appropriate, 366-day year. All other interest and all fees shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day an Advance is made but not for the day of any payment on the amount paid if payment is received prior to 1:00 p.m. (Charlotte, North Carolina time) at the place of payment. If any payment of principal of or interest on an Advance shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

2.18 Notification of Advances, Interest Rates, Prepayments and Commitment Reductions. Promptly after receipt thereof, the Agent will notify each Lender of the contents of each notice of reduction in the Aggregate Commitment or any Sublimit, Swingline Borrowing Notice, Borrowing Notice, Conversion/Continuation Notice, notice of repayment, Increase Notice and Extension Notice received by the Agent hereunder. The Agent will notify each Lender of the interest rate applicable to each Eurodollar Advance promptly upon determination of such interest rate and will give each Lender prompt notice of each change in the Alternate Base Rate.

2.19 Lending Installations. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Loans and any Notes issued hereunder shall be deemed held by each Lender for the benefit of any such Lending Installation. Each Lender may, by written notice to the Agent and the Borrowers in accordance with Article XIII, designate replacement or additional Lending Installations through which Loans will be made by it and for whose account Loan payments are to be made.

2.20 Non-Receipt of Funds by the Agent. Unless a Borrower or a Lender, as the case may be, notifies the Agent prior to the date on which it is scheduled to make payment to the Agent of (i) in the case of a Lender, the proceeds of a Loan or (ii) in the case of a Borrower, a payment of principal, interest or fees to the Agent for the account of the Lenders, that it does not intend to make such payment, the Agent may assume that such payment has been made. The Agent may, but shall not be obligated to, make the amount of such payment available to the intended recipient in reliance upon such assumption. If a Lender or a Borrower, as the case may be, has not in fact made such payment to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to (x) in the case of payment by a Lender, the Federal Funds Effective Rate for such day for the first three days and, thereafter, the interest rate applicable to the relevant Loan or (y) in the case of payment by a Borrower, the interest rate applicable to the relevant Obligation.

2.21 Letters of Credit.

2.21.1 Issuance; Existing Letters of Credit. Each Issuer hereby agrees, on the terms and conditions set forth in this Agreement (including the limitations set forth in Section 2.1), to issue standby letters of credit and to renew, extend, increase, decrease or otherwise modify Letters of Credit ("Modify" and each such action a "Modification") upon the request and for the account of any Borrower (including Letters of Credit issued jointly for the account of a Borrower and any Subsidiary of such Borrower) from time to time from the Closing Date to the Facility Termination Date for such Borrower; provided that (a) no Letter of Credit shall have an expiry date later than the scheduled Facility Termination Date, (b) no Letter of Credit shall, by its terms, provide for one or more automatic increases in the stated amount thereof, and (c) the aggregate amount of LC Obligations issued by an individual Issuer shall not exceed $250,000,000. By their execution of this Agreement, the parties hereto agree that on the Closing Date (without any further action by any Person), each Existing Letter of Credit shall be deemed to have been issued under this Agreement and the rights and obligations of the issuer and account party thereunder shall be subject to the terms hereof.

2.21.2 Participations. Subject to Section 2.23.1(ii), upon the issuance or Modification by any Issuer of a Letter of Credit in accordance with this Section 2.21 (or, in the case of the Existing Letters of Credit, on the Closing Date), such Issuer shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably sold to each Lender, and each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from such Issuer, a participation in such Letter of Credit (and each Modification thereof and the related LC Obligations) in proportion to its Pro Rata Share.

2.21.3 Notice. The applicable Borrower shall give an Issuer notice prior to 11:00 a.m. (Charlotte, North Carolina time) at least three Business Days prior to the proposed date of issuance or Modification of a Letter of Credit for the account of such Borrower, specifying the beneficiary, the proposed date of issuance (or Modification) and the expiry date of such Letter of Credit, and describing the proposed terms of such Letter of Credit and the nature of the transactions proposed to be supported thereby. Upon receipt of such notice, such Issuer shall promptly notify the Agent, and the Agent shall promptly notify each Lender, of the contents thereof and of the amount of such Lender's participation in such proposed Letter of Credit. The issuance or Modification by an Issuer of any Letter of Credit shall, in addition to the conditions precedent set forth in Article IV (the satisfaction of which such Issuer shall have no duty to ascertain), be subject to the conditions precedent that such Letter of Credit shall be reasonably satisfactory to such Issuer and that the applicable Borrower shall have executed and delivered such application agreement and/or such other instruments and agreements relating to such Letter of Credit as such Issuer shall have reasonably requested (each a "Letter of Credit Application"). In the event of any conflict between the terms of this Agreement and the terms of any Letter of Credit Application, the terms of this Agreement shall control.

2.21.4 Letter of Credit Fees. Subject to Section 2.23.1(v), each Borrower shall pay to the Agent, for the account of the Lenders ratably in accordance with their respective Pro Rata Shares, with respect to each Letter of Credit issued for the account of such Borrower, a letter of credit fee at a per annum rate equal to the LC Fee Rate in effect from time to time on the amount available under such Letter of Credit, such fee to be payable in arrears on each Payment Date. Each Borrower shall also pay to each Issuer for its own account (x) subject to Section 2.23.1(v), a fronting fee equal to 0.20% per annum for each Letter of Credit issued for the account of such Borrower, with such fee to be payable in arrears on each Payment Date, and (y) documentary and processing charges in connection with the issuance or Modification of and draws under Letters of Credit issued for the account of such Borrower in accordance with such Issuer's standard schedule for such charges as in effect from time to time.

2.21.5 Administration; Reimbursement by Lenders. Upon receipt from the beneficiary of any Letter of Credit of any demand for payment under such Letter of Credit, each Issuer shall notify the Agent and the Agent shall promptly notify the applicable Borrower and each Lender as to the amount to be paid by such Issuer as a result of such demand and the proposed payment date (the "Letter of Credit Payment Date"). The responsibility of each Issuer to the applicable Borrower and each Lender shall be only to determine that the documents (including each demand for payment) delivered under each Letter of Credit in connection with such presentment shall be in conformity in all material respects with such Letter of Credit. Each Issuer shall endeavor to exercise the same care in its issuance and administration of Letters of Credit as it does with respect to letters of credit in which no participations are granted, it being understood that in the absence of any gross negligence or willful misconduct by such Issuer, each Lender shall be unconditionally and irrevocably obligated, without regard to the occurrence of any Default or Unmatured Default or any condition precedent whatsoever, to reimburse such Issuer on demand for (i) subject to Section 2.23.1(ii), such Lender's Pro Rata Share of the amount of each payment made by such Issuer under each Letter of Credit to the extent such amount is not reimbursed by the applicable Borrower pursuant to Section 2.21.6 plus (ii) interest on the foregoing amount for each day from the date of the applicable payment by such Issuer to the date on which such Lender pays the amount to be reimbursed by it, at a rate of interest per annum equal to the Federal Funds Effective Rate or, beginning on third Business Day after demand for such amount by such Issuer, the rate applicable to Floating Rate Advances.

2.21.6 Reimbursement by Borrowers. Each Borrower shall be irrevocably and unconditionally obligated to reimburse each Issuer on or before the applicable Letter of Credit Payment Date for any amount to be paid by such Issuer upon any drawing under any Letter of Credit issued by such Issuer for the account of such Borrower, without presentment, demand, protest or other formalities of any kind; provided that no Borrower shall be precluded from asserting any claim for direct (but not consequential) damages suffered by such Borrower to the extent, but only to the extent, caused by (i) the willful misconduct or gross negligence of such Issuer in determining whether a request presented under any Letter of Credit issued by it for the account of such Borrower complied with the terms of such Letter of Credit or (ii) such Issuer's failure to pay under any Letter of Credit issued by it for the account of such Borrower after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. All such amounts paid by any Issuer and remaining unpaid by the applicable Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to (x) on or prior to the date on which such Issuer notifies such Borrower of the amount paid under any Letter of Credit, the rate applicable to Floating Rate Advances, and (y) thereafter, the sum of 2% plus the rate applicable to Floating Rate Advances. Each Issuer will pay to each Lender ratably in accordance with its Pro Rata Share all amounts received by it from a Borrower for application in payment, in whole or in part, of the Reimbursement Obligation in respect of any Letter of Credit issued by such Issuer and any interest thereon, but only to the extent (and, in the case of interest, for the period of time) such Lender has made payment to such Issuer in respect of such Letter of Credit pursuant to Section 2.21.5.

2.21.7 Obligations Absolute. Each Borrower's obligations under this Section 2.21 with respect to each Letter of Credit issued for the account of such Borrower shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which such Borrower may have or have had against the Issuers, any Lender or any beneficiary of any such Letter of Credit. Each Borrower agrees with the Issuers and the Lenders that neither any Issuer nor any Lender shall be responsible for, and the applicable Borrower's Reimbursement Obligation in respect of any Letter of Credit issued for the account of such Borrower shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, fraudulent or forged, or any dispute between or among such Borrower, any of its Affiliates, the beneficiary of any Letter of Credit or any financing institution or other party to whom any Letter of Credit may be transferred or any claims or defenses whatsoever of such Borrower or of any of its Affiliates against the beneficiary of any Letter of Credit or any such transferee. The Issuers shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit. Each Borrower agrees that any action taken or omitted by any Issuer or any Lender under or in connection with any Letter of Credit and the related drafts and documents, if done without gross negligence or willful misconduct, shall be binding upon such Borrower and shall not put any Issuer or any Lender under any liability to such Borrower. Nothing in this Section 2.21.7 is intended to limit the right of the applicable Borrower to make a claim against the Issuers for damages as contemplated by the proviso to the first sentence of Section 2.21.6.

2.21.8 Actions of Issuers. Each Issuer shall be entitled to rely, and shall be fully protected in relying, upon any Letter of Credit, draft, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, facsimile, telex or teletype message, statement, order or other document believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by such Issuer. Each Issuer shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first have received such advice or concurrence of the Required Lenders as it reasonably deems appropriate or it shall first be indemnified to its reasonable satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Notwithstanding any other provision of this Section 2.21, each Issuer shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Lenders and any future holder of a participation in any Letter of Credit.

2.21.9 Indemnification. Each Borrower hereby agrees to indemnify and hold harmless each Lender, each Issuer and the Agent, and their respective directors, officers, agents and employees, from and against any and all claims and damages, losses, liabilities, costs or expenses which such Lender, such Issuer or the Agent may incur (or which may be claimed against such Lender, such Issuer or the Agent by any Person whatsoever) by reason of or in connection with the issuance, execution and delivery or transfer of or payment or failure to pay under any Letter of Credit issued for the account of such Borrower or any actual or proposed use of any such Letter of Credit, including any claims, damages, losses, liabilities, costs or expenses which such Issuer may incur by reason of or in connection with (i) the failure of any other Lender to fulfill or comply with its obligations to such Issuer hereunder (but nothing herein contained shall affect any right a Borrower may have against any Defaulting Lender) or (ii) by reason of or on account of such Issuer issuing any Letter of Credit which specifies that the term "Beneficiary" included therein includes any successor by operation of law of the named Beneficiary, but which Letter of Credit does not require that any drawing by any such successor Beneficiary be accompanied by a copy of a legal document, satisfactory to such Issuer, evidencing the appointment of such successor Beneficiary; provided that no Borrower shall be required to indemnify any Lender, any Issuer or the Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (x) the willful misconduct or gross negligence of such Issuer in determining whether a request presented under any Letter of Credit issued by such Issuer for the account of such Borrower complied with the terms of such Letter of Credit or (y) such Issuer's failure to pay under any Letter of Credit issued for the account of such Borrower after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit. Nothing in this Section 2.21.9 is intended to limit the obligations of any Borrower under any other provision of this Agreement.

2.21.10 Lenders' Indemnification. Each Lender shall, ratably in accordance with its Pro Rata Share, indemnify each Issuer, its affiliates and its directors, officers, agents and employees (to the extent not reimbursed by the applicable Borrower) against any cost, expense (including reasonable counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such indemnitees' gross negligence or willful misconduct or such Issuer's failure to pay under any Letter of Credit after the presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit) that such indemnitees may suffer or incur in connection with this Section 2.21 or any action taken or omitted by such indemnitees hereunder.

2.21.11 Rights as a Lender. In its capacity as a Lender, each Issuer shall have the same rights and obligations as any other Lender.

2.21.12 Applicability of ISP. Unless otherwise expressly agreed by the Issuer and a Borrower, when a Letter of Credit is issued, the rules of the ISP shall apply to each standby Letter of Credit.

2.21.13 Cash Collateral. At any point in time in which there is a Defaulting Lender, the Issuer may require the Borrowers to Cash Collateralize the LC Obligations pursuant to Section 2.22.

2.22 Cash Collateral.

2.22.1 Funding of Cash Collateral; Cash Collateral Account.

(i) If there shall exist a Defaulting Lender and if such Defaulting Lender's participations have been reallocated in accordance with Section 2.23.1(ii), within two (2) Business Days following the receipt of a written request of the Agent, an Issuer (with a copy to the Agent) or the Swingline Lender (with a copy to the Agent), the Borrowers shall Cash Collateralize all Fronting Exposure of the Issuers or Swingline Lender, as applicable, with respect to such Defaulting Lender (determined after giving effect to Section 2.23.2 and any Cash Collateral provided by the Defaulting Lender pursuant to Section 2.23.1(iv)).

(ii) If any part of the Borrowers' Cash Collateral is provided in cash, such cash shall be deposited in an interest-bearing account established by the Agent in the name of, and under the sole dominion and control of, the Agent (the "Cash Collateral Account"). All amounts held in the Cash Collateral Account shall be held as cash and shall bear interest at a rate equal to the rate generally offered by the Agent for deposits equal to the amount held in the account.

2.22.2 Grant of Security Interest. The Borrowers, and to the extent provided by any Defaulting Lender, such Defaulting Lender, hereby grant to the Agent, for the benefit of the Agent, the Issuers and the Non-Defaulting Lenders (including the Swingline Lender), a security interest in all such Cash Collateral as security for the Defaulting Lenders' obligations to which such Cash Collateral may be applied pursuant to Section 2.22.3 below. If at any time the Agent, an Issuer or the Swingline Lender determines that Cash Collateral is subject to any right or claim of any Person other than the Agent as herein provided, or that the total amount of such Cash Collateral is less than the applicable Fronting Exposure, the Borrowers will, promptly upon demand by the Agent, pay or provide to the Agent additional Cash Collateral in an amount sufficient to eliminate such deficiency (after giving effect to any Cash Collateral provided by the Defaulting Lender pursuant to Section 2.23.1(v)).

2.22.3 Application. Notwithstanding anything to the contrary contained in this Agreement, Cash Collateral provided under this Section 2.22 or Section 2.23 shall be held and applied to the complete satisfaction of the specific LC Obligations, Swingline Loans or obligations to fund participations therein for which the Cash Collateral was so provided, prior to any other application of such property as may be provided for herein. The amount of any outstanding Swingline Loans or Reimbursement Obligations owed by any Borrower to the Swingline Lender or any Issuer, as applicable, shall be credited by the amount of Cash Collateral provided by such Borrower with respect to the Swingline Loans or Reimbursement Obligations.

2.22.4 Termination of Requirement. Cash Collateral (or the appropriate portion thereof) provided to reduce Fronting Exposure shall no longer be required to be held as Cash Collateral pursuant to this Section 2.22 (and shall be promptly returned, including any interest thereon) following (i) the elimination of the applicable Fronting Exposure giving rise thereto (including by the termination of Defaulting Lender status of the applicable Lender), or (ii) the determination by the Agent and the applicable Issuer or Swingline Lender, respectively, that there exists excess Cash Collateral.

2.23 Defaulting Lenders.

2.23.1 Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender or is replaced pursuant to Section 3.7, to the extent permitted by applicable law:

(i) Waivers and Amendments. Such Defaulting Lender’s right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definition of Required Lenders and Section 8.2.

(ii) Reallocation of Obligations to Non-Defaulting Lenders. All or any part of such Defaulting Lender’s obligations to make Revolving Loans and participate in LC Obligations and Swingline Loans shall be reallocated among the Non-Defaulting Lenders in accordance with their respective Pro Rata Shares (calculated without regard to such Defaulting Lender’s Commitment) but only to the extent that (x) there is no Default or Unmatured Default outstanding at the time of such reallocation and (y) such reallocation does not cause the aggregate principal amount of the outstanding Revolving Loans and participations in Letters of Credit and Swingline Loans at such time of any Non-Defaulting Lender to exceed such Non-Defaulting Lender’s Commitment. No reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender’s increased exposure following such reallocation.

(iii) Cash Collateral. If the reallocation described in clause (ii) above cannot, or can only partially, be effected, the Borrowers shall, without prejudice to any right or remedy available to them hereunder or under law, furnish Cash Collateral to the Agent in an aggregate amount equal to the Fronting Exposure of the Issuers and the Swingline Lender, as the case may be, in accordance with the procedures set forth in Section 2.22.

(iv) Defaulting Lender Waterfall. Any payment of principal, interest, fees or other amounts received by the Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VII or otherwise) or received by the Agent from a Defaulting Lender pursuant to Sections 11.1 and 11.2 (excluding Cash

Collateral) shall be applied as follows: *first*, to the payment of any amounts owing by such Defaulting Lender to the Agent hereunder; *second*, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to any Issuer hereunder; *third*, to Cash Collateralize such Issuer's Fronting Exposure in accordance with Section 2.22; *fourth*, as the Borrowers may request (so long as no Default or Unmatured Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Agent; *fifth*, if so determined by the Agent and the Borrowers, to be held in a non-interest bearing deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (y) Cash Collateralize the Issuer's and the Swingline Lender's future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.22; *sixth*, to the payment of any amounts owing to the Lenders, the Issuers or Swingline Lenders as a result of any final and non-appealable judgment of a court of competent jurisdiction obtained by any Lender, the Issuers or Swingline Lenders against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; *seventh*, so long as no Default or Unmatured Default exists, to the payment of any amounts owing to the Borrowers as a result of any final and non-appealable judgment of a court of competent jurisdiction obtained by the Borrowers against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement; and *eighth*, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that to the extent the Agent receives any amounts (each, a "Defaulting Lender Amount") (x) in payment of any Defaulting Lender's obligations from any Person other than a Borrower or (y) from a Defaulting Lender, including pursuant to Sections 11.1 and 11.2 (excluding Cash Collateral), and, in either case, the Agent is holding any Cash Collateral of a Borrower, then no amounts shall be distributed pursuant to this Section 2.23.1(iv) unless and until such Cash Collateral, including interest accrued thereon, in the amount of such Defaulting Lender Amount, shall have been fully returned to such Borrower; provided further that if such payment is a payment of the principal amount of any Loans or LC Obligations in respect of which such Defaulting Lender has not fully funded its appropriate share, such payment shall be applied, following the refunding of any Cash Collateral provided by any Borrower, solely to pay the Loans of, and LC Obligations owed to, all Non-Defaulting Lenders based on their Pro Rata Shares (calculated without regard to such Defaulting Lender's Commitment) prior to being applied to the payment of any Loans of, or LC Obligations owed to, such Defaulting Lender until such time as all Loans and funded and unfunded participations in LC Obligations are held by the Lenders in accordance with their Pro Rata Shares (without giving effect to Section 2.23.1(ii)). Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.23.1(iv) shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(v) Certain Fees.

(A) Facility Fees. Each Defaulting Lender shall be entitled to receive a facility fee pursuant to Section 2.7(a) for any period during which that Lender is a Defaulting Lender only to the extent allocable to the sum of (1) the outstanding principal amount of the Revolving Loans made by such Defaulting Lender and (2) the Defaulting Lender's Pro Rata Share of the stated amount of

Letters of Credit and Swingline Loans for which it has provided Cash Collateral pursuant to Section 2.23.1(iv).

(B) Letter of Credit Fees. Each Defaulting Lender shall be entitled to receive Letter of Credit fees pursuant to Section 2.21.4 for any period during which that Lender is a Defaulting Lender only to the extent allocable to its Pro Rata Share of the stated amount of Letters of Credit for which it has provided Cash Collateral pursuant to Section 2.23.1(iv).

(C) Reallocation of Fees. With respect to any facility fee or Letter of Credit fee not required to be paid to any Defaulting Lender pursuant to clauses (A) or (B) above, the Borrowers shall (x) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's obligation to make Revolving Loans or participate in LC Obligations or Swingline Loans that has been reallocated to such Non-Defaulting Lender pursuant to Section 2.23.1(ii) above, (y) pay to each Issuer the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to such Issuer's Fronting Exposure, until such time as the Fronting Exposure has been eliminated by the posting of Cash Collateral or otherwise, and (z) thereafter, not be required to pay the remaining amount of any such fee.

2.23.2 Defaulting Lender Cure. If the Borrowers, the Agent, the Swingline Lender and each Issuer agree in writing that a Lender is no longer a Defaulting Lender, the Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par that portion of outstanding Loans of the other Lenders or take such other actions as the Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit and Swingline Loans to be held on a pro rata basis by the Lenders in accordance with their Pro Rata Shares (without giving effect to Section 2.23.1(ii)), whereupon such Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrowers while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

2.23.3 New Swingline Loans/Letters of Credit. So long as any Lender is a Defaulting Lender, (i) the Swingline Lender shall not be required to fund any Swingline Loans unless it is satisfied that it will have no Fronting Exposure after giving effect to such Swingline Loan and (ii) no Issuer shall be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

ARTICLE III

YIELD PROTECTION; TAXES

3.1 Yield Protection. If any Change in Law:

(i) subjects any Issuer, the Swingline Lender, any other Lender or any applicable Lending Installation to any Taxes, or changes the basis of taxation of payments (other than with respect to Excluded Taxes) to such Issuer in respect of Letters of Credit or to the Swingline Lender or any Lender in respect of its Eurodollar Loans or its participations in Letters of Credit, or

(ii) imposes or increases or deems applicable any reserve, assessment, insurance charge, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Issuer, the Swingline Lender, any other Lender or any applicable Lending Installation (other than reserves and assessments taken into account in determining the interest rate applicable to Eurodollar Advances), or

(iii) imposes any other condition the result of which is to increase the cost to any Issuer, the Swingline Lender, any other Lender or any applicable Lending Installation of issuing or participating in Letters of Credit or making, funding or maintaining its Eurodollar Loans or reduces any amount receivable by any Issuer, the Swingline Lender, any other Lender or any applicable Lending Installation in connection with Letters of Credit or its Eurodollar Loans, or requires any Issuer, the Swingline Lender, any other Lender or any applicable Lending Installation to make any payment calculated by reference to the amount of Letters of Credit issued by it, the amount of its participations in Letters of Credit or the amount of Eurodollar Loans held or interest received by it,

in each case by an amount deemed material by such Issuer or such other Lender, and the result of any of the foregoing is to increase the cost to such Issuer, the Swingline Lender, such other Lender or such applicable Lending Installation of issuing or participating in Letters of Credit or making or maintaining its Eurodollar Loans or Commitment or to reduce the return received by such Issuer, the Swingline Lender, such other Lender or such applicable Lending Installation in connection with such issuing or participating in Letters of Credit or its Eurodollar Loans or Commitment, then, within 15 days of demand by such Issuer, the Swingline Lender or such other Lender, the applicable Borrower (or, if any of the foregoing is not attributable or allocable to a particular Borrower, PHI) shall pay such Issuer, the Swingline Lender or such other Lender such additional amount or amounts as will compensate such Issuer, the Swingline Lender or such Lender for such increased cost or reduction in amount received; provided that a certificate setting forth such amount or amounts as shall be necessary to compensate such Lender as specified in clauses (i) through (iii) above, as the case may be, and containing an explanation in reasonable detail of the manner in which such amount or amounts shall have been determined, shall have been delivered to the Borrowers and shall be conclusive absent manifest error.

3.2 Changes in Capital Adequacy Regulations. If any Issuer, the Swingline Lender or another Lender determines the amount of capital required or expected to be maintained by such Issuer, the Swingline Lender or such Lender, any Lending Installation of such Lender or any corporation controlling such Issuer, the Swingline Lender or such Lender is increased as a result of a Change in Law, then, within 15 days of demand by such Issuer, the Swingline Lender or such Lender, the applicable Borrower (or, if the amount payable is not attributable or allocable to a particular Borrower, PHI) shall pay such Issuer, the Swingline Lender or such Lender the amount necessary to compensate for any shortfall in the rate of return on the portion of such increased capital which such Issuer, the Swingline Lender or such Lender determines is attributable to this Agreement, Loans or Letters of Credit outstanding hereunder (or participations therein) or its Commitment to make Loans or to issue or participate in Letters of Credit hereunder (after taking into account such Lender's policies as to capital adequacy); provided that a certificate setting forth such amount or amounts as shall be necessary to compensate such Lender as specified above, and containing an explanation in reasonable detail of the manner in which such amount or amounts shall have been determined, shall have been delivered to the Borrowers and shall be conclusive absent manifest error.

3.3 Availability of Types of Advances. If any Lender or the Swingline Lender notifies the Agent that maintenance of its Eurodollar Loans at a suitable Lending Installation would violate any applicable law, rule, regulation, or directive, whether or not having the force of law, or if the Required Lenders determine that (i) deposits of a type and maturity appropriate to match fund Eurodollar Advances are not available or (ii) the interest rate applicable to Eurodollar Advances does not accurately reflect the cost of making or maintaining Eurodollar Advances, then the Agent shall suspend the availability of Eurodollar Advances and require any affected Eurodollar Advances to be repaid or converted to Floating Rate Advances, subject to the payment of any funding indemnification amounts required by Section 3.4.

3.4 Funding Indemnification. If any payment of a Eurodollar Advance (other than a Swingline Loan) occurs on a day which is not the last day of an Interest Period therefor, whether because of acceleration, prepayment or otherwise, or a Eurodollar Advance (other than a Swingline Loan) is not made on the date specified by a Borrower for any reason other than default by the Lenders, the applicable Borrower will indemnify each Lender for any loss or cost incurred by it resulting therefrom, including any loss or cost in liquidating or employing deposits acquired to fund or maintain such Eurodollar Advance.

3.5 Taxes.

(i) All payments by the Borrowers to or for the account of any Issuer, the Swingline Lender, any other Lender or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If a Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Issuer, the Swingline Lender, any other Lender or the Agent, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.5), such Issuer, the Swingline Lender, such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) such Borrower shall make such deductions, (c) such Borrower shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) such Borrower shall furnish to the Agent the original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

(ii) In addition, each Borrower hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made by it hereunder or under any Note or Letter of Credit Application or from its execution or delivery of, or otherwise attributable to such Borrower in connection with, this Agreement, any Note or any Letter of Credit Application ("Other Taxes").

(iii) Each Borrower hereby agrees to indemnify each Issuer, the Swingline Lender, each other Lender and the Agent for the full amount of Taxes or Other Taxes (including any Taxes or Other Taxes imposed on amounts payable under this Section 3.5) paid by such Issuer, the Swingline Lender, such Lender or the Agent and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date such Issuer, the Swingline Lender, such Lender or the Agent makes demand therefor pursuant to Section 3.6.

(iv) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Lender") agrees that it will, not less than ten Business Days after the date of this Agreement, (i) deliver to each Borrower and the Agent two duly completed copies of United States

Internal Revenue Service Form W-8BEN or W-8ECI certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to each Borrower and the Agent a United States Internal Revenue Form W-8BEN or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each Borrower and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by any Borrower or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, *unless* an event (including any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Borrowers and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(v) For any period during which a Non-U.S. Lender has failed to provide a Borrower with an appropriate form pursuant to clause (iv) above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, occurring subsequent to the date on which a form originally was required to be provided), such Borrower shall not be required to increase any amount payable to such Non-U.S. Lender pursuant to Section 3.5(i)(a) or to otherwise indemnify such Lender under this Section 3.5 with respect to Taxes imposed by the United States; provided that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (iv) above, the applicable Borrower shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.

(vi) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Borrowers (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

(vii) If the U.S. Internal Revenue Service or any other Governmental Authority or an authority of any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders under this Section 3.5(vii) shall survive the payment of the Obligations and termination of this Agreement.

3.6 Mitigation of Circumstances; Lender Statements; Survival of Indemnity. Each Lender (including the Swingline Lender) shall promptly notify the Borrowers and the Agent of any event of which it has knowledge which will result in, and will use reasonable commercial efforts available to it (and not, in such Lender's good faith judgment, otherwise disadvantageous to such Lender) to mitigate or avoid, (i) any obligation of any Borrower to pay any amount pursuant to Section 3.1, 3.2 or 3.5 and (ii) the unavailability of Eurodollar Advances under Section 3.3 (and, if any Lender (including the Swingline Lender) has given notice of any such event described above and thereafter such event ceases to exist, such Lender shall promptly so notify the Borrowers and the Agent). Without limiting the foregoing, each Lender (including the Swingline Lender) shall, to the extent reasonably possible, designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability of any Borrower to such Lender under Sections 3.1, 3.2 and 3.5 or to avoid the unavailability of Eurodollar Advances under Section 3.3, so long as such designation is not, in the judgment of such Lender, disadvantageous to such Lender. Any Lender (including the Swingline Lender) claiming compensation under Section 3.1, 3.2, 3.4, or 3.5 shall deliver a written statement to the applicable Borrower (with a copy to the Agent) as to the amount due under the applicable Section, which statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on such Borrower in the absence of manifest error. Determination of amounts payable under any such Section in connection with a Eurodollar Loan shall be calculated as though each Lender (including the Swingline Lender) funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate or Eurodollar Market Index Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender (including the Swingline Lender) shall be payable on demand after receipt by the applicable Borrower of such written statement. Notwithstanding any other provision of this Article III, if any Lender (including the Swingline Lender) fails to notify a Borrower of any event or circumstance which will entitle such Lender to compensation from such Borrower pursuant to Section 3.1, 3.2 or 3.5 within 60 days after such Lender obtains knowledge of such event or circumstance, then such Borrower will not be responsible for any such compensation arising prior to the 60th day before such Borrower receives notice from such Lender of such event or circumstance. The obligations of the Borrowers under Sections 3.1, 3.2, 3.4 and 3.5 shall survive payment of the Obligations and termination of this Agreement.

3.7 Replacement of Lender. If (i) any Lender makes a demand for compensation under Section 3.1, 3.2 or 3.5 or a notice of the type described in Section 3.3, (ii) the credit rating then in effect with respect to a Lender's senior unsecured long term debt securities without third-party credit enhancement is not, in the case of a Moody's rating, Baa1 (with stable outlook) or, in the case of an S&P or Fitch rating, BBB+ (with stable outlook), or better or (iii) any Lender is, or at any time has been, a Defaulting Lender (any such Lender, an "Affected Lender"), then PHI may replace such Affected Lender as a party to this Agreement with one or more other Lenders and/or Purchasers which are willing to accept an assignment from such Lender, and upon notice from PHI such Affected Lender shall assign, without recourse or warranty, its Commitment, its Loans and all of its other rights and obligations hereunder to such other Lenders and/or Purchasers for a purchase price equal to the sum of the principal amount of the Loans so assigned, all accrued and unpaid interest thereon, such Affected Lender's ratable share of all accrued and unpaid fees, any amount payable pursuant to Section 3.4 as a result of such Affected Lender receiving payment of any Eurodollar Loan prior to the end of an Interest Period therefor (assuming for such purpose that receipt of payment pursuant to such assignment constitutes payment of each outstanding Eurodollar Loan) and all other obligations owed to such Affected Lender hereunder.

ARTICLE IV

CONDITIONS PRECEDENT

4.1 Conditions to Effectiveness of Credit Agreement. The effectiveness of this Agreement is subject to the conditions precedent that the Agent has received (a) evidence, reasonably satisfactory to the Agent, that all fees and (to the extent billed) expenses which are payable on or before the date hereof to either Arranger, the Agent or any Lender hereunder or in connection herewith have been (or concurrently with the execution of this Agreement by the parties will be) paid in full and (b) each of the following documents (with sufficient copies for each Lender):

(i) A certificate of each Borrower certifying that each of the articles or certificate of incorporation, the bylaws and the incumbency certificate of such Borrower which were delivered to the Agent on the closing date of the Existing Credit Agreement have not been repealed, revoked, rescinded or further amended in any respect, except with respect to any such amendment attached to such certificate.

(ii) Copies of the certificates of good standing of each Borrower, certified by the appropriate governmental officer in the jurisdiction(s) of incorporation of such Borrower.

(iii) Copies, certified by the Secretary or Assistant Secretary of each Borrower, of resolutions of such Borrower's Board of Directors authorizing the execution, delivery and performance of the Loan Documents to which such Borrower is a party.

(iv) A certificate, signed by an Authorized Officer of PHI, stating that on the date of the initial Credit Extension no Default or Unmatured Default has occurred and is continuing with respect to any Borrower.

(v) Any Notes requested by a Lender pursuant to Section 2.15 payable to the order of such requesting Lender.

(vi) Copies of all governmental approvals, if any, necessary for any Borrower to enter into the Loan Documents to which it is a party and to obtain Credit Extensions hereunder.

(vii) An opinion or opinions of counsel for the Borrowers, dated the Closing Date and addressed to the Agent and the Lenders, in form and substance acceptable to the Agent (which shall include, without limitation, opinions with respect to the due organization and valid existence of each Borrower and opinions as to the non-contravention of the Borrowers' organizational documents).

(viii) Such other documents as any Lender or its counsel may reasonably request.

4.2 Each Credit Extension. The Lenders, the Swingline Lender or the Issuers shall not be required to make any Credit Extension to any Borrower unless on the date of such Credit Extension:

(i) No Default or Unmatured Default with respect to such Borrower exists or will result from such Credit Extension.

(ii) The representations and warranties of such Borrower contained in Article V, (with the exception of the representations and warranties contained in Sections 5.5, 5.7. and 5.15 which shall only be made as of the Closing Date), are true and correct in all material respects as of the date of such Credit Extension except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct in all material respects on and as of such earlier date.

(iii) After giving effect to such Credit Extension, such Borrower's Outstanding Credit Extensions will not exceed such Borrower's borrowing authority as allowed by Applicable Governmental Authorities.

(iv) All legal matters incident to the making of such Credit Extension shall be reasonably satisfactory to the Lenders and their counsel.

Each request for a Credit Extension by a Borrower shall constitute a representation and warranty by such Borrower that the conditions contained in Sections 4.2(i), (ii) and (iii) have been satisfied. Any Lender may require a duly completed compliance certificate in substantially the form of Exhibit A from the applicable Borrower as a condition to the making of a Credit Extension.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Each Borrower represents and warrants to the Lenders that:

5.1 Existence and Standing. Such Borrower is a corporation, and each of its Subsidiaries is a corporation, partnership or limited liability company, duly and properly incorporated or organized, as the case may be, validly existing and (to the extent such concept applies to such entity) in good standing under the laws of its jurisdiction (or, if applicable, jurisdictions) of incorporation or organization and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted, except where failure to do so could not reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

5.2 Authorization and Validity. Such Borrower has the power and authority and legal right to execute and deliver the Loan Documents to which it is a party and to perform its obligations thereunder. The execution and delivery by such Borrower of the Loan Documents to which it is a party and the performance of its obligations thereunder have been duly authorized by proper corporate proceedings, and the Loan Documents to which such Borrower is a party constitute legal, valid and binding obligations of such Borrower enforceable against such Borrower in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

5.3 No Conflict; Government Consent. Neither the execution and delivery by such Borrower of the Loan Documents to which it is a party, nor the consummation of the transactions therein contemplated, nor compliance with the provisions thereof, will violate (i) any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on such Borrower or any of its Subsidiaries or (ii) such Borrower's or any of its Subsidiary's articles or certificate of incorporation, partnership agreement, certificate of partnership, articles or certificate of organization, bylaws, or operating or other management agreement, as the case may be, or (iii) the provisions of any indenture, instrument or agreement to which such Borrower or any of its Significant Subsidiaries is a party or is subject, or by which it, or its Property, is bound, or conflict with or constitute a default thereunder, or result in, or require, the creation or imposition of any Lien in, of or on any Property of such Borrower or any of its Significant Subsidiaries pursuant to the terms of any such indenture, instrument or agreement. No order, consent, adjudication, approval, license, authorization, or validation of, or filing, recording or registration with, or exemption by, or other action in respect of any governmental or public body or authority (including the FERC), or any subdivision thereof (any of the foregoing, and "Approval"), is required to be obtained by such Borrower or any of its Subsidiaries in connection with the execution and delivery by such Borrower of the Loan Documents to which it is a party, the borrowings and obtaining of Letters of Credit by such Borrower under this Agreement, the payment and performance by such Borrower of its Obligations or the legality, validity, binding effect or enforceability against such Borrower of any Loan Document to which such Borrower is a party, except for such Approvals which have been issued or obtained by such Borrower and which are in full force and effect.

5.4 Financial Statements. The financial statements included in such Borrower's Public Reports were prepared in accordance with Agreement Accounting Principles and fairly present the consolidated financial condition and operations of such Borrower and its Subsidiaries at the dates thereof and the consolidated results of their operations for the periods then ended.

5.5 No Material Adverse Change. Since December 31, 2010, there has been no change from that reflected in the Public Reports in the business, Property, financial condition or results of operations of such Borrower and its Subsidiaries taken as a whole which could reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

5.6 Taxes. Such Borrower and its Subsidiaries have filed all United States federal tax returns and all other material tax returns which are required to be filed and have paid all taxes due pursuant to said returns or pursuant to any assessment received by such Borrower or any of its Subsidiaries, except (a) such taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided in accordance with Agreement Accounting Principles and (b) taxes and governmental charges (in addition to those referred to in clause (a)) in an aggregate amount not exceeding $25,000,000. The charges, accruals and reserves on the books of such Borrower and its Subsidiaries in respect of any taxes or other governmental charges are adequate.

5.7 Litigation and Contingent Obligations. Except as disclosed in the Public Reports, there is no litigation, arbitration, governmental investigation, proceeding or inquiry pending or, to the knowledge of such Borrower, threatened against or affecting such Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect with respect to such Borrower or which seeks to prevent, enjoin or delay the making of any Loans. Other than any liability incident to any litigation, arbitration or proceeding which could not reasonably be expected to have a Material Adverse Effect with respect to such Borrower, such Borrower has no material contingent obligations not provided for or disclosed in the Public Reports.

5.8 Significant Subsidiaries. Schedule 3 contains an accurate list of all Significant Subsidiaries of such Borrower as of the Closing Date setting forth their respective jurisdictions of organization and the percentage of their respective capital stock or other ownership interests owned by such Borrower or other Subsidiaries of such Borrower. All of the issued and outstanding shares of capital stock or other ownership interests of such Significant Subsidiaries have been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and are fully paid and nonassessable.

5.9 ERISA. Each Plan complies in all material respects with all applicable requirements of law and regulations, no Reportable Event has occurred with respect to any Plan, neither such Borrower nor any other member of the Controlled Group has, within the immediately preceding five years, withdrawn from any Plan or initiated steps to do so, and no steps have been taken, within the immediately preceding five years, to reorganize or terminate any Plan.

5.10 Accuracy of Information. No written information, exhibit or report furnished by such Borrower or any of its Subsidiaries to the Agent or to any Lender in connection with the negotiation of, or compliance with the Loan Documents to which such Borrower is a party contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.

5.11 Regulation U. Neither such Borrower nor any of its Subsidiaries is engaged principally or as one of its primary activities in the business of extending credit for the purpose of purchasing or carrying any “margin stock” (as defined in Regulation U of the FRB).

5.12 Material Agreements. Neither such Borrower nor any Subsidiary thereof is in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement to which it is a party, which default could reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

5.13 Compliance With Laws. Such Borrower and its Subsidiaries have complied with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof having jurisdiction over the conduct of their respective businesses or the ownership of their respective Property except for any failure to comply with any of the foregoing which could not reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

5.14 Plan Assets; Prohibited Transactions. Such Borrower is not an entity deemed to hold "plan assets" within the meaning of 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, of an employee benefit plan (as defined in Section 3(3) of ERISA) which is subject to Title I of ERISA (other than an employee benefit plan subject to Section 125 of the Code) or any plan (within the meaning of Section 4975 of the Code).

5.15 Environmental Matters. In the ordinary course of its business, the officers of such Borrower consider the effect of Environmental Laws on the business of such Borrower and its Subsidiaries, in the course of which they identify and evaluate potential risks and liabilities accruing to such Borrower and its Subsidiaries due to Environmental Laws. On the basis of this consideration, such Borrower has concluded that Environmental Laws are not reasonably expected to have a Material Adverse Effect with respect to such Borrower. Except as disclosed in the Public Reports, neither such Borrower nor any Subsidiary thereof has received any notice to the effect that its operations are not in material compliance with any of the requirements of applicable Environmental Laws or are the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic or hazardous waste or substance into the environment, which noncompliance or remedial action could reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

5.16 Investment Company Act. Neither such Borrower nor any Subsidiary thereof is an "investment company" or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940.

5.17 Insurance. Such Borrower and its Significant Subsidiaries maintain insurance with financially sound and reputable insurance companies on all their Property of a character usually insured by entities in the same or similar businesses similarly situated against loss or damage of the kinds and in the amounts, customarily insured against by such entities, and maintain such other insurance as is usually carried by such entities.

5.18 No Default. No Default or Unmatured Default exists.

5.19 Ownership of Properties. As of the Closing Date, such Borrower and its Subsidiaries have valid title, free of all Liens other than those permitted by Section 6.12, to all the Property reflected as owned by such Borrower and its Subsidiaries in the financial statements of such Borrower referred to in Section 5.4, other than Property used, sold, transferred or otherwise disposed of since such date (a) in the ordinary course of business or (b) which are not material to the business of such Borrower and its Subsidiaries taken as a whole.

5.20 OFAC. None of the Borrowers, any Subsidiary of the Borrowers or any Affiliate of the Borrowers: (i) is a person named on the list of Specially Designated Nationals or Blocked Persons maintained by the U.S. Department of the Treasury's Office of Foreign Assets Control available at http://www.treas.gov/offices/enforcement/ofac/sdn/index.html, or as otherwise published from time to time; or (ii) is (A) an agency of the government of a country, (B) an organization controlled by a country, or (C) a person resident in a country that is subject to a sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/enforcement/ofac/sanctions/index.html, or as otherwise published from time to time, as such program may be applicable to such agency, organization or person; or (iii) derives more than 10% of its assets or operating income from investments in or transactions with any such country, agency, organization or person; and (iv) none of the proceeds from the loan will be used to finance any operations, investments or activities in, or make any payments to, any such country, agency, organization, or person.

ARTICLE VI

COVENANTS

During the term of this Agreement, unless the Required Lenders shall otherwise consent in writing:

6.1 Financial Reporting. Each Borrower will maintain, for itself and each of its Subsidiaries, a system of accounting established and administered in accordance with Agreement Accounting Principles, and furnish to the Agent (in such number of copies as the Agent may reasonably request):

(i) Within 100 days after the close of each of its fiscal years, an audit report, which shall be without a "going concern" or similar qualification and without any qualification as to the scope of the audit, issued by independent certified public accountants of recognized national standing and reasonably acceptable to the Agent, prepared in accordance with Agreement Accounting Principles on a consolidated and consolidating basis (consolidating statements need not be certified by such accountants) for itself and its Subsidiaries, including balance sheets as of the end of such period, related profit and loss and reconciliation of surplus statements, and a statement of cash flows, accompanied by (a) any management letter prepared by said accountants, and (b) a certificate of said accountants that, in the course of their examination necessary for their certification of the foregoing, they have obtained no knowledge of any Default or Unmatured Default with respect to such Borrower, or if, in the opinion of such accountants, any such Default or Unmatured Default shall exist, stating the nature and status thereof; provided that if such Borrower is then a "registrant" within the meaning of Rule 1-01 of Regulation S-X of the SEC and required to file a report on Form 10-K with the SEC, such Borrower's annual report on Form 10-K (excluding the exhibits thereto, unless such exhibits are requested under clause (viii) of this Section) or any successor form and a manually executed copy of the accompanying report of such Borrower's independent public accountant, as filed with the SEC, shall satisfy the requirements of this clause (i).

(ii) Within 60 days after the close of the first three quarterly periods of each of its fiscal years, for itself and its Subsidiaries, either (i) consolidated and consolidating unaudited balance sheets as at the close of each such period and consolidated and consolidating profit and loss and reconciliation of surplus statements and a statement of cash flows for the period from the beginning of such fiscal year to the end of such quarter, all certified by its chief financial officer or (ii) if such Borrower is then a "registrant" within the meaning of Rule 1-01 of Regulation S-X of the SEC and required to file a report on Form 10-Q with the SEC, such Borrower's report on Form 10-Q for such quarterly period, excluding the exhibits thereto, unless such exhibits are requested under clause (viii) of this Section.

(iii) Together with the financial statements (or reports) required under Sections 6.1(i) and (ii), a compliance certificate in substantially the form of Exhibit A signed by an Authorized Officer of such Borrower showing the calculations necessary to determine such Borrower's compliance with Section 6.13

of this Agreement and stating that, to the knowledge of such officer, no Default or Unmatured Default with respect to such Borrower exists, or if any such Default or Unmatured Default exists, stating the nature and status thereof.

(iv) As soon as possible, and in any event within 60 days, after receipt by such Borrower a copy of (a) any notice or claim to the effect that such Borrower or any of its Subsidiaries is or may be liable to any Person as a result of the release by such Borrower, any of its Subsidiaries, or any other Person of any toxic or hazardous waste or substance into the environment, and (b) any notice alleging any violation of any federal, state or local environmental, health or safety law or regulation by such Borrower or any of its Subsidiaries, which, in either case, could be reasonably expected to have a Material Adverse Effect with respect to such Borrower; provided that if such Borrower is then a "registrant" within the meaning of Rule 1-01 of Regulation S-X of the SEC, such Borrower's report on a Form 10-K, a Form 10-Q or any Form 8-K that contains information related to the matters described in (a) or (b) shall be deemed notice under this clause (iv).

(v) In the case of PHI, promptly upon the furnishing thereof to its shareholders generally, copies of all financial statements, reports and proxy statements so furnished.

(vi) Promptly upon the filing thereof, copies of all registration statements and annual, quarterly, monthly or other regular reports which such Borrower or any of its Subsidiaries files with the SEC.

(vii) In the case of PHI, as soon as PHI obtains knowledge of an actual Change in Control or publicly disclosed prospective Change in Control, written notice of same, including the anticipated or actual date of and all other publicly disclosed material terms and conditions surrounding such proposed or actual Change in Control.

(viii) Such other information (including nonfinancial information) as the Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to clause (i), (ii), (v) or (vi) above may be delivered electronically and, if so delivered, shall be deemed to have been delivered on the date (i) on which the applicable Borrower posts such documents, or provides a link thereto, on a website on the internet at a website address previously specified to the Agent and the Lenders; or (ii) on which such documents are posted on the applicable Borrower's behalf on IntraLinks or another relevant website, if any, to which each of the Agent and each Lender has access; provided that (i) upon request of the Agent or any Lender, the applicable Borrower shall deliver paper copies of such documents to the Agent or such Lender (until a written request to cease delivering paper copies is given by the Agent or such Lender) and (ii) the applicable Borrower shall notify (which may be by facsimile or electronic mail) the Agent and each Lender of the posting of any documents. The Agent shall have no obligation to request the delivery of, or to maintain copies of, the documents referred to above or to monitor compliance by any Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

6.2 Use of Proceeds. Each Borrower will use the proceeds of the Advances (a) to refinance all Indebtedness of the Borrowers under the Existing Credit Agreement, (b) to pay any costs, fees and expenses associated with this Agreement on the Closing Date and (c) for general corporate purposes. No Borrower will, nor will it permit any Subsidiary to, use any of the proceeds of the Advances to it to purchase or carry any "margin stock" (as defined in Regulation U of the FRB).

6.3 Notice of Default. Each Borrower will give prompt notice in writing to the Lenders of the occurrence of any Default or Unmatured Default with respect to such Borrower (it being understood and agreed that no Borrower shall be required to make separate disclosure under this Section 6.3 of occurrences or developments which have previously been disclosed to the Lenders in any financial statement or other information delivered to the Lenders pursuant to Section 6.1).

6.4 Conduct of Business. Each Borrower will, and will cause each of its Significant Subsidiaries (or, in the case of clause (ii) below, each of its Subsidiaries) to, (i) carry on and conduct its business in substantially the same manner and in substantially the same fields of enterprise as it is presently conducted and (ii) do all things necessary to remain duly incorporated or organized, validly existing and (to the extent such concept applies to such entity) in good standing as a domestic corporation, partnership or limited liability company in its jurisdiction of incorporation or organization, as the case may be, and maintain all requisite authority to conduct its business in each jurisdiction in which its business is conducted, except to the extent, in the case of all matters covered by this clause (ii) other than the existence of such Borrower, that failure to do so would not reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

6.5 Taxes. Each Borrower will, and will cause each of its Subsidiaries to, timely file complete and correct United States federal and applicable foreign, state and local tax returns required by law and pay when due all taxes, assessments and governmental charges and levies upon it or its income, profits or Property, except (a) those that are being contested in good faith by appropriate proceedings and with respect to which adequate reserves have been set aside in accordance with Agreement Accounting Principles and (b) taxes, governmental charges and levies (in addition to those referred to in clause (a)) in an aggregate amount not exceeding $25,000,000.

6.6 Insurance. Each Borrower will, and will cause each of its Significant Subsidiaries to, maintain with financially sound and reputable insurance companies insurance on all of its Property in such amounts and covering such risks as is consistent with sound business practice, and each Borrower will furnish to any Lender such information as such Lender may reasonably request as to the insurance carried by such Borrower and its Significant Subsidiaries.

6.7 Compliance with Laws. Each Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations, orders, writs, judgments, injunctions, decrees or awards to which it may be subject, including all Environmental Laws, where failure to do so could reasonably be expected to have a Material Adverse Effect with respect to such Borrower.

6.8 Maintenance of Properties. Each Borrower will, and will cause each of its Subsidiaries to, do all things necessary to (a) maintain, preserve, protect and keep its Property in good repair, working order and condition, and make all necessary and proper repairs, renewals and replacements so that its business carried on in connection therewith may be properly conducted at all times, where failure to do so could reasonably be expected to have a Material Adverse Effect with respect to such Borrower; and (b) keep proper books and records in which full and correct entries shall be made of all material financial transactions of such Borrower and its Subsidiaries.

6.9 Inspection. Each Borrower will, and will cause each of its Significant Subsidiaries to, permit the Agent and the Lenders upon reasonable notice and at such reasonable times and intervals as the Agent or any Lender may designate by their respective representatives and agents, to inspect any of the Property, books and financial records of such Borrower and each such Significant Subsidiary, to examine and make copies of the books of accounts and other financial records of such Borrower and each such Significant Subsidiary, and to discuss the affairs, finances and accounts of such Borrower and each such Significant Subsidiary with, and to be advised as to the same by, their respective officers.

6.10 Merger. No Borrower will, nor will it permit any of its Significant Subsidiaries to, merge or consolidate with or into any other Person, except that, so long as both immediately prior to and after giving effect to such merger or consolidation, no Default or Unmatured Default with respect to such Borrower shall have occurred and be continuing, (i) any Significant Subsidiary of a Borrower may merge with such Borrower or a wholly-owned Subsidiary of such Borrower and (ii) a Borrower may merge or consolidate with any other Person so long as such Borrower is the surviving entity.

6.11 Sales of Assets. No Borrower will, nor will it permit any of its Subsidiaries to, lease, sell or otherwise dispose of any of its assets (other than in the ordinary course of business), or sell or assign with or without recourse any accounts receivable, except:

(i) Any Subsidiary of a Borrower may sell, transfer or assign any of its assets to such Borrower or another Subsidiary of such Borrower.

(ii) The sale, assignment or other transfer of accounts receivable or other rights to payment pursuant to any Securitization Transaction.

(iii) In the case of PHI, any Permitted PHI Asset Sale so long as, at the time thereof and immediately after giving effect thereto, no Default or Unmatured Default with respect to PHI exists.

(iv) So long as no Default or Unmatured Default exists or would result therefrom, the sale of Intangible Transition Property to a Special Purpose Subsidiary in connection with such Special Purpose Subsidiary's issuance of Nonrecourse Transition Bond Debt.

(v) Any Borrower and its Subsidiaries may sell or otherwise dispose of assets so long as the aggregate book value of all assets sold or otherwise disposed of in any fiscal year of such Borrower (other than assets sold or otherwise disposed of in the ordinary course of business or pursuant to clauses (i) through (iv) above) does not exceed a Substantial Portion of the Property of such Borrower.

6.12 Liens. No Borrower will, nor will it permit any of its Significant Subsidiaries to, create, incur, or suffer to exist any Lien in, of or on the Property of such Borrower or any such Significant Subsidiary, except:

(i) Liens for taxes, assessments or governmental charges or levies on its Property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with Agreement Accounting Principles shall have been set aside on its books.

(ii) Liens imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 90 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books.

(iii) Liens arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation.

(iv) Utility easements, building restrictions, zoning laws or ordinances and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and which do not in any material way affect the marketability of the same or interfere with the use thereof in the business of such Borrower and its Significant Subsidiaries.

(v) Liens existing on the date hereof and described in Schedule 4 (including Liens on after-acquired property arising under agreements described in Schedule 4 as such agreements are in effect on the date hereof).

(vi) Judgment Liens which secure payment of legal obligations that would not constitute a Default with respect to such Borrower under Article VII.

(vii) Liens on Property acquired by such Borrower or a Significant Subsidiary thereof after the date hereof, existing on such Property at the time of acquisition thereof (and not created in anticipation thereof), provided that in any such case no such Lien shall extend to or cover any other Property of such Borrower or such Significant Subsidiary, as the case may be.

(viii) Deposits and/or similar arrangements to secure the performance of bids, fuel procurement contracts or other trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business by such Borrower or any of its Significant Subsidiaries.

(ix) Liens on assets of such Borrower and its Significant Subsidiaries arising out of obligations or duties to any municipality or public authority with respect to any franchise, grant, license, permit or certificate.

(x) Rights reserved to or vested in any municipality or public authority to control or regulate any property or asset of such Borrower or any of its Significant Subsidiaries or to use such property or asset in a manner which does not materially impair the use of such property or asset for the purposes for which it is held by such Borrower or such Significant Subsidiary.

(xi) Irregularities in or deficiencies of title to any Property which do not materially affect the use of such property by such Borrower or any of its Significant Subsidiaries in the normal course of its business.

(xii) Liens securing Indebtedness of such Borrower and its Subsidiaries incurred to finance the acquisition of fixed or capital assets, provided that (i) such Liens shall be created substantially simultaneously with the acquisition of such fixed or capital assets, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness, (iii) the principal amount of Indebtedness secured thereby is not increased and (iv) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 100% of the original purchase price of such property at the time it was acquired.

(xiii) Any Lien on any property or asset of any corporation or other entity existing at the time such corporation or entity is acquired, merged or consolidated or amalgamated with or into such Borrower or any Significant Subsidiary thereof and not created in contemplation of such event.

(xiv) Liens arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by Section 6.12 (v), (vii), (xii) or (xiii); provided that such Indebtedness is not increased and is not secured by any additional assets.

(xv) Rights of lessees arising under leases entered into by such Borrower or any of its Significant Subsidiaries as lessor, in the ordinary course of business.

(xvi) In the case of PHI and PEPCO, Permitted PEPCO Liens.

(xvii) In the case of PHI and DPL, Permitted DPL Liens.

(xviii) In the case of PHI and ACE, Permitted ACE Liens.

(xix) In the case of PHI, Permitted PHI Liens.

(xx) Purchase money mortgages or other purchase money liens or conditional sale, lease-purchase or other title retention agreements upon or in respect of property acquired or leased for use in the ordinary course of its business by such Borrower or any of its Significant Subsidiaries.

(xxi) Liens granted by a Special Purpose Subsidiary to secure Nonrecourse Transition Bond Debt of such Special Purpose Subsidiary.

(xxii) Liens, in addition to those permitted by clauses (i) through (xxi), granted by PHI and its Subsidiaries (other than the Subsidiary Borrowers and their Subsidiaries) to secure Nonrecourse Indebtedness incurred after the date hereof, provided that the aggregate amount of all Indebtedness secured by such Liens shall not at any time exceed $200,000,000.

(xxiii) Other Liens, in addition to those permitted by clauses (i) through (xxii), securing Indebtedness or arising in connection with Securitization Transactions, provided that the sum (without duplication) of all such Indebtedness, plus the aggregate investment or claim held at any time by all purchasers, assignees or other transferees of (or of interests in) receivables and other rights to payment in all Securitization Transactions (excluding any Nonrecourse Transition Bond Debt), shall not at any time exceed (a) $1,000,000,000 for PHI and its Significant Subsidiaries, (b) $400,000,000 for PEPCO and its Significant Subsidiaries, (c) $400,000,000 for DPL and its Significant Subsidiaries and (d) $400,000,000 for ACE and its Significant Subsidiaries.

6.13 Leverage Ratio. No Borrower will permit the ratio, determined as of the end of each of its fiscal quarters, of (i) the Total Indebtedness of such Borrower to (ii) the Total Capitalization of such Borrower to be greater than 0.65 to 1.0. For purposes of this Section, the aggregate outstanding Indebtedness evidenced by Hybrid Securities up to an aggregate amount of 15% of Total Capitalization as of the date of determination, shall be excluded from Total Indebtedness, but the entire aggregate outstanding Indebtedness evidenced by such Hybrid Securities shall be included in the calculation of Total Capitalization.

ARTICLE VII

DEFAULTS

The occurrence of any one or more of the following events shall constitute a Default with respect to the Borrower(s) affected thereby (it being understood that (a) any Default with respect to a Subsidiary Borrower shall also be a Default with respect to PHI; and (b) any Default under Section 7.10 or 7.12 shall be a Default for all Borrowers):

7.1 Representation or Warranty. Any representation or warranty made, or deemed made pursuant to Section 4.2 by or on behalf of such Borrower to the Issuers, the Swingline Lender, the

Lenders or the Agent under or in connection with this Agreement or any certificate or information delivered in connection with this Agreement or any other Loan Document to which such Borrower is a party shall be materially false on the date as of which made.

7.2 Nonpayment. Nonpayment of the principal of any Loan to such Borrower when due; nonpayment of any Reimbursement Obligation of such Borrower within one Business Day after the same becomes due; or nonpayment by such Borrower of any interest on any Loan to such Borrower, or of any facility fee, Letter of Credit fee or other obligation payable by such Borrower under any of the Loan Documents to which it is a party, within five days after the same becomes due.

7.3 Certain Covenant Breaches. The breach by such Borrower of any of the terms or provisions of Section 6.2, 6.4 (as to the existence of such Borrower), 6.10, 6.11, 6.12 or 6.13.

7.4 Other Breaches. The breach by such Borrower (other than a breach which constitutes a Default with respect to such Borrower under another Section of this Article VII) of any of the terms or provisions of this Agreement which is not remedied within 15 days (or, in the case of Section 6.9, five Business Days) after the chief executive officer, the chief financial officer, the President, the Treasurer or any Assistant Treasurer of such Borrower obtains actual knowledge of such breach.

7.5 Cross Default. Failure of such Borrower or any of its Significant Subsidiaries to pay when due any Indebtedness aggregating in excess of $50,000,000 ("Material Indebtedness"); or the default by such Borrower or any of its Significant Subsidiaries in the performance (beyond the applicable grace period with respect thereto, if any) of any term, provision or condition contained in any agreement under which any such Material Indebtedness was created or is governed, or any other event shall occur or condition exist, the effect of which default or event is to cause, or to permit the holder or holders of such Material Indebtedness to cause, such Material Indebtedness to become due prior to its stated maturity; or any Material Indebtedness of such Borrower or any of its Significant Subsidiaries shall be declared to be due and payable or required to be prepaid or repurchased (other than by a regularly scheduled payment) prior to the stated maturity thereof; or such Borrower or any of its Significant Subsidiaries shall not pay, or admit in writing its inability to pay, its debts generally as they become due.

7.6 Voluntary Bankruptcy, etc. Such Borrower or any of its Significant Subsidiaries shall (i) have an order for relief entered with respect to it under the federal bankruptcy laws as now or hereafter in effect, (ii) make an assignment for the benefit of creditors, (iii) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or a Substantial Portion of its Property, (iv) institute any proceeding seeking an order for relief under the federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (v) take any corporate, partnership or limited liability company action to authorize or effect any of the foregoing actions set forth in this Section 7.6 or (vi) fail to contest in good faith any appointment or proceeding described in Section 7.7.

7.7 Involuntary Bankruptcy, etc. Without the application, approval or consent of such Borrower or any of its Significant Subsidiaries, a receiver, trustee, examiner, liquidator or similar official shall be appointed for such Borrower or any of its Significant Subsidiaries or a Substantial Portion of its Property, or a proceeding described in Section 7.6(iv) shall be instituted against such Borrower or any of its Significant Subsidiaries and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 30 consecutive days.

7.8 Seizure of Property, etc. Any court, government or governmental agency shall condemn, seize or otherwise appropriate, or take custody or control of, all or any portion of the Property of such Borrower and its Significant Subsidiaries which, when taken together with all other Property of such Borrower and its Significant Subsidiaries so condemned, seized, appropriated, or taken custody or control of, constitutes a Substantial Portion of its Property.

7.9 Judgments. Such Borrower or any of its Significant Subsidiaries shall fail within 60 days to pay, bond or otherwise discharge one or more (i) judgments or orders for the payment of money in excess of $50,000,000 (or the equivalent thereof in currencies other than Dollars) in the aggregate or (ii) nonmonetary judgments or orders which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect with respect to such Borrower, and, in any such case, there is a period of five consecutive days during which a stay of enforcement of such judgment(s) or order(s) is not in effect (by reason of pending appeal or otherwise).

7.10 ERISA. (i) Any Person shall engage in any non-exempt “prohibited transaction” (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any unpaid and past due “minimum required contribution” (as defined in Section 303 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of any Borrower or any other member of the Controlled Group, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any other member of the Plan shall terminate for purposes of Title IV of ERISA, (v) any Borrower or any other member of the Controlled Group shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the insolvency or reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist with respect to a Plan; and in each case referred to in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect with respect to any Borrower.

7.11 Unenforceability of Loan Documents. Any Loan Document shall cease to be in full force and effect (other than, in the case of a Note, as contemplated hereby), any action shall be taken by or on behalf of a Borrower to discontinue or to assert the invalidity or unenforceability of any of its obligations under any Loan Document, or any Borrower or any Person acting on behalf of a Borrower shall deny that such Borrower has any further liability under any Loan Document or shall give notice to such effect.

7.12 Change in Control. Any Change in Control shall occur; or PHI shall fail to own, directly or indirectly, 100% of the Voting Stock of each Subsidiary Borrower.

ARTICLE VIII

ACCELERATION, WAIVERS, AMENDMENTS AND REMEDIES

8.1 Acceleration. If any Default described in Section 7.6 or 7.7 occurs with respect to a Borrower, the obligations of the Lenders (including the Issuers and the Swingline Lender) to make Credit Extensions to such Borrower hereunder shall automatically terminate and the Obligations of such Borrower shall immediately become due and payable without any election or action on the part of the Agent or any Lender. If any other Default occurs with respect to a Borrower, the Required Lenders (or the Agent with the consent of the Required Lenders) may terminate or suspend the obligations of the

Lenders (including the Issuers and the Swingline Lender) to make Credit Extensions to such Borrower hereunder, or declare the Obligations of such Borrower to be due and payable, or both, whereupon such obligations of the Lenders (including the Issuers and the Swingline Lender) shall terminate and/or the Obligations of such Borrower shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which each Borrower hereby expressly waives.

If, within 30 days after termination of the obligations of the Lenders to make Credit Extensions to any Borrower hereunder or acceleration of the maturity of the Obligations of any Borrower as a result of any Default (other than any Default as described in Section 7.6 or 7.7) with respect to such Borrower and before any judgment or decree for the payment of the Obligations due shall have been obtained or entered, the Required Lenders (in their sole discretion) shall so direct, the Agent shall, by notice to such Borrower, rescind and annul such termination and/or acceleration.

8.2 Amendments. Subject to the provisions of this Article VIII, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Borrowers may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to this Agreement changing in any manner the rights of the Lenders or any Borrower hereunder or waiving any Default or Unmatured Default hereunder; provided that no such supplemental agreement shall, without the consent of all of the Lenders:

(i) Other than as provided in Section 2.4, extend the final maturity of any Loan or Reimbursement Obligation or forgive all or any portion of the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon or on any facility fees or Letter of Credit fees.

(ii) Reduce the percentage specified in the definition of Required Lenders.

(iii) Other than as provided in Section 2.2 and Section 2.4, extend the Facility Termination Date for any Borrower, increase the amount of the Commitment of any Lender hereunder, increase any Sublimit or permit any Borrower to assign its rights under this Agreement.

(iv) Amend, modify or waive the pro rata sharing of payments by and among the Lenders without the written consent of each Lender directly affected thereby.

(v) Amend this Section 8.2.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent. No amendment of this Agreement relating to any Issuer shall be effective without the written consent of such Issuer. No amendment of this Agreement relating to the Swingline Lender shall be effective without the written consent of the Swingline Lender. The Agent may waive payment of the fee required under Section 12.3.2 without obtaining the consent of any other party to this Agreement.

Notwithstanding the fact that the consent of all the Lenders is required in certain circumstances as set forth above, (a) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code supersedes the unanimous consent provisions set forth herein, (b) the Required Lenders may consent to allow a Borrower to use cash collateral in the context of a bankruptcy or insolvency proceeding and (c) no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except (i) that the Commitment of such Lender may not be increased or extended without the consent of such Lender and (ii) to the extent such amendment, waiver or consent impacts such Defaulting Lender more adversely than the other Lenders.

8.3 Preservation of Rights. No delay or omission of the Agent, the Issuers, the Swingline Lender or the Lenders to exercise any right under the Loan Documents shall impair such right or be construed to be a waiver of any Default or Unmatured Default or an acquiescence therein, and the making of a Credit Extension notwithstanding the existence of a Default or Unmatured Default or the inability of the applicable Borrower to satisfy the conditions precedent to such Credit Extension shall not constitute any waiver or acquiescence. Any single or partial exercise of any such right shall not preclude other or further exercise thereof or the exercise of any other right, and no waiver, amendment or other variation of the terms, conditions or provisions of any Loan Document whatsoever shall be valid unless in writing signed by the parties required pursuant to Section 8.2 and then only to the extent in such writing specifically set forth. All remedies contained in the Loan Documents or by law afforded shall be cumulative and all shall be available to the Agent, the Issuers, the Swingline Lender and the Lenders until the Obligations have been paid in full.

ARTICLE IX

GENERAL PROVISIONS

9.1 Survival of Representations. All representations and warranties of the Borrowers contained in this Agreement shall survive the making of the Credit Extensions herein contemplated.

9.2 Governmental Regulation. Anything contained in this Agreement to the contrary notwithstanding, no Lender shall be obligated to extend credit to any Borrower in violation of any limitation or prohibition provided by any applicable statute or regulation.

9.3 Headings. Section headings in the Loan Documents are for convenience of reference only, and shall not govern the interpretation of any of the provisions of the Loan Documents.

9.4 Entire Agreement. The Loan Documents embody the entire agreement and understanding among the Borrowers, the Agent and the Lenders and supersede all prior agreements and understandings among the Borrowers, the Agent and the Lenders relating to the subject matter thereof.

9.5 Several Obligations; Benefits of this Agreement. The respective obligations of the Lenders hereunder are several and not joint and no Lender shall be the partner or agent of any other (except to the extent to which the Agent is authorized to act as such). The failure of any Lender to perform any of its obligations hereunder shall not relieve any other Lender from any of its obligations hereunder. This Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and assigns, provided that the parties hereto expressly agree that each Arranger shall enjoy the benefits of the provisions of Sections 9.6, 9.10 and 10.11 to the extent specifically set forth therein and shall have the right to enforce such provisions on its own behalf and in its own name to the same extent as if it were a party to this Agreement.

9.6 Expenses; Indemnification.

(i) PHI shall reimburse the Agent and each Arranger for all reasonable costs, internal charges and out of pocket expenses including reasonable expenses of and fees for attorneys for the Agent and each Arranger who are employees of the Agent or an Arranger and of a single outside counsel for all of the Agent and the Arrangers paid or incurred by the Agent or such Arranger in connection with the preparation, negotiation, execution, delivery, syndication, review, amendment, modification and administration of the Loan Documents. Each Borrower agrees to reimburse the Agent, each Issuer, the Arrangers and the Lenders for (A) all reasonable costs, internal charges and out of pocket expenses (including reasonable attorneys' fees and time charges of attorneys for the Agent, each Issuer, the Arrangers and the Lenders, which attorneys may be employees of the Agent, each Issuer, the Arrangers or a Lender) paid or incurred by the Agent, each Issuer, the Arrangers or any Lender in connection with the collection and enforcement of the Obligations of such Borrower under the Loan Documents (including in any "work-out" or restructuring of the Obligations of such Borrower resulting from the occurrence of a Default with respect to such Borrower) and (B) any civil penalty or fine assessed by OFAC against, and all reasonable costs and expenses (including reasonable counsel fees and disbursements) incurred in connection with defense thereof, by the Agent, each Issuer, or any Lender as a result of conduct by any Borrower that violates a sanction enforced by OFAC.

(ii) Each Borrower agrees to indemnify the Agent, each Issuer, each Arranger, each Lender, their respective affiliates, and each of the directors, officers and employees of the foregoing Persons (collectively, the "Indemnified Parties") against all actions, suits, losses, claims, damages, penalties, judgments, liabilities and reasonable expenses (including all reasonable expenses of litigation or preparation therefor whether or not any Indemnified Party is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Credit Extension hereunder, except to the extent that they are determined in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Indemnified Party seeking indemnification; provided that no Subsidiary Borrower shall have any obligation with respect to any of the foregoing to the extent allocable solely to PHI or another Subsidiary Borrower. The obligations of the Borrowers under this Section 9.6 shall survive the termination of this Agreement.

9.7 Numbers of Documents. All statements, notices, closing documents and requests hereunder shall be furnished to the Agent with sufficient counterparts so that the Agent may furnish one to each of the Lenders.

9.8 Disclosure. The Borrowers and the Lenders hereby acknowledge and agree that Wells Fargo and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with the Borrowers and their Affiliates.

9.9 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

9.10 Nonliability of Lenders. The relationship between the Borrowers on the one hand and the Lenders and the Agent on the other hand shall be solely that of borrower and lender. None of the Agent, either Arranger or any Lender shall have any fiduciary responsibility to any Borrower. None of the Agent, either Arranger or any Lender undertakes any responsibility to any Borrower to review or inform such Borrower of any matter in connection with any phase of such Borrower's business or operations. Each Borrower agrees that none of the Agent, either Arranger or any Lender shall have liability to such Borrower (whether sounding in tort, contract or otherwise) for losses suffered by such Borrower in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent jurisdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. None of the Agent, either Arranger or any Lender shall have any liability with respect to, and each Borrower hereby waives, releases and agrees not to sue for, any special, indirect or consequential damages suffered by such Borrower in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

9.11 Limited Disclosure.

(i) None of the Agent, any Issuer, the Swingline Lender nor any Lender shall disclose to any Person any Specified Information (as defined below) except to its, and its Affiliates', officers, employees, agents, accountants, legal counsel, advisors and other representatives who have a need to know such Specified Information in connection with this Agreement or the transactions contemplated hereby. "Specified Information" means information that any Borrower has furnished or in the future furnishes to the Agent, any Issuer, the Swingline Lender or any Lender in confidence, but does not include any such information that (a) is published in a source or otherwise becomes generally available to the public (other than through the actions of the Agent, any Issuer, the Swingline Lender, any Lender or any of their Affiliates, officers, employees, agents, accountants, legal counsel, advisors and other representatives in violation of this Agreement) or that is or becomes available to the Agent, such Issuer, the Swingline Lender or such Lender from a source other than a Borrower, (b) without duplication with clause (b) above, is otherwise a matter of general public knowledge, (c) that is required to be disclosed by law, regulation or judicial order (including pursuant to the Code), (d) that is requested by any regulatory body with jurisdiction over the Agent, any Issuer, the Swingline Lender or any Lender, (e) that is disclosed to legal counsel, accountants and other professional advisors to the Agent, such Issuer, the Swingline Lender or such Lender, in connection with the exercise of any right or remedy hereunder or under any Note or any suit or other litigation or proceeding relating to this Agreement or any Note or to a rating agency if required by such agency in connection with a rating relating to Credit Extensions hereunder, (f) that is disclosed to assignees or participants or potential assignees or participants who agree to be bound by the provisions of this Section 9.11 or (g) that is disclosed to any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to any Borrower and its obligations who agrees to be bound by the provisions of this Section 9.11.

(ii) The provisions of this Section 9.11 supersede any confidentiality obligations of any Lender, any Issuer, the Swingline Lender or the Agent relating to this Agreement or the transactions contemplated hereby under any agreement between any Borrower and any such party.

9.12 Nonreliance. Each Lender hereby represents that it is not relying on or looking to any margin stock (as defined in Regulation U of the FRB) for the repayment of the Credit Extensions provided for herein.

9.13 USA PATRIOT ACT NOTIFICATION. The following notification is provided to the Borrowers pursuant to Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318:

IMPORTANT INFORMATION ABOUT PROCEDURES FOR OPENING A NEW ACCOUNT. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify and record information that identifies each person or entity that opens an account, including any deposit account, treasury management account, loan, other extension of credit or other financial services product. What this means for the Borrower: When a Borrower opens an account, if such Borrower is an individual, the Agent and the Lenders will ask for such Borrower's name, residential address, tax identification number, date of birth and other information that will allow the Agent and the Lenders to identify such Borrower, and, if a Borrower is not an individual, the Agent and the Lenders will ask for such Borrower's name, tax identification number, business address and other information that will allow the Agent and the Lenders to identify such

Borrower. The Agent and the Lenders may also ask, if a Borrower is an individual, to see such Borrower's driver's license or other identifying documents, and, if the Borrower is not an individual, to see the Borrower's legal organizational documents or other identifying documents.

9.14 Amendment and Restatement; No Novation. This Agreement constitutes an amendment and restatement of the Existing Credit Agreement effective from and after the Closing Date. The execution and delivery of this Agreement shall not constitute a novation of any Indebtedness or other Obligations owing to the Lenders or the Agent under the Existing Credit Agreement based on facts or events occurring or existing prior to the execution and delivery of this Agreement. On the Closing Date, the credit facilities described in the Existing Credit Agreement shall be amended, supplemented, modified and restated in their entirety by the facilities described herein, and all Loans and other Obligations of the Borrowers outstanding as of such date under the Existing Credit Agreement shall be deemed to be Loans and Obligations outstanding under the corresponding facilities described herein, without any further action by any Person, except that the Agent shall make such transfers of funds as are necessary in order that the outstanding balance of such Loans, together with any Loans funded on the Closing Date, reflect the Commitments of the Lenders hereunder.

ARTICLE X

THE AGENT

10.1 Appointment; Nature of Relationship. Wells Fargo is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this Article X. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual representative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of Section 9-105 of the Uniform Commercial Code and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

10.2 Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action hereunder or under any other Loan Document except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3 General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to any Borrower or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except to the extent such action or inaction is determined in a final non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

10.4 No Responsibility for Loans Recitals etc. Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Article IV, except receipt of items required to be delivered solely to the Agent; (d) the existence or possible existence of any Default or Unmatured Default; or (e) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by a Borrower to the Agent at such time, but is voluntarily furnished by such Borrower to the Agent (either in its capacity as Agent or in its individual capacity).

10.5 Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders (or, when expressly required hereunder, all of the Lenders), and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders. The Lenders hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Lenders. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6 Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents and attorneys in fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys in fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Lenders and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

10.7 Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8 Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (i) for any amounts not reimbursed by any Borrower for which the Agent is entitled to reimbursement by such Borrower under the Loan Documents, (ii) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents (including for any expenses incurred by the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders) and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of the Loan Documents or any document delivered in connection therewith or the transactions contemplated thereby (including for any such amounts incurred by or asserted against the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders), or the enforcement of any of the terms of the Loan Documents or of any such other documents, provided that (i) no Lender shall be liable for any of the foregoing to the extent any of the foregoing is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Agent and (ii) any indemnification required pursuant to Section 3.5(vii) shall, notwithstanding the provisions of this Section 10.8, be paid by the relevant Lender in accordance with the provisions thereof. The obligations of the Lenders under this Section 10.8 shall survive payment of the Obligations and termination of this Agreement.

10.9 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Unmatured Default hereunder (except for failure of a Borrower to pay any amount required to be paid to the Agent hereunder for the account of the Lenders) unless the Agent has received written notice from a Lender or a Borrower referring to this Agreement, describing such Default or Unmatured Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to all Lenders.

10.10 Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment, its Loans, its participation in the Swingline Loans and its interest in the LC Obligations as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with any Borrower or any of its Subsidiaries in which such Borrower or such Subsidiary is not restricted hereby from engaging with any other Person. The Agent in its individual capacity is not obligated to remain a Lender.

10.11 Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent, either Arranger or any other Lender and based on the financial statements prepared by the Borrowers and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent, either Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12 Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and PHI, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. The Agent may be removed at any time with or without cause by written notice received by the Agent from the Required Lenders, such removal to be effective on the date specified by the Required Lenders. The Agent shall be deemed to have been removed, without further action by the Borrowers or Required Lenders hereunder, upon becoming a Defaulting Lender, such removal to be effective upon the appointment of a successor Agent. Upon any such resignation or removal, (i) the Agent that has resigned or been removed shall no longer receive the administrative agent fees previously agreed to by the Borrowers and the Agent and (ii) the Required Lenders shall have the right (with, so long as no Default or Unmatured Default exists with respect to any Borrower, the consent of PHI, which shall not be unreasonably withheld or delayed) to appoint, on behalf of the Borrowers and the Lenders, a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Borrowers and the Lenders, a successor Agent. Notwithstanding the previous sentence, the Agent may at any time without the consent of any Lender but with the consent of

PHI, not to be unreasonably withheld or delayed, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned or been removed and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Borrowers shall make all payments in respect of their respective Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed Agent. Upon the effectiveness of the resignation or removal of the Agent, the resigning or removed Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation or removal of an Agent, the provisions of this Article X shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent (by merger or resignation or removal), or the Agent assigns its duties and obligations to an Affiliate pursuant to this Section 10.12, then the term "Prime Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent. Notwithstanding the foregoing provisions of this Section 10.12, the Agent may not be removed by the Required Lenders unless the Agent (in its individual capacity) is concurrently removed from its duties and responsibilities as an Issuer and as the Swingline Lender.

10.13 Agent's Fee. The Borrowers agree to pay to each of the Agent and each Arranger, for the Agent's or such Arranger's own account, the fees agreed to by the Borrowers and the Agent or such Arranger, as applicable.

10.14 Delegation to Affiliates. The Borrowers and the Lenders agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under Articles IX and X.

10.15 Other Agents. None of the Lenders identified on the cover page or signature pages of this Agreement or otherwise herein as being the "Syndication Agent" or a "Documentation Agent" (collectively, the "Other Agents") shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders. Each Lender acknowledges that it has not relied, and will not rely, on any of the Other Agents in deciding to enter into this Agreement or in taking or refraining from taking any action hereunder or pursuant hereto.

ARTICLE XI

SETOFF; RATABLE PAYMENTS

11.1 Setoff. In addition to, and without limitation of, any rights of the Lenders and the Swingline Lender under applicable law, if any Borrower becomes insolvent, however evidenced, or any Default occurs with respect to such Borrower, any and all deposits (including all account balances, whether provisional or final and whether or not collected or available) and any other Indebtedness at any time held or owing by any Lender or the Swingline Lender or any Affiliate of any Lender or the Swingline Lender to or for the credit or account of such Borrower may be offset and applied toward the payment of the Obligations of such Borrower owing to such Lender or the Swingline Lender, whether or not the Obligations, or any part thereof, shall then be due; provided that in the event that any Defaulting Lender shall exercise any such right of setoff, (i) all amounts so set off shall be paid over immediately to the Agent for further application to the Obligations and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Agent, the Issuer, the Swingline Lender and the other Lenders, and (ii) the Defaulting Lender shall provide promptly to the Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff.

11.2 Ratable Payments. If any Lender, whether by setoff or otherwise, has payment made to it upon the Outstanding Credit Extensions owed to it by any Borrower (other than (i) payments received pursuant to Section 3.1, 3.2, 3.4 or 3.5, (ii) payments received by Non-Consenting Lenders pursuant to Section 2.4, (iii) payments made to the Issuers in respect of Reimbursement Obligations so long as the Lenders have not funded their participations therein and (iv) payments made to the Swingline Lender in respect of Swingline Loans so long as the Lenders have not funded their participations therein) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Outstanding Credit Extensions owed by such Borrower to the other Lenders so that after such purchase each Lender will hold its ratable proportion of all of such Borrower's Outstanding Credit Extensions. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for the Outstanding Credit Extensions owed to it by any Borrower or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to the Outstanding Credit Extensions owed to each of them by such Borrower. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

ARTICLE XII

BENEFIT OF AGREEMENT; ASSIGNMENTS; PARTICIPATIONS

12.1 Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Borrowers and the Lenders and their respective successors and assigns, except that (i) no Borrower shall have the right to assign its rights or obligations under the Loan Documents and (ii) any assignment by any Lender must be made in compliance with Section 12.3. The parties to this Agreement acknowledge that clause (ii) of the preceding sentence relates only to absolute assignments and does not prohibit assignments creating security interests, including any pledge or assignment by any Lender of all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank; provided that no such pledge or assignment creating a security interest shall release the transferor Lender from its obligations hereunder unless and until the parties thereto have complied with the provisions of Section 12.3. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 12.3; provided that the Agent may in its discretion (but shall not be required to) follow instructions from the Person which made any Loan or which holds any Note to direct payments relating to such Loan or Note to another Person. Any assignee of the rights to any Loan or any Note agrees by acceptance of such assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder or assignee of the rights to such Loan.

12.2 Participations.

12.2.1 Permitted Participants; Effect. Upon giving notice to but without obtaining the consent of any Borrower, any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Obligations owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of the Obligations owing to such Lender and the holder of any Note issued to it for all purposes under the Loan Documents, all amounts payable by each Borrower under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Borrowers, the Issuers, the Swingline Lender and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under the Loan Documents. Notwithstanding anything in this Agreement to the contrary, a Participant may not include a natural Person, a Borrower or any Affiliate or Subsidiary of any Borrower.

12.2.2 Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver which extends the Facility Termination Date for any Borrower or the final maturity of any Loan or Reimbursement Obligation in which such Participant has an interest or forgives all or any portion of the principal amount thereof, or reduces the rate or extends the time of payment of interest thereon or on any facility fees or Letter of Credit fees.

12.2.3 Benefit of Setoff. The Borrowers agree that each Participant shall be deemed to have the right of setoff provided in Section 11.1 in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, provided that each Lender shall retain the right of setoff provided in Section 11.1 with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 11.1, agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 11.2 as if each Participant were a Lender.

12.3 Assignments.

12.3.1 Permitted Assignments.

(a) Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of Exhibit B or in such other form as may be agreed to by the parties thereto. The consent of PHI and the Agent shall be required prior to an assignment becoming effective with respect to a Purchaser which is not a Lender or an Affiliate thereof; provided that if a Default exists with respect to any Borrower, the consent of PHI shall not be required. Any such consent shall not be unreasonably withheld or delayed, provided that PHI shall be deemed to have consented to such assignment unless PHI shall object thereto by written notice to the Agent within five (5) Business Days after having received notice thereof. PHI shall receive prior written notice by the assigning Lender prior to an assignment becoming effective with respect to a Purchaser which is a Lender or an Affiliate thereof. Notwithstanding the foregoing, the consent of each Issuer and the Swingline Lender shall be required for all assignments. Each such assignment with respect to a Purchaser which is not a Lender or an Affiliate thereof shall (unless each of PHI and the Agent otherwise consent) be in an amount not less than the lesser of (i) $5,000,000 or (ii) the remaining amount of the assigning Lender's Commitment (calculated as at the date of such assignment) or outstanding Loans, participations in Swingline Loans and participations in LC Obligations (to the extent such Commitment has been terminated). Each assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's interests in the Obligations of, and Commitment to, all Borrowers.

(b) No such assignment shall be made to (i) any natural Person, (ii) any Borrower or any Borrower's Affiliates or Subsidiaries or (iii) any Defaulting Lender or any of its Subsidiaries or any Person who, upon becoming a Lender hereunder, would constitute any of the foregoing Persons described in this clause (b).

12.3.2 Effect; Effective Date.

(a) Subject to subsection (b), below, upon (i) delivery to the Agent of an Assignment Agreement, together with any consents required by Section 12.3.1, and (ii) payment of a $3,500 fee to the Agent for processing such assignment (unless such fee is waived by the Agent), such Assignment Agreement shall become effective on the effective date specified in such Assignment Agreement. On and after the effective date of such Assignment Agreement, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party hereto, and no further consent or action by the Borrowers, the Lenders or the Agent shall be required to release the transferor Lender with respect to the percentage of the Aggregate Commitment and Obligations assigned to such Purchaser. Any Person that is at any time a Lender and that thereafter ceases to be a Lender pursuant to the terms of this Section 12.3.2 shall continue to be entitled to the benefit of those provisions of this Agreement that, pursuant to the terms hereof, survive the termination hereof. Upon the consummation of any assignment to a Purchaser pursuant to this Section 12.3.2, the transferor Lender, the Agent and the Borrowers shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser.

(b) In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the Defaulting Lender or the Purchaser to the assignment shall make such additional payments to the Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the Purchaser of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrowers and the Agent, the applicable Pro Rata Share of Loans previously requested but not funded by the Defaulting Lender, to each of which the Defaulting Lender and Purchaser hereby irrevocably consent), to (A) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Agent or any Lender hereunder (and interest accrued thereon), and (B) acquire (and fund as appropriate) its full share of all Loans and participations in Letters of Credit and Swingline Loans in accordance with its Pro Rata Share. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

12.4 Dissemination of Information. The Borrowers authorize each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Borrowers and their respective Subsidiaries, including any information contained in any Public Reports; provided that each Transferee and prospective Transferee agrees to be bound by Section 9.11 of this Agreement.

12.5 Grant of Funding Option to SPC. Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPC"), identified as such in writing from time to time by the Granting Lender to the Agent and PHI, the option to provide to any Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to such Borrower pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Loan and (ii) if an SPC elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPC hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other Person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section 12.5, any SPC may (a) with notice to, but without the prior written consent of, PHI and the Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loan to the Granting Lender or to any financial institution (consented to by PHI and the Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Loans and (b) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC.

12.6 Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 3.5(iv).

ARTICLE XIII

NOTICES

13.1 Notices. (a) Except as otherwise permitted by Section 2.16, all notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission or electronic mail or posting on a website) and shall, subject to the last paragraph of Section 6.1, be given to such party at (i) in the case of any Borrower or the Agent, its address, facsimile number or electronic mail address set forth below or such other address, facsimile number or electronic mail address as it may hereafter specify for such purpose by notice to the other parties hereto; and (ii) in the case of any Lender, at the address, facsimile number or electronic mail address set forth on Schedule 2 or such other address, facsimile number or electronic mail address as such Lender may hereafter specify for such purpose by notice to the Borrowers and the Agent. Subject to the last paragraph of Section 6.1, each such notice, request or other communication shall be effective (i) if given by facsimile transmission, when transmitted to the facsimile number specified pursuant to this Section and confirmation of receipt is received, (ii) if given by mail, three Business Days after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iii) if given by any other means, when delivered (or, in the case of electronic mail, received) at the address specified pursuant to this Section; provided that notices to the Agent under Article II shall not be effective until received.

(b) Notices to any party shall be sent to it at the following addresses, or any other address as to which all the other parties are notified in writing.

If to the Borrowers:	Pepco Holdings, Inc. 701 Ninth Street NW Fifth Floor Washington, DC 20068 Attention: Kevin McGowan Telephone: (202) 872-3066 Fax: (202) 872-2717 E-mail: kevin.mcgowan@pepcoholdings.com
If to Wells Fargo as Agent:	Wells Fargo Bank, National Association 1525 West W.T. Harris Blvd. Mail Code: D1109-019 Charlotte, NC 28262 Attention: Syndication Agency Services Telephone No.: (704) 590-2706 Telecopy No.: (704) 590-2790 E-mail: agencyservices.requests@wachovia.com
If to Wells Fargo as Issuer:	Wells Fargo Bank, National Association 301 South College Street, 15th Floor MAC: D1053-153 Charlotte, NC 28288 Attention: Elaine Shue Telephone No.: (704) 715-3133 Telecopy No.: (877) 487-0377 Email: elaine.shue@wachovia.com
If to Bank of America, N.A. as Issuer:	Bank of America, N.A. PA6-580-02-30 1 Fleet Way Scranton, PA 18507 Attention: John Yzeik Telephone No.: (570) 330-4315 Telecopy No.: (570) 330-4186 Email: John.P.Yzeik@baml.com

With copies to: (other than Borrowing Notices, Conversion/ Continuation Notices and other similar funding notices)	Wells Fargo Bank, National Association 301 South College Street, TW15 MAC: D1053-150 Charlotte, North Carolina 28202 Attention: Allison Newman Telephone No.: (704) 383-5260 Telecopy No.: (704) 715-1486 E-mail: allison.newman@wachovia.com

13.2 Notices to and by Subsidiary Borrowers. Each Subsidiary Borrower (a) authorizes PHI to send and receive notices on behalf of such Subsidiary Borrower hereunder and (b) irrevocably agrees that any notice to PHI which is effective pursuant to Section 13.1 shall be conclusively deemed to have been received by such Subsidiary Borrower.

ARTICLE XIV

COUNTERPARTS

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Agreement by signing any such counterpart. This Agreement shall be effective when it has been executed by the Borrowers, the Agent and the Lenders and each party has notified the Agent by facsimile transmission or telephone that it has taken such action.

ARTICLE XV

CHOICE OF LAW; CONSENT TO JURISDICTION; WAIVER OF JURY TRIAL

15.1 CHOICE OF LAW. THE LOAN DOCUMENTS SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING SECTION 5.1401.7 OF THE GENERAL OBLIGATIONS LAW, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS THEREOF) OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

15.2 **CONSENT TO JURISDICTION. EACH BORROWER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURT SITTING IN NEW YORK, NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT, AND EACH BORROWER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT OR ANY LENDER TO BRING PROCEEDINGS AGAINST A BORROWER IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY A BORROWER AGAINST THE AGENT OR ANY LENDER OR ANY AFFILIATE OF THE AGENT OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN NEW YORK, NEW YORK.**

15.3 **WAIVER OF JURY TRIAL**. **THE BORROWERS, THE AGENT AND THE LENDERS HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.**

[Signatures Follow]

IN WITNESS WHEREOF, the Borrowers, the Lenders and the Agent have executed this Agreement as of the date first above written.

PEPCO HOLDINGS, INC.

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

POTOMAC ELECTRIC POWER COMPANY

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

DELMARVA POWER & LIGHT COMPANY

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

ATLANTIC CITY ELECTRIC COMPANY

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Agent, Issuer, Swingline Lender and Lender

By: /s/ Allison Newman
Name: Allison Newman
Title: Director

BANK OF AMERICA, N.A.,
as Syndication Agent, Issuer and Lender

By: /s/ Justin Martha
Name: Justin Martha
Title: Vice President

CITIBANK, N.A.,
as Co-Documentation Agent and Lender

By: /s/ Anita Brickell
Name: Anita Brickell
Title: Vice President

THE ROYAL BANK OF SCOTLAND PLC,
as Co-Documentation Agent and Lender

By: /s/ Emily Freedman
Name: Emily Freedman
Title: Vice President

THE BANK OF NOVA SCOTIA,
as Lender

By: /s/ Thane Rattew
Name: Thane Rattew
Title: Managing Director

BARCLAYS BANK PLC,
as Lender

By: /s/ Alicia Borys
Name: Alicia Borys
Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH,
as Lender

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Director

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

JPMORGAN CHASE BANK, N.A.,
as Lender

By: /s/ Helen D. Davis
Name: Helen D. Davis
Title: Authorized Officer

MORGAN STANLEY BANK, N.A.,
as Lender

By: /s/ Sherrese Clarke
Name: Sherrese Clarke
Title: Authorized Signature

KEYBANK NATIONAL ASSOCIATION,
as Lender

By: /s/ Sherrie I. Manson
Name: Sherrie I. Manson
Title: Senior Vice President

SUNTRUST BANK,
as Lender

By: /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

BANK OF NEW YORK MELLON,
as Lender

By: /s/ Richard K. Fronapfel, Jr.
Name: Richard K. Fronapfel, Jr.
Title: Vice President

BANK OF TOKYO—MITSUBISHI UFJ, LTD.,
as Lender

By: /s/ Mary Coseo
Name: Mary Coseo
Title: Vice President

GOLDMAN SACHS BANK USA,
as Lender

By: /s/ Mark Walton
Name: Mark Walton
Title: Authorized Signatory

MANUFACTURERS AND TRADERS TRUST COMPANY, as lender

By: /s/ Rebecca A. Hancock

Name: Rebecca A. Hancock

Title: Assistant Vice President

NORTHERN TRUST COMPANY,
as Lender

By: /s/ Michael A. Houlihan
Name: Michael A. Houlihan
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION,
as Lender

By: /s/ Matthew Sawyer
Name: Matthew Sawyer
Title: Vice President

EXHIBIT A

COMPLIANCE CERTIFICATE

To: The Agent and the Lenders under the
Credit Agreement referred to below

This Compliance Certificate is furnished pursuant to the Second Amended and Restated Credit Agreement dated as of August 1, 2011 (as further amended, restated or otherwise modified from time to time, the "Credit Agreement") among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company, Atlantic City Electric Company, various financial institutions and Wells Fargo Bank, National Association, as Agent. Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the respective meanings ascribed thereto in the Credit Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly elected   of [PHI/PEPCO/DPL/ACE].

2. I have reviewed the terms of the Credit Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of [PHI/PEPCO/DPL/ACE] and its Subsidiaries during the accounting period covered by the attached financial statements.

3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or Unmatured Default with respect to [PHI/PEPCO/DPL/ACE] during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as set forth below:

[Describe any exceptions by listing, in detail, the nature of the condition or event, the period during which it has existed and the action taken or proposed to be taken with respect to each such condition or event.]

4. Schedule 1 attached hereto sets forth true and accurate computations of certain covenant ratios in the Credit Agreement which are applicable to [PHI/PEPCO/DPL/ACE].

The foregoing certifications, together with the computations set forth in Schedule 1 hereto and the financial statements delivered with this Compliance Certificate in support hereof, are made and delivered this   , 20   .

SCHEDULE 1 TO COMPLIANCE CERTIFICATE

Compliance as of   with
provisions of Section 6.13 of
the Credit Agreement

[INSERT FORMULA FOR CALCULATION]

EXHIBIT B

[FORM OF]
ASSIGNMENT AGREEMENT

This Assignment Agreement (this "Assignment Agreement") between (the "Assignor") and (the "Assignee") is dated as of , 20 . The parties hereto agree as follows:

1. PRELIMINARY STATEMENT. The Assignor is a party to the Second Amended and Restated Credit Agreement (as further amended, restated or otherwise modified from time to time, the "Credit Agreement") described in Item 1 of Schedule 1 attached hereto ("Schedule 1"). Unless otherwise defined herein, capitalized terms used herein shall have the respective meanings ascribed thereto in the Credit Agreement.

2. ASSIGNMENT AND ASSUMPTION. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement and the other Loan Documents in the amount and Pro Rata Share specified in Item 2 of Schedule 1 of all outstanding rights and obligations under the Credit Agreement and the other Loan Documents. The Pro Rata Share of the Assignee and the Assignor, after giving effect to this Assignment Agreement, is set forth in Item 3 of Schedule 1.

3. EFFECTIVE DATE. The effective date of this Assignment Agreement (the "Effective Date") shall be the later of the date specified in Item 4 of Schedule 1 or two Business Days (or such shorter period agreed to by the Agent) after this Assignment Agreement, together with any consents required under the Credit Agreement, are delivered to the Agent. In no event will the Effective Date occur if the payments required to be made by the Assignee to the Assignor on the Effective Date are not made on the proposed Effective Date.

4. PAYMENT OBLIGATIONS. In consideration for the sale and assignment hereunder, the Assignee shall pay the Assignor, on the Effective Date, the amount agreed to by the Assignor and the Assignee. On and after the Effective Date, the Assignee shall be entitled to receive from the Agent all payments of principal, interest and fees with respect to the interest assigned hereby. The Assignee will promptly remit to the Assignor any interest and fees received from the Agent which relate to the portion of the Commitment, or Loans, participations in Swingline Loans and participations in Letters of Credit assigned to the Assignee hereunder for periods prior to the Effective Date and not previously paid by the Assignee to the Assignor. In the event that either party hereto receives any payment to which the other party hereto is entitled under this Assignment Agreement, then the party receiving such amount shall promptly remit such amount to the other party hereto.

5. RECORDATION FEE. The [Assignor/Assignee agrees to pay] [Assignor and Assignee each agree to pay one-half of] the recordation fee required to be paid to the Agent in connection with this Assignment Agreement.

6. REPRESENTATIONS OF THE ASSIGNOR: LIMITATIONS ON THE ASSIGNOR'S LIABILITY. The Assignor represents and warrants that (i) it is the legal and beneficial owner of the interest being assigned by it hereunder, (ii) such interest is free and clear of any adverse claim created by the Assignor and (iii) the execution and delivery of this Assignment Agreement by the Assignor is duly authorized. The parties hereto agree that the assignment and assumption hereunder are made without recourse to the Assignor and that the Assignor makes no other representation or warranty of any kind to the Assignee. Neither the Assignor nor any of its officers, directors, employees, agents or attorneys shall be responsible for (i) the due execution, legality, validity, enforceability, genuineness, sufficiency or collectability of any Loan Document, (ii) any representation, warranty or statement made in or in connection with any Loan Document, (iii) the financial condition or creditworthiness of any Borrower, (iv) the performance of or compliance with any term or provision of any Loan Document, (v) inspecting any of the property, books or records of any Borrower or (vi) any mistake, error of judgment, or action taken or omitted to be taken in connection with the Loan Documents.

7. REPRESENTATIONS AND UNDERTAKINGS OF THE ASSIGNEE. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of all financial statements requested by the Assignee and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment Agreement, (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information at it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto, (iv) confirms that the execution and delivery of this Assignment Agreement by the Assignee is duly authorized, (v) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender, (vi) confirms that its payment instructions and notice instructions are as set forth in the attachment to Schedule 1, (vii) confirms that none of the funds, monies, assets or other consideration being used to make the purchase and assumption hereunder are "plan assets" as defined under ERISA and that its rights, benefits and interests in and under the Loan Documents will not be "plan assets" under ERISA, (viii) agrees to indemnify and hold the Assignor harmless against all losses, costs and expenses (including reasonable attorneys' fees) and liabilities incurred by the Assignor in connection with or arising in any manner from the Assignee's nonperformance of the obligations assumed under this Assignment Agreement, and (ix) if applicable, attaches the forms prescribed by the Internal Revenue Service of the United States certifying that the Assignee is entitled to receive payments under the Loan Documents without deduction or withholding of any United States federal income taxes.

8. GOVERNING LAW. THIS ASSIGNMENT AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS THEREOF) OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

9. NOTICES. Notices shall be given under this Assignment Agreement in the manner set forth in the Credit Agreement. For purposes hereof, the addresses of the parties hereto (until notice of a change is delivered) shall be the respective addresses set forth in the attachment to Schedule 1.

10. COUNTERPARTS: DELIVERY BY FACSIMILE. This Assignment Agreement may be executed in counterparts. Transmission by facsimile of an executed counterpart of this Assignment Agreement shall be deemed to constitute due and sufficient delivery of such counterpart and such facsimile shall be deemed to be an original counterpart of this Assignment Agreement.

IN WITNESS WHEREOF, the duly authorized officers of the parties hereto have executed this Assignment Agreement by signing Schedule 1 hereto as of the date first above written.

SCHEDULE 1
to Assignment Agreement

1. Description and Date of Credit Agreement:

   Second Amended and Restated Credit Agreement dated as of August 1, 2011, among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company (collectively, the "Borrowers"), the various financial institutions from time to time party thereto and Wells Fargo Bank, National Association, as Agent.

2. Amount and Pro Rata Share:

a. Amount of Commitment (or, if the Commitments have terminated, Loans and participations in Letters of Credit) purchased under Assignment Agreement	$_______________
b. Pro Rata Share purchased by Assignee under Assignment Agreement*	_______________%

3. Revised Pro Rata Shares:

a. Assignee's Pro Rata Share after giving effect to Assignment Agreement*	_______________%
b. Assignor's Pro Rata Share after giving effect to Assignment Agreement*	_______________%

4. Proposed Effective Date:	_______________

*Percentage taken to 10 decimal places

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

The terms set forth in this Assignment Agreement are hereby agreed to:

ASSIGNOR[S]
[NAME OF ASSIGNOR]

By: ______________________________
Title: ______________________________

ASSIGNEE[S]
[NAME OF ASSIGNEE]

By: ______________________________
Title: ______________________________

Consented to:

WELLS FARGO BANK, NATIONAL ASSOCIATION
as [Agent,] Issuer and Swingline Lender

By: ______________________________
Title: ______________________________

Consented to:

BANK OF AMERICA, N.A.,
as Issuer

By: ______________________________
Title: ______________________________

[Consented to:

PEPCO HOLDINGS, INC.

By: ______________________________________
Title: _____________________________________]

Attachment to SCHEDULE 1 to ASSIGNMENT AGREEMENT

ADMINISTRATIVE INFORMATION SHEET

Attach Assignor's Administrative Information Sheet, which must include notice addresses for the Assignor and the Assignee (Sample form shown below)

ASSIGNOR INFORMATION

Credit Contact:

Name: ______________________ Telephone No.: ______________________
Fax No.: ______________________

Payment Information:

Name & ABA # of Destination Bank:______________________
Account Name & Number for Wire Transfer:______________________
Other Instructions:______________________

Address for Notices for Assignor:

Name: ______________________ Telephone No.: ______________________
Fax No.: ______________________

ASSIGNEE INFORMATION

Credit Contact:

Name: ____________________ Telephone No.: ____________________

Fax No.: ____________________

Operations Contacts:

Booking Installation:
Name:
Telephone No.:
Fax No.:

Payment Information:

Name & ABA # of Destination Bank:____________________
Account Name & Number for Wire Transfer:____________________
Other Instructions:____________________

Address for Notices for Assignee:

Name: ____________________ Telephone No.: ____________________

Fax No.: ____________________

WELLS FARGO INFORMATION

Assignee will be called promptly upon receipt of the signed agreement.

Initial Funding Contact:

Name:______________________________
Telephone No.: (704) ______________________________
Fax No.: (704)______________________________

Subsequent Operations Contact:

Name:______________________________
Telephone No.: (704)______________________________
Fax No.: (704)______________________________

Wells Fargo Telex No.: ______(Answerback: ______)

Initial Funding Standards:

Eurodollar Loans to fund two days after rates are set.

Wells Fargo Wire Instructions:

Ref: ________________

Address for Notices for Wells Fargo:

Wells Fargo Bank, National Association

1525 West W.T. Harris Blvd.
Mail Code: D1109-019
Charlotte, NC 28262
Attention: Syndication Agency Services
Telephone No.: (704) 590-2706
Telecopy No.: (704) 590-2790
E-mail: agencyservices.requests@wachovia.com

EXHIBIT C

This note is one of a series of notes which amend and restate but do not extinguish the obligations under those certain notes executed in connection with that certain Amended and Restated Credit Agreement dated as of May 2, 2007, as amended and restated by that certain Second Amended and Restated Credit Agreement dated as of the date hereof, and as further amended, restated, supplemented or otherwise modified from time to time, by and among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company and Atlantic City Electric Company, as Borrowers, the lenders who are or may become party thereto, as Lenders, and Wells Fargo Bank, National Association, as Agent.

NOTE

[Date]

[Pepco Holdings, Inc./Potomac Electric Power Company/Delmarva Power & Light Company/Atlantic City Electric Company] (the "Borrower") promises to pay to (the "Lender") the aggregate unpaid principal amount of all Loans made by the Lender to the Borrower pursuant to the Credit Agreement (as defined below), at the main office of Wells Fargo Bank, National Association in Charlotte, North Carolina, as Agent, together with interest on the unpaid principal amount hereof at the rates and on the dates set forth in the Credit Agreement. The Borrower shall pay the principal of and accrued and unpaid interest on the Loans in full on the Facility Termination Date.

The Lender shall, and is hereby authorized to, record on the schedule attached hereto, or to otherwise record in accordance with its usual practice, the date and amount of each Loan and the date and amount of each principal payment hereunder.

This Note is one of the Notes issued pursuant to, and is entitled to the benefits of, the Second Amended and Restated Credit Agreement dated as of August 1, 2011 (as further amended or otherwise modified from time to time, the "Credit Agreement"), among the Borrower, various affiliates thereof, the lenders party thereto, including the Lender, and Wells Fargo Bank, National Association, as Agent, to which Credit Agreement reference is hereby made for a statement of the terms and conditions governing this Note, including the terms and conditions under which this Note may be prepaid or its maturity date accelerated. Capitalized terms used herein and not otherwise defined herein are used with the meanings attributed to them in the Credit Agreement.

All payments hereunder shall be made in lawful money of the United States of America and in immediately available funds.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (INCLUDING SECTION 5.1401 OF THE GENERAL OBLIGATIONS LAW, BUT OTHERWISE WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS THEREOF) OF THE STATE OF NEW YORK, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

[PEPCO HOLDINGS, INC.] [POTOMAC ELECTRIC POWER COMPANY] [DELMARVA POWER & LIGHT COMPANY][ATLANTIC CITY ELECTRIC COMPANY]

By:____
Print Name: __________________________________
Title: ______________________________________

SCHEDULE OF LOANS AND PAYMENTS OF PRINCIPAL
TO
NOTE OF [PEPCO HOLDINGS, INC.] [POTOMAC ELECTRIC POWER COMPANY] [DELMARVA POWER & LIGHT COMPANY] [ATLANTIC CITY ELECTRIC COMPANY]

DATED

Date	Principal Amount of Loan	Maturity of Interest Period	Principal Amount Paid	Unpaid Balance

EXHIBIT D

INCREASE NOTICE

, 20

To: The Agent and the Lenders under the Credit Agreement referred to below

This Increase Notice is furnished pursuant to Section 2.2(a) of the Second Amended and Restated Credit Agreement dated as of August 1, 2011 (as further amended, restated or otherwise modified from time to time, the "Credit Agreement") among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company, Atlantic City Electric Company, various financial institutions and Wells Fargo Bank, National Association, as Agent. Unless otherwise defined herein, capitalized terms used in this Increase Notice have the respective meanings ascribed thereto in the Credit Agreement.

1. The Borrowers hereby request a Requested Commitment Increase in the aggregate principal amount of $, which amount shall be allocated among each Borrower's Sublimit as set forth in paragraph 2 below. (Complete with an amount in accordance with Section 2.2(a) of the Credit Agreement.)

1. 2. The Borrowers' Sublimits shall be reallocated as follows:

PHI Sublimit:	$__________
PEPCO Sublimit:	$__________
ACE Sublimit:	$__________
DPL Sublimit:	$__________

2. 3. The aggregate principal amount of all commitment increases as of the date hereof (including the Requested Commitment Increase requested hereby) does not exceed the maximum amount permitted pursuant to the terms of the Credit Agreement.

4. No Default or Unmatured Default has occurred or is continuing or would result from the proposed Requested Commitment Increase.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PEPCO HOLDINGS, INC.

By: ______________________________
Print Name: ______________________________
Title: ______________________________

POTOMAC ELECTRIC POWER COMPANY

By: ______________________________
Print Name: ______________________________
Title: ______________________________

DELMARVA POWER & LIGHT COMPANY

By: ______________________________
Print Name: ______________________________
Title: ______________________________

ATLANTIC CITY ELECTRIC COMPANY

By: ______________________________
Print Name: ______________________________
Title: ______________________________

EXHIBIT E

EXTENSION NOTICE

, 20

To: The Agent and the Lenders under the Credit Agreement referred to below

This Extension Notice is furnished pursuant to Section 2.4(a) of the Second Amended and Restated Credit Agreement dated as of August 1, 2011 (as further amended, restated or otherwise modified from time to time, the "Credit Agreement") among Pepco Holdings, Inc., Potomac Electric Power Company, Delmarva Power & Light Company, Atlantic City Electric Company, various financial institutions and Wells Fargo Bank, National Association, as Agent. Unless otherwise defined herein, capitalized terms used in this Extension Notice have the respective meanings ascribed thereto in the Credit Agreement.

1. The Borrowers hereby request a one year extension of the current Facility Termination Date.

2. The current Facility Termination Date is [ ] , 20 .

3. The requested Facility Termination Date will be [ ] , 20 .

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

PEPCO HOLDINGS, INC.

By: ______________________________
Print Name: __________________________
Title: ______________________________

POTOMAC ELECTRIC POWER COMPANY

By: ______________________________
Print Name: __________________________
Title: ______________________________

DELMARVA POWER & LIGHT COMPANY

By: ______________________________
Print Name: __________________________
Title: ______________________________

ATLANTIC CITY ELECTRIC COMPANY

By: ______________________________
Print Name: __________________________
Title: ______________________________

SCHEDULE 1
PRICING SCHEDULE

LEVEL STATUS	APPLICABLE MARGIN FOR EURODOLLAR RATE ADVANCES/LC FEE RATE	APPLICABLE MARGIN FOR FLOATING RATE ADVANCES	FACILITY FEE RATE
I	1.00%	0.00%	0.125%
II	1.10%	0.10%	0.150%
III	1.30%	0.30%	0.200%
IV	1.50%	0.50%	0.250%
V	1.70%	0.70%	0.300%
VI	1.85%	0.85%	0.400%

For the purposes of this Schedule, the following terms have the following meanings, subject to the other provisions of this Schedule:

"Level I Status" exists with respect to any Borrower on any date if, on such date, such Borrower's Moody's Rating is A2 or better, such Borrower's S&P Rating is A or better or such Borrower's Fitch Rating is A or better.

"Level II Status" exists with respect to any Borrower on any date if, on such date, (i) such Borrower has not qualified for Level I Status and (ii) such Borrower's Moody's Rating is A3 or better, such Borrower's S&P Rating is A- or better or such Borrower's Fitch Rating is A- or better.

"Level III Status" exists with respect to any Borrower on any date if, on such date, (i) such Borrower has not qualified for Level I Status or Level II Status and (ii) such Borrower's Moody's Rating is Baa1 or better, such Borrower's S&P Rating is BBB+ or better or such Borrower's Fitch Rating is BBB+ or better.

"Level IV Status" exists with respect to any Borrower on any date if, on such date, (i) such Borrower has not qualified for Level I Status, Level II Status or Level III Status and (ii) such Borrower's Moody's Rating is Baa2 or better, such Borrower's S&P Rating is BBB or better or such Borrower's Fitch Rating is BBB or better.

"Level V Status" exists with respect to any Borrower on any date if, on such date, (i) such Borrower has not qualified for Level I Status, Level II Status, Level III Status or Level IV Status and (ii) such Borrower's Moody's Rating is Baa3 or better, such Borrower's S&P Rating is BBB- or better or such Borrower's Fitch Rating is BBB- or better.

"Level VI Status" exists with respect to any Borrower on any date if, on such date, such Borrower has not qualified for Level I Status, Level II Status, Level III Status, Level IV Status or Level V Status.

"Fitch Rating" means, at any time for any Borrower, the ratings issued by Fitch Ratings and then in effect with respect to such Borrower's unsecured long-term debt securities without third-party credit enhancement.

"Moody's Rating" means, at any time for any Borrower, the rating issued by Moody's and then in effect with respect to such Borrower's senior unsecured long term debt securities without third party credit enhancement.

"S&P Rating" means, at any time for any Borrower, the rating issued by S&P and then in effect with respect to such Borrower's senior unsecured long term debt securities without third party credit enhancement.

"Status" means Level I Status, Level II Status, Level III Status, Level IV Status, Level V Status or Level VI Status.

For purposes of this Schedule, the Moody's Rating, the S&P Rating and the Fitch Ratings in effect for any Borrower on any date are that in effect at the close of business on such date.

The Applicable Margin, the Facility Fee Rate and the LC Fee Rate for each Borrower shall be determined in accordance with the above based on such Borrower's Status as determined from its then current Moody's Rating, S&P Rating and Fitch Rating. If the applicable Borrower is split-rated and all three (3) ratings fall in different Levels, the Applicable Margin, the LC Fee Rate and the Facility Fee Rate shall be based upon the Level indicated by the middle rating. If the applicable Borrower is split-rated and two (2) of the ratings fall in the same Level, (the "Majority Level") and the third rating is in a different Level, the Applicable Margin, the LC Fee Rate and the Facility Fee Rate shall be based upon the Majority Level. In the event that only two (2) ratings are available, the Applicable Margin, the LC Fee Rate and the Facility Fee Rate shall be based upon the Level indicated by the higher of the two ratings unless there is a two or more Level difference in the levels indicated by each of the two available ratings, in which case the Level that is one Level below the higher rating shall apply. Should a Borrower not have any Moody's Rating, S&P Rating or Fitch Rating, the corporate credit or issuer rating of such Borrower, as applicable, will be used in lieu thereof.

SCHEDULE 2

COMMITMENTS AND PRO RATA SHARES

Lender	Amount of Commitment	Pro Rata Share
WELLS FARGO BANK, NATIONAL ASSOCIATION	$ 120,000,000.00	8.00000000%
BANK OF AMERICA, N.A.	$ 120,000,000.00	8.00000000%
CITIBANK, N.A.	$ 120,000,000.00	8.00000000%
THE ROYAL BANK OF SCOTLAND PLC	$ 120,000,000.00	8.00000000%
THE BANK OF NOVA SCOTIA	$ 110,000,000.00	7.33333333%
BARCLAYS BANK PLC	$ 110,000,000.00	7.33333333%
CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH	$ 110,000,000.00	7.33333333%
JPMORGAN CHASE BANK, N.A.	$ 110,000,000.00	7.33333333%
MORGAN STANLEY BANK, N.A.	$ 110,000,000.00	7.33333333%
KEYBANK NATIONAL ASSOCIATION	$ 85,000,000.00	5.66666667%
SUNTRUST BANK	$ 85,000,000.00	5.66666667%
BANK OF NEW YORK MELLON	$ 50,000,000.00	3.33333333%
THE BANK OF TOKYO—MITSUBISHI UFJ, LTD.	$ 50,000,000.00	3.33333333%
GOLDMAN SACHS BANK USA	$ 50,000,000.00	3.33333333%
MANUFACTURERS AND TRADERS TRUST COMPANY	$ 50,000,000.00	3.33333333%
NORTHERN TRUST COMPANY	$ 50,000,000.00	3.33333333%
PNC BANK, NATIONAL ASSOCIATION	$ 50,000,000.00	3.33333333%
TOTAL:	**$ 1,500,000,000**	**100%**

SCHEDULE 3

SIGNIFICANT SUBSIDIARIES

Name of Company Controlled	Owned By	Percent Ownership	Amount of Investment (as of 5/31/11)
Potomac Electric Power Company (a D.C. and Virginia corporation)	Pepco Holdings, Inc.	100%	$ 1,454.9
Conectiv, LLC (a Delaware limited liability company)	Pepco Holdings, Inc.	100%	$ 1,560.1
Delmarva Power & Light Company (a Delaware and Virginia corporation)	Conectiv, LLC	100%	$ 868.1
Atlantic City Electric Company (a New Jersey corporation)	Conectiv, LLC	100%	$ 716.2
Potomac Capital Investment Corporation (a Delaware corporation)	Pepco Holdings, Inc.	100%	$ 510.6
Pepco Energy Services, Inc. (a Delaware corporation)	Pepco Holdings, Inc.	100%	$ 373.0

SCHEDULE 4

LIENS

Incurred By	Owed To	Property Encumbered	Maturity	Amount of Indebtedness
Potomac Electric Power Company	RBS Leasing	Vehicles	Master Agreement	$11,891,178[(1)]
PHI Service Company	RBS Leasing	Vehicles	Master Agreement	$ 131,481[(1)]
Atlantic City Electric Company	RBS Leasing	Vehicles	Master Agreement	$10,519,365[(1)]
Delmarva Power & Light Company	RBS Leasing	Vehicles	Master Agreement	$14,770,414[(1)]
Potomac Electric Power Company	BOA Leasing	Vehicles, Office Equip., Computers	Master Agreement	$ 3,292,561[(1)]
PHI Service Company	BOA Leasing	Office Equip., Computers	Master Agreement	$ 8,672,002[(1)]
Atlantic City Electric Company	BOA Leasing	Vehicles, Office Equip., Computers	Master Agreement	$ 2,677,741[(1)]
Delmarva Power & Light Company	BOA Leasing	Vehicles, Office Equip., Computers	Master Agreement	$ 6,228,363[(1)]
Potomac Electric Power Company (Pepco Energy Services, Inc.)	Hannon Armstrong Pepco Funding Corp.	Contract Payments Receivable	Master Agreement	$ 418,247[(1)]
Potomac Electric Power Company (Pepco Energy Services, Inc.)	Citizen Leasing Corp.	Contract Payments Receivable	Master Agreement	$ 6,188,249[(1)]
Potomac Electric Power Company (Pepco Energy Services, Inc.)	National City Commercial Capital	Contract Payments Receivable	Master Agreement	$ 9,241,472[(1)]
Potomac Electric Power Company (Pepco Energy Services, Inc.)	Dominion Federal Corporation	Contract Payments Receivable	Master Agreement	$ 2,349,814[(1&2)]

(1) The amount of this lien fluctuates with the amount of accounts receivable created by this program. The amount listed is as of June 30, 2011.

(2) This amount is temporary and reported during the construction period of the project. Once accepted the receivable will receive true sale treatment, removing it from the report.

SCHEDULE 5

LETTERS OF CREDIT

Pepco Holdings, Inc. $875M Credit Facility

Expiration Date	Applicant	Beneficiary	Bank	Date Issued	L/C #	Current USD Amount (1)
01/31/12	Pepco Energy Services, Inc. c/o Pepco Holdings, Inc.	Constellation Energy Commodities	Wells Fargo	10/02/06	SM222183W	$ 33,740,000
01/31/12	Pepco Energy Services, Inc. c/o Pepco Holdings, Inc.	BNP Paribas Energy Trading GP	Wells Fargo	12/22/06	SM223619W	$ 1
08/10/11	Pepco Energy Services, Inc.	NYISO	Wells Fargo	08/11/06	SM221417W	$ 750,000
01/31/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	PSEG Energy and Resources Trade LLC	Wells Fargo	08/14/08	SC102005U	$ 500,000
01/31/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	ISO New England	Wells Fargo	12/18/08	SC102146U	$ 1,000,000
01/02/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	Merrill Lynch Commodities, Inc.	Wells Fargo	12/26/08	SC102179U	$ 14,100,000
09/30/11	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	PJM Interconnection LLC	Wells Fargo	02/03/09	SC102236U	$ 11,100,000
04/04/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	JP Morgan Ventures Energy Corporation	Wells Fargo	04/03/09	SC102285U	$ 750,001
01/31/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	Credit Suisse	Wells Fargo	07/13/09	SC102370U	$ 1
10/15/11	W.A. Chester, LLC	The Connecticut Light & Power Co.	Wells Fargo	01/27/10	SC102516U	$ 1,500,000
02/09/12	Pepco Holdings, Inc. for the benefit of Pepco Energy Services, Inc.	Multiple Ins Co.'s - Ins Deductible	Wells Fargo	02/09/05	SM214316W	$ 75,000
07/31/11	Pepco Holdings, Inc.	Indemnity Insurance Co. of NA	Wells Fargo	02/21/02	SM214322W	$ 1,100,000
02/28/12	Conectiv, LLC c/o Pepco Holdings, Inc.	Liberty Mutual	Wells Fargo	04/30/02	SM214929W	$ 637,000
09/11/11	Bethlehem Renewable Energy, LLC c/o Pepco Energy Services, Inc.	PA Dept. of Environmental Protection	Wells Fargo	09/11/06	SM221720W	$ 10,000
07/31/11	Pepco Holdings, Inc.	Penn Manufactures Assoc	Wells Fargo	04/05/00	SM214837W	$ 125,000
					Subtotal	$ 65,387,003

Utilities $625M Credit Facility

Expiration Date		Beneficiary	Bank	Date Issued	L/C #	Current USD Amount (1)
07/30/11	Atlantic City Electric Company	US Department of Labor	Wells Fargo	07/29/03	SM214857W	$ 200,000
07/26/11	Potomac Electric Power Company	MD Workers' Comp Commission	Wells Fargo	07/29/04	SM214860W	$ 4,300,000
07/26/11	Delmarva Power & Light Company	MD Workers' Comp Commission	Wells Fargo	07/29/04	SM214859W	$ 350,000
					Subtotal	$ 4,850,000
					TOTAL LETTERS of CREDIT	$ 70,237,003

(1) As of June 30, 2011

SCHEDULE 6

CONSENT

THIS CONSENT (this "Consent") is made and entered into as of May 5, 2010 by and among Pepco Holdings, Inc. ("PHI"), Potomac Electric Power Company ("Pepco"), Delmarva Power & Light Company ("DPL") and Atlantic City Electric Company ("ACE", and together with PHI, Pepco and DPL, the "Borrowers"), the financial institutions identified on the signature pages hereof, and Wells Fargo Bank, N.A., as successor by merger to Wachovia Bank, National Association, as administrative agent (the "Administrative Agent").

WHEREAS, certain financial institutions (the "Lenders") have extended certain credit facilities to the Borrowers pursuant to that certain Amended and Restated Credit Agreement, dated as of May 2, 2007 (as amended or otherwise modified from time to time pursuant to the terms thereof, the "Credit Agreement"), among the Borrowers, the Lenders and the Administrative Agent. Capitalized terms used but not otherwise defined herein shall have the meanings provided in the Credit Agreement;

WHEREAS, PHI wishes to sell or otherwise dispose of all of the assets that for financial reporting purposes are included in PHI's Conectiv Energy segment (the "Conectiv Energy Segment") through (i) the sale of Conectiv Energy Holding Company, LLC, an indirect, wholly owned subsidiary of PHI that owns the wholesale power generation operations of PHI's Conectiv Energy Segment ("CEHC"), pursuant to a Purchase Agreement, dated as of April 20, 2010, by and among PHI, Conectiv, LLC, CEHC and New Development Holdings, LLC (the "Purchase Agreement"); and (ii) the disposition of the balance of the assets of the Conectiv Energy Segment through the liquidation of Conectiv Energy's energy trading portfolio and all of its other assets (collectively, the "Conectiv Energy Segment Sale");

WHEREAS, subject to certain exceptions, Section 6.11 of the Credit Agreement prohibits PHI or any of its Subsidiaries from leasing, selling or otherwise disposing of any assets;

WHEREAS, the Credit Agreement contains an exception to the prohibition on asset sales by PHI and its Subsidiaries if the aggregate book value of all assets sold or disposed of in any fiscal year (other than assets sold in the ordinary course of business or pursuant to other exceptions to Section 6.11 of the Credit Agreement) does not exceed a Substantial Portion of the Property of PHI; and

WHEREAS, the aggregate book value of the Conectiv Energy Segment exceeds a Substantial Portion of the Property of PHI and accordingly, the Borrowers have requested that the Required Lenders consent to the Conectiv Energy Segment Sale.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, such parties agree as follows:

1. Consents. Pursuant to Section 8.2 of the Credit Agreement, the Required Lenders hereby consent to and agree to permit the Conectiv Energy Segment Sale and agree that the Conectiv Energy Segment Sale shall be in addition to, and shall not alter, affect or limit the exceptions set forth in Section 6.11 of the Credit Agreement that permit other sales or dispositions of assets by the Company or any of its Subsidiaries.

2. Miscellaneous. This Consent is a one-time consent and it does not modify or affect the obligations of the Borrowers to comply fully with all terms, conditions and covenants contained in the Credit Agreement. Nothing contained in this Consent, except as expressly provided herein, shall be deemed to constitute a waiver of any rights or remedies the Administrative Agent or any Lender may have under the Credit Agreement or applicable law. The Credit Agreement shall remain in full force and effect according to its terms (except as modified by this Consent). This Consent shall be construed in accordance with the internal laws (including Section 5.1401 of the General Obligations Law, but otherwise without regard to the conflict of laws provisions thereof) of the State of New York, but giving effect to federal laws applicable to national banks. This Consent shall constitute a Loan Document and may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and shall be binding upon all parties, their successors and assigns, and all of which taken together shall constitute one and the same agreement. A facsimile, telecopy, or other reproduction of this Consent may be executed by one or more parties hereto, and an executed copy of this Consent may be delivered by one or more parties hereto by facsimile or similar instantaneous electronic transmission device pursuant to which the signature of or on behalf of such party can be seen, and such execution and delivery shall be considered valid, binding and effective for all purposes. This Consent shall become effective upon the Administrative Agent's receipt of counterparts hereof duly executed by the Required Lenders and the Borrowers.

[Signature pages follow]

ACKNOWLEDGED AND AGREED:

PEPCO HOLDINGS, INC.

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

POTOMAC ELECTRIC POWER COMPANY

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

DELMARVA POWER & LIGHT COMPANY

By: /s/ Anthony J. Kamerick
Name: Anthony J. Kamerick
Title: Senior Vice President and Chief Financial Officer

ATLANTIC CITY ELECTRIC COMPANY

By: /s/ Kevin M. McGowan
Name: Kevin M. McGowan
Title: Treasurer

ACKNOWLEDGED AND CONSENTED TO:

WELLS FARGO BANK, N.A., as successor by merger to WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Allison Newman
Name: Allison Newman
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

CITICORP USA, INC.

By: /s/ J. Nicholas Mckee
Name: J. Nicholas Mckee
Title: Managing Director

ACKNOWLEDGED AND CONSENTED TO:

The Royal Bank of Scotland plc

By: /s/ Emily Freedman
Name: J. Emily Freedman
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

THE BANK OF NOVA SCOTIA

By: /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

<u>ACKNOWLEDGED AND CONSENTED TO</u>:

JPMORGAN CHASE BANK, NA.

By: /s/ Helen D. Davis
Name: Helen D. Davis
Title: Vice President

<u>ACKNOWLEDGED AND CONSENTED TO</u>:

KeyBank National Association

By: /s/ Sherrie I. Manson
Name: Sherrie I. Manson
Title: Senior Vice President

ACKNOWLEDGED AND CONSENTED TO:

BANK OF AMERICA, N.A., as successor by merger to MERRILL LYNCH BANK USA

By: /s/ Eric H. Williams
Name: Eric H. Williams
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

BANK OF AMERICA, N.A.

By: /s/ Eric H. Williams
Name: Eric H. Williams
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

SUNTRUST BANK

By: /s/ Andrew Johnson
Name: Andrew Johnson
Title: Director

ACKNOWLEDGED AND CONSENTED TO:

CREDIT SUISSE AG,
CAYMAN ISLANDS BRANCH
(fka, Credit Suisse, Cayman Islands Branch)

By: /s/ Mikhail Faybusovich
Name: Mikhail Faybusovich
Title: Vice President

By: /s/ Vipul Dhadda
Name: Vipul Dhadda
Title: Associate

ACKNOWLEDGED AND CONSENTED TO:

Mizuho Corporate Bank, LTD

By: /s/ Leon Mo
Name: Leon Mo
Title: Authorized Signatory

ACKNOWLEDGED AND CONSENTED TO:

BNY Mellon

By: /s/ Richard K. Fronapfel, Jr.
Name: Richard K. Fronapfel, Jr.
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

MORGAN STANLEY BANK, N.A.

By: /s/ Ryan Vetsch
Name: Ryan Vetsch
Title: Authorized Signatory

ACKNOWLEDGED AND CONSENTED TO:

MANUFACTURERS AND TRADERS TRUST COMPANY

By: /s/ Rebecca A. Hancock
Name: Rebecca A. Hancock
Title: Assistant Vice President

ACKNOWLEDGED AND CONSENTED TO:

THE NORTHERN TRUST COMPANY

By: /s/ Chris McKean
Name: Chris McKean
Title: Vice President

ACKNOWLEDGED AND CONSENTED TO:

PNC Bank, National Association

By: /s/ Matthew Sawyer
Name: Matthew Sawyer
Title: Vice President

Exhibit 10.2

The Pepco Holdings, Inc.
2011 Supplemental Executive Retirement Plan

ARTICLE 1
ESTABLISHMENT AND PURPOSE

1.1 **Establishment**. Pepco Holdings, Inc. (the “Company”) hereby establishes a defined benefit pension plan known as The Pepco Holdings, Inc. 2011 Supplemental Executive Retirement Plan (the “Plan”) effective as of August 1, 2011 (the “Effective Date”).

1.2 **Purpose**. The principal purposes of the Plan include the provision of competitive retirement benefits, attraction of new executives to work for the Company, protection of eligible executives against reductions in retirement benefits due to tax law limitations on qualified plans, encouragement of the continued employment of such executives with the Company and to establish a more unified approach to the Company’s executive retirement programs.

ARTICLE 2
DEFINITIONS

2.1 **Actuarially Equivalent**. “Actuarially Equivalent” or “Actuarial Equivalent” means the equivalence in present value between two or more forms and/or times of payment based upon a determination by an actuary chosen by the Board, using reasonable actuarial assumptions as of the date of any such determination.

2.2 **Affiliate**. “Affiliate” means a corporation or other entity controlled by the Company and designated by the Board from time to time as such.

2.3 **Board**. “Board” means the Board of Directors of the Company.

2.4 **Cause**. “Cause” means conduct by the Participant consisting of gross negligence, wanton or willful disregard of duties, conviction of a crime involving moral turpitude or any other act or omission determined by the Board to be inimical to the best interests of the Company. The determination of cause shall be made by the Board, solely in its discretion, and its determination shall be final and binding.

2.5 **Change of Control**. “Change of Control” shall be deemed to occur upon the first to occur, after the Effective Date, of any of the following:

2.5.1 any “person” (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the “beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities;

2.5.2 during any period of twelve (12) consecutive months (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board of Directors of the Company and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Section 2.5.1 or Section 2.5.3) whose election by the Board of Directors of the Company or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof;

2.5.3 the stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, the stockholders of the Company approve a plan of complete liquidation of the Company, or the stockholders of the Company approve an agreement for the sale or disposition by the Company of all or substantially all the Company's assets.

2.6 **Code.** "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.7 **Committee.** "Committee" shall mean the Compensation/Human Resources Committee of the Board, such other committee as may be designated to serve as the Committee hereunder, or, the Board itself, if the Board determines to act in such capacity.

2.8 **Employment**. "Employment" means the period or periods during which a Participant is an employee of the Company.

2.9 **ERISA**. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and any successor act thereto.

2.10 **Participant**. "Participant" means an eligible employee of the Company selected to receive benefits under the Plan as provided in Article 3 of this Plan.

2.11 **Pre-Existing SERP**. "Pre-Existing SERP" means either the Pepco Holdings, Inc. Combined Executive Retirement Plan or the Conectiv Supplemental Executive Retirement Plan, and the phrase "Pre-Existing SERPs" shall refer collectively to both of such plans.

2.12 **Top Hat Plan**. "Top Hat Plan" means a nonqualified, unfunded plan maintained primarily to provide deferred compensation benefits to a Participant who falls within a select group of "management or highly compensated employees" within the meaning of Section 201, 301 and 401 of ERISA.

ARTICLE 3
RETIREMENT

3.1 **Eligibility**. Only those employees who comprise a select group of management or highly compensated employees will be eligible to be selected to participate in the Plan, as provided below.

3.2 **Participation**. The Committee or the Board, or such person or entity designated by the Board, acting in its discretion, may designate any eligible employee as a Participant under this Plan, and may designate any conditions applicable to such Participant. Such designation shall be in writing and shall be effective as of the date contained therein. Participation in the Plan is terminable by the Committee or the Board, in its discretion, upon written notice to the Participant, and termination shall be effective as of the date contained therein, but in no event earlier than the date of such notice, provided that no such termination shall in any material manner reduce or adversely affect any Participant's rights to vested benefits hereunder without the consent of the Participant. Those employees who are participants in the Pre-Existing SERPs shall automatically participate in the Plan.

3.3 **Noncompetition**. Notwithstanding any other provisions hereof, neither a Participant nor a Participant's spouse nor any other beneficiary of a Participant shall receive any further benefits hereunder if the Participant, without prior written consent of the Board, prior to attaining age 65, engages in (as a principal, partner, director, officer, agent, employee, consultant, owner, independent contractor of otherwise), or becomes financially interested in, any business that the Committee determines to be a direct competitor of the Company.

ARTICLE 4
AMOUNT, FORM, AND PAYMENT OF SUPPLEMENTAL BENEFIT

4.1 **Normal Retirement Benefit**. Subject to the terms of this Plan, and except as otherwise expressly provided herein, a Participant who retires from Employment shall be entitled to receive a monthly benefit payable for such Participant's lifetime, commencing on the first day of the month coinciding with or next following the date of such retirement (the "Normal Retirement Benefit"). A Participant's Normal Retirement Benefit is calculated according to the benefit formula as set forth in the Schedule of Retirement Benefits attached hereto. The extent to which a Participant's benefit hereunder is vested and the conditions under which a Participant's benefit may be forfeited, either in part or in whole, shall also be set forth in such Schedule of Retirement Benefits.

4.2 **Form of Benefit**. Except as expressly set forth herein, each Participant who is eligible for a benefit hereunder shall receive his or her benefit in the form of a single life annuity if not married as of the date his or her benefit commences to be paid, and shall receive his or her benefit in the form of a 50% joint and survivor benefit with his or her spouse if he is married on such date (so that the benefit shall be paid to the Participant during his lifetime as a level, monthly benefit, and thereafter, to the Participant's surviving spouse, if any, at a rate of 50% of the benefit payments previously in effect following the Participant's death until the death of the surviving spouse. A Participant shall be considered to have a surviving spouse as of the date of the Participant's death only if such Participant is survived by the person to whom such Participant was married at the time benefit payments commenced. All benefit forms shall be distributed in a manner so that they are Actuarially Equivalent, based on the normal retirement benefit form (single life annuity). Notwithstanding the foregoing, the benefit payable to each participant who is also a participant in the Conectiv Supplemental Executive Retirement Plan shall be distributed in the form of a single lump sum payment on or as soon as practicable following such Participant's separation from service if the Actuarially Equivalent present value of such lump sum distribution is deemed to be de minimis (as defined below); and provided that any such distribution shall be subject to the delay of distribution required under Section 4.4, below. In addition, in the event the benefit of any other Participant who is not a participant in any Pre-Existing SERP is de minimis, such benefit shall also be distributed in the form of a single lump sum payment on or as soon as practicable following the date of such Participant's separation from service; provided that any such distribution shall be subject to the delay of distribution required under Section 4.4, below. For these purposes, a Participant's benefit shall be deemed to be "de minimis" if the Actuarially Equivalent present value of his or her benefit (when aggregated with the Actuarially Equivalent present value of all other nonqualified deferred compensation plans required to be aggregated for purposes of Treasury Regulation Section 1.409A-3(j)(4)(v)) is not greater than the "applicable dollar amount" as then in effect under Section 402 (g)(1)(B) of the Code. In addition, a Participant's distribution may be in the form of a lump sum payment in certain circumstances following the occurrence of a Change of Control.

4.3 **Death Benefit**. If a Participant dies after he or she has become vested in his or her benefit under the Plan, before such Participant's benefit payments have commenced, and such Participant is survived by a spouse, then such spouse shall be entitled to receive from the Company a death benefit determined as though the Participant had terminated employment as of the date of his or her death, and then died the following day, survived by his or her spouse. The intent of this Section 4.3 is for the surviving spouse to receive the survivor annuity that would have been paid if benefit payments had commenced, followed by the death of the Participant.

4.4 **Delay in Commencement of Benefit Payments to Specified Employees.** No payment of any benefit hereunder shall be made to a Participant who is a "specified employee" before the date that is six months after the date of separation from service or, if earlier, the date of death of such Participant, to the extent such delay is required to satisfy the requirements of Code Section 409A(a)(2)(B)(i). Any payment that would have been made prior to such date but for the application of this Section 4.4 shall be made as soon as practicable on or after the date that is six months after the date of such Participant's separation from service (or death, as the case may be).

ARTICLE 5
ADMINISTRATION

5.1 **Authority of the Committee**. This Plan shall be administered by the Committee. Subject to the provisions of the Plan, the Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and to decide or resolve any and all questions, including interpretations of this Plan, as may arise in connection with this Plan. Notwithstanding the foregoing, the Company shall act as the plan administrator for purposes of any filings with any governmental entity or in the event claims for benefits are made by any Participant.

5.2 **Agents**. In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to such agents such administrative duties as it deems advisable and allowable under the terms of the Plan.

5.3 **Decisions Binding**. The decision or action of the Committee with respect to any question arising out of or in connection with the administration, interpretation, and application of this Plan and any rules or guidelines made in connection with this Plan shall be final and conclusive, and shall be binding upon all persons and entities having any interest in this Plan.

5.4 **Indemnity of Committee**. The Company shall indemnify and hold harmless the Committee and its individual members along with any other committee that may be established to administer the Plan pursuant to Paragraph 5.1 and any members thereof, against any and all claims, loss, damage, expense, or liability arising from any action or failure to act with respect to this Plan.

5.5 **Cost of Administration**. The Company shall bear all expenses of administration of this Plan.

5.6 **Claims**.

A Participant or a Participant's beneficiary for benefits under the Plan may file a written claim for benefits under the Plan with the Plan Administrator, if he believes that he is entitled to receive benefits under the Plan but is not receiving benefits under the Plan or if he is receiving benefits under the Plan, but disputes the amount and/or form of benefits received. Such written claim for benefits shall set forth the nature of the claim and/or dispute, and set forth all facts and circumstances which are relevant to the claim.

If, pursuant to the provisions of the Plan, the Company denies the claim of the Participant or the Participant's beneficiary for benefits under the Plan, the Company shall provide written notice, within ninety (90) days after receipt of the claim, setting forth in a manner calculated to be understood by the claimant:

5.6.1 the specific reasons for such denial;

5.6.2 the specific reference to the Plan provisions on which the denial is based;

5.6.3 a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is needed; and

5.6.4 an explanation of the Plan's claim review procedure and the time limitations of this subsection applicable thereto.

The Participant or the Participant's beneficiary whose claim for benefit has been denied may request review by the Company of the denied claim by notifying the Company in writing within sixty (60) days after receipt of the notification of claim denial. As part of said review procedure, the claimant or the claimant's authorized representative may review pertinent documents and submit issues and comments to the Company in writing. The Company shall render its decision to the claimant in writing in a manner calculated to be understood by the claimant not later than sixty (60) days after receipt of the request for review, unless special circumstances require an extension of time, in which case decision shall be rendered as soon after the sixty-day period as possible, but not later than one hundred and twenty (120) days after receipt of the request for review. The decision on review shall state the specific reasons therefor and the specific Plan reference on which it is based.

ARTICLE 6
AMENDMENT AND TERMINATION

The Company hereby reserves the right to amend, modify, or terminate the Plan at any time by action of the Board. Except as described below in this Article 6, no such amendment or termination shall in any material manner reduce or adversely affect any Participant's rights to benefits hereunder without the consent of the Participant.

Notwithstanding the foregoing, no amendment to or termination of the Plan shall be implemented in a manner that is inconsistent with Code Section 409A or the specific provisions of Treasury Regulation Section 1.409A-3(j)(4)(ix) (regarding permissible terminations and liquidations of nonqualified deferred compensation plans).

ARTICLE 7
MISCELLANEOUS

7.1 **Unfunded Plan**. This Plan is intended to be a Top Hat Plan and therefore exempt from the provisions of Parts 2, 3, and 4 of Title I of ERISA. Such status shall not be adversely affected by the establishment of any trust pursuant to Paragraph 7.4 below.

7.2 **Unsecured General Creditor**. Each Participant and his or her beneficiaries, heirs, successors, and assigns shall have no secured legal or equitable rights, interests, or claims in any property or assets of the Company, nor shall any such persons have any rights, interests or claims in any life insurance policies, annuity contracts, or the proceeds therefrom owned or which may be acquired by the Company. Except as provided in Paragraph 7.4, such policies, annuity contracts, or other assets of the Company shall not be held under any trust for the benefit of a Participant, his or her beneficiaries, heirs, successors or assigns, or held, in any way, as collateral security for the fulfilling of any obligations of the Company under this Plan. Any and all of the Company's assets and policies shall be, and shall remain for purposes of this Plan, the general, unpledged, unrestricted assets of the Company. The Company's obligation under this Plan shall be that of an unfunded and unsecured promise to pay money in the future.

7.3 **Exclusive Supplemental Retirement Benefit**.

As of the Effective Date, the Plan is the intended to be the sole source of Company paid supplemental retirement benefits for Participants. In the event a Participant is entitled to any other supplemental retirement benefit payable by the Company, the benefit payable hereunder shall be reduced by an amount that is the Actuarial Equivalent of such other supplemental retirement benefits, except where such other supplemental retirement benefits are paid under an arrangement that explicitly negates the operation of this Paragraph.

7.4 **Nonassignability**. Neither a Participant nor any other person shall have any right to sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be nonassignable and nontransferable, provided that a Participant may assign the right to receive such amounts to trusts or limited partnerships established for the benefit of the Participant's spouse or children. No part of the amount payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor shall such amounts or rights to such amounts be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

7.5 **Not a Contract of Employment**. The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Company and any Participant, and Participants (and Participants' beneficiaries) shall have no rights against the Company except as may otherwise be specifically provided herein. Moreover, nothing in this Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge any Participant at any time.

7.6 **Validity**. If any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

7.7 **Successors**. The provisions of this Plan shall bind and inure to the benefit of the Company and its successors and assigns, and the Company shall require all its successors and assigns to expressly assume its obligations hereunder. The term "successors," as used herein, shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise, acquire all or substantially all of the business and assets of the Company.

7.8 **Tax Withholding**. The Company shall have the right to require Participants to remit to the Company an amount sufficient to satisfy federal, state, and local tax withholding requirements, or to deduct from payments made pursuant to the Plan amounts sufficient to satisfy such tax withholding requirements.

7.9 **Governing Law**. The provisions of this agreement shall be construed and interpreted according to the laws of the State of Pennsylvania except as preempted by Federal law.

7.10 **Change of Control**. In the event there is a Change of Control, each Participant shall be fully vested in his or her accrued benefit under the Plan. Payment of benefits shall be as provided for under the Plan with respect to any Participant who would have been vested without regard to the Change of Control at the time of his or her separation from service. In all other cases (that is, for a Participant who separates from service prior to the date such Participant is eligible for an annuity benefit and is therefore vested under the terms of the Plan without regard to this Section 7.10), the Participant will receive a lump sum payment of an amount that is the Actuarially Equivalent on a present value basis of his or her accrued benefit, payable as soon as practicable following the participant's separation from service; subject to any delay required under Section 4.4, above.

7.11 **Acceleration of Vesting**. The Committee, in its sole and absolute discretion, may waive all vesting requirements and/or permit accelerated vesting arrangements, in which case distribution shall be made as described in Section 7.10, above.

7.12 **Forfeiture**. The accrued benefit of a Participant hereunder (whether or not treated as vested for any other purposes or under any other provisions of the Plan) shall be subject to forfeiture in its entirety in the event such Participant is terminated for Cause.

Schedule of Retirement Benefits

Benefits provided under the Plan are supplementary to benefits provided under the Company's tax-qualified defined benefit retirement plans and to benefits provided to participants in the Pre-Existing SERPs. The benefit provided under the Plan is the value of the Notional Plan Benefit, as described below, to the extent the value of that benefit exceeds the value of all benefits provided to a Participant under any tax-qualified defined benefit plan sponsored by the Company or any affiliate of the Company, and any benefit provided to a Participant under a Pre-Existing SERP (all such plans being the "Offset Plans"). All calculations are to be made so that the calculation of the Notional Plan Benefit and the other benefits payable under the Offset Plans shall be made by converting into, or calculating such benefits as, a single life annuity payable commencing as of the Participant's Normal Retirement Date (or such earlier date as of which the Participant may be entitled to receive a distribution of a single life annuity without reduction for commencement prior to his or her Normal Retirement Date). The excess of the annuity payment determined as the Notional Plan Benefit over the aggregate of the annuity payments under the Offset Plans shall then be converted into such form of benefit as is provided for under the Plan that is the Actuarially Equivalent of the excess annuity payment (treated as a single life annuity).

Determination of Plan Benefit – Each Participant's Benefit Under the Plan shall be Calculated as an Annuity Based on the Formula Set Forth Below, and Reduced (but not below $0) by the Benefit Provided Under the Participant's Benefit Under the Company's Defined Benefit Pension or Cash Balance Plan and by the Participant's Benefit, if any, Under the Pre-Existing SERP. The Initial Benefit Formula for these Purposes is as Follows:

1. As of any relevant date a determination, the initial determination of a Participant's annuity benefit shall use the sum of the Participant's Final Average Pay (as defined below) and the Participant's Average Annual Bonus (as defined below).
    a. "Final Average Pay" means a Participant's average annual base pay over the prior five years (looking at such Participant's annualized rate of base pay for the current year, and looking at the actual base pay for each of the prior four full years)
    b. "Average Annual Bonus" means a Participant's average annual bonus looking at the highest three of the last five annual bonuses (and treating as $0 any completed year for which no bonus was actually paid).
2. The Participant's annuity benefit is then calculated by multiplying the sum calculated above by 1.45% (0.0145), and multiplying that by such Participant's Years of Service (as defined below). A Participant's "Years of Service" means the Participant's service as determined for purposes of vesting under the tax qualified defined benefit plan in which such Participant participates.
3. For purposes of clarity, the determination of Final Average Pay is not subject to any cap nor is the period of service that can be earned under the Plan.

4. Normal Retirement Date is age 65; provided, however, that any Participant credited with 20 or more Years of Service shall be entitled to an unreduced annuity benefit commencing at age 62, and a Participant credited with 35 or more Years of Service shall be entitled to an unreduced annuity benefit commencing at age 58.
5. If a Participant terminates employment prior to the date such Participant is entitled to an unreduced annuity benefit but after the date such Participant has become vested in his or her benefit, such Participant's benefit shall be subject to actuarial reduction at a rate of 3% per year (0.25% per month).
6. The benefit payable under the Plan will be equal to the annuity benefit determined above, but offset by the benefit (calculated on an Actuarially Equivalent basis) payable under the tax-qualified defined benefit pension or cash balance plan of the Company, and further offset by the benefit payable, if any, under a Pre-Existing SERP.

Vesting of benefits and conditions under which benefits may be forfeited are as follows:

Vesting. Except in the event of a Change of Control, vesting will occur at the time a Participant is eligible for a retirement annuity (including an annuity which is distributed in the form of an actuarially reduced benefit). This will occur when a Participant attains age 55 or above and is credited with at least 10 years of service. Otherwise, a participant will become vested upon the later of attaining age 65 or being credited with five years of service. By way of example, a Participant who terminates his or her employment at age 64 with 9 years of service shall forfeit his or her benefit entirely. Similarly, a Participant who terminates his or her employment at age 66 with 4 years of service shall also forfeit his or her benefit entirely

Forfeiture of Benefits. Any Participant who terminates employment prior to becoming vested will forfeit any benefit otherwise accrued under the Plan. In addition, regardless of a Participant's years of service, his or her benefit under the Plan shall be forfeited if the Participant's employment is terminated for Cause (as set forth in Section 7.12 of the Plan). In addition, any benefit payments not already made shall also be forfeited if it is determined that the Participant to whom such payments are to be made has violated any non-competition requirements applicable under any agreement with that Participant.

Exhibit 10.3

AMENDMENT TO THE PEPCO HOLDINGS, INC. COMBINED EXECUTIVE RETIREMENT PLAN

This Amendment to the Pepco Holdings, Inc. Combined Executive Retirement Plan (the "Plan") is hereby made effective as of this first day of August, 2011, in order to freeze the Plan with regard to participation by any individuals not already participating in the Plan as of July 31, 2011.

WITNESSETH

WHEREAS, Pepco Holdings, Inc. (the "Company") sponsors the Plan, and desires to freeze the Plan to new participants; and

WHEREAS, the Company, by resolution of its board of directors, has the power to amend the Plan in accordance with Section 6.5 thereof; and

WHEREAS, the Company's board of directors has approved this amendment to the Plan.

NOW THEREFORE, the Plan shall be amended as follows:

1. Effective as of August 1, 2011, the following new Section 2.4 is added at the end of Section II of the Plan, to read:

"2.4 Notwithstanding anything to the contrary in the Plan, no individual shall be a Participant in the Plan on or after August 1, 2011 who was not already a Participant in the Plan as of July 31, 2011."

2. In all other respects, the Plan shall remain in full force and effect without change.

IN WITNESS WHEREOF, the Company has caused this Amendment to the Plan to be executed and this 28th day of July, 2011.

PEPCO HOLDINGS, INC.

By: /s/ Joseph M. Rigby

Exhibit 10.4

AMENDMENT TO THE CONECTIV SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

This Amendment to the Conectiv Supplemental Executive Retirement Plan (the "Plan") is hereby made effective as of this first day of August, 2011, in order to freeze the Plan with regard to participation by any individuals not already participating in the Plan as of July 31, 2011.

WITNESSETH

WHEREAS, sponsorship of the Plan has been assumed by Pepco Holdings, Inc. (the "Company"); and

WHEREAS, the Company desires to freeze the Plan to new participants; and

WHEREAS, the Plan provides in Section 81 that the Plan may be amended by the "Committee" (which is defined in the Plan as the Personnel and Compensation Committee of the Company's board of directors); and

WHEREAS, the Company and the Company's board of directors have taken on the responsibilities of the original sponsor of the Plan and acts as the Committee (as that term is defined in the Plan); and

WHEREAS, the board of directors of the Company has approved this amendment to the Plan.

NOW THEREFORE, the Plan shall be amended as follows:

1. Effective as of August 1, 2011, the following additional sentence is added at the end of Section 1.17 (defining "Participant"), to read:

"Notwithstanding anything to the contrary in the Plan, no individual shall be a Participant in the Plan on or after August 1, 2011 who was not already a Participant in the Plan as of July 31, 2011."

2. In all other respects, the Plan shall remain in full force and effect without change.

IN WITNESS WHEREOF, the Company has caused this Amendment to the Plan to be executed and this 28th day of July, 2011.

PEPCO HOLDINGS, INC.

By: /s/ Joseph M. Rigby

Exhibit 12.1

Pepco Holdings, Inc.

	Six Months Ended June 30, 2011	For the Year Ended December 31, 2010	2009	2008	2007	2006
			(millions of dollars)			
Income from continuing operations before extraordinary item (a)	$ 158	$ 140	$ 221	$ 187	$ 254	$ 205
Income tax expense (b)	88	11	104	90	141	133
Fixed charges:						
Interest on long-term debt, amortization of discount, premium and expense	131	315	348	311	315	307
Other interest	11	22	23	24	25	19
Preferred dividend requirements of subsidiaries	—	—	—	—	—	1
Total fixed charges	142	337	371	335	340	327
Non-utility capitalized interest	—	—	—	(1)	—	(1)
Income before extraordinary item, income tax expense, fixed charges and non-utility capitalized interest	$ 388	$ 488	$ 696	$ 611	$ 735	$ 664
Total fixed charges, shown above	142	337	371	335	340	327
Increase preferred stock dividend requirements of subsidiaries to a pre-tax amount	—	—	—	—	—	1
Fixed charges for ratio computation	$ 142	$ 337	$ 371	$ 335	$ 340	$ 328
Ratio of earnings to fixed charges and preferred dividends	2.73	1.45	1.88	1.82	2.16	2.02

(a) Excludes income/losses from equity investments.

(b) Concurrent with the adoption of FASB guidance on taxes (ASC 740) in 2007, amount includes interest on uncertain tax positions.

Exhibit 12.2

Potomac Electric Power Company

	Six Months Ended June 30, 2011	For the Year Ended December 31, 2010	2009	2008	2007	2006
			(millions of dollars)			
Net income	$ 50	$ 108	$ 106	$ 116	$ 125	$ 85
Income tax expense (a)	9	37	76	64	62	58
Fixed charges:						
Interest on long-term debt, amortization of discount, premium and expense	50	101	103	95	86	77
Other interest	5	10	11	11	12	13
Total fixed charges	55	111	114	106	98	90
Income before income tax expense, and fixed charges	$ 114	$ 256	$ 296	$ 286	$ 285	$ 233
Ratio of earnings to fixed charges	2.07	2.31	2.60	2.70	2.91	2.59
Total fixed charges, shown above	55	111	114	106	98	90
Preferred dividend requirements, adjusted to a pre-tax amount	—	—	—	—	—	2
Total fixed charges and preferred dividends	$ 55	$ 111	$ 114	$ 106	$ 98	$ 92
Ratio of earnings to fixed charges and preferred dividends	2.07	2.31	2.60	2.70	2.91	2.54

(a) Concurrent with the adoption of FASB guidance on taxes (ASC 740) in 2007, amount includes interest on uncertain tax positions.

Exhibit 12.3

Delmarva Power & Light Company

	Six Months Ended June 30, 2011	For the Year Ended December 31, 2010	2009	2008	2007	2006
		(millions of dollars)				
Net income	$ 45	$ 45	$ 52	$ 68	$ 45	$ 43
Income tax expense (a)	22	31	16	45	37	32
Fixed charges:						
Interest on long-term debt, amortization of discount, premium and expense	23	46	45	41	44	41
Other interest	1	2	2	2	2	3
Total fixed charges	24	48	47	43	46	44
Income before income tax expense, and fixed charges	$ 91	$ 124	$ 115	$ 156	$ 128	$ 119
Ratio of earnings to fixed charges	3.79	2.58	2.45	3.63	2.78	2.70
Total fixed charges, shown above	24	48	47	43	46	44
Preferred dividend requirements, adjusted to a pre-tax amount	—	—	—	—	—	1
Total fixed charges and preferred dividends	$ 24	$ 48	$ 47	$ 43	$ 46	$ 45
Ratio of earnings to fixed charges and preferred dividends	3.79	2.58	2.45	3.63	2.78	2.62

(a) Concurrent with the adoption of FASB guidance on taxes (ASC 740) in 2007, amount includes interest on uncertain tax positions.

Exhibit 12.4

Atlantic City Electric Company

	Six Months Ended June 30, 2011	For the Year Ended December 31, 2010	2009	2008	2007	2006
			(millions of dollars)			
Income from continuing operations	$ 24	$ 53	$ 41	$ 64	$ 60	$ 60
Income tax expense (a)	19	43	17	30	41	33
Fixed charges:						
Interest on long-term debt, amortization of discount, premium and expense	35	66	69	64	66	65
Other interest	2	3	3	3	3	3
Total fixed charges	37	69	72	67	69	68
Income before extraordinary item, income tax expense, and fixed charges	$ 80	$ 165	$ 130	$ 161	$ 170	$ 161
Ratio of earnings to fixed charges	2.16	2.39	1.81	2.40	2.46	2.37
Total fixed charges, shown above	37	69	72	67	69	68
Preferred dividend requirements adjusted to a pre-tax amount	—	—	—	—	1	1
Total fixed charges and preferred dividends	$ 37	$ 69	$ 72	$ 67	$ 70	$ 69
Ratio of earnings to fixed charges and preferred dividends	2.16	2.39	1.81	2.40	2.44	2.35

(a) Concurrent with the adoption of FASB guidance on taxes (ASC 740) in 2007, amount includes interest on uncertain tax positions.

Exhibit 31.1

CERTIFICATION

I, Joseph M. Rigby, certify that:

1. I have reviewed this report on Form 10-Q of Pepco Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ JOSEPH M. RIGBY

Joseph M. Rigby
Chairman of the Board, President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Anthony J. Kamerick, certify that:

1. I have reviewed this report on Form 10-Q of Pepco Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ ANTHONY J. KAMERICK
Anthony J. Kamerick
Senior Vice President and Chief Financial Officer

Exhibit 31.3

CERTIFICATION

I, David M. Velazquez, certify that:

1. I have reviewed this report on Form 10-Q of Potomac Electric Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ DAVID M. VELAZQUEZ
David M. Velazquez
President and Chief Executive Officer

Exhibit 31.4

CERTIFICATION

I, Anthony J. Kamerick, certify that:

1. I have reviewed this report on Form 10-Q of Potomac Electric Power Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ ANTHONY J. KAMERICK

Anthony J. Kamerick
Senior Vice President and Chief Financial Officer

Exhibit 31.5

CERTIFICATION

I, David M. Velazquez, certify that:

1. I have reviewed this report on Form 10-Q of Delmarva Power & Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ DAVID M. VELAZQUEZ

David M. Velazquez
President and Chief Executive Officer

Exhibit 31.6

CERTIFICATION

I, Anthony J. Kamerick, certify that:

1. I have reviewed this report on Form 10-Q of Delmarva Power & Light Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ ANTHONY J. KAMERICK
Anthony J. Kamerick
Senior Vice President and Chief Financial Officer

Exhibit 31.7

CERTIFICATION

I, David M. Velazquez, certify that:

1. I have reviewed this report on Form 10-Q of Atlantic City Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ DAVID M. VELAZQUEZ
David M. Velazquez
President and Chief Executive Officer

Exhibit 31.8

CERTIFICATION

I, Anthony J. Kamerick, certify that:

1. I have reviewed this report on Form 10-Q of Atlantic City Electric Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2011

/s/ ANTHONY J. KAMERICK
Anthony J. Kamerick
Chief Financial Officer

Exhibit 32.1

Certificate of Chief Executive Officer and Chief Financial Officer

of

Pepco Holdings, Inc.

(pursuant to 18 U.S.C. Section 1350)

I, Joseph M. Rigby, and I, Anthony J. Kamerick, each certify that, to the best of my knowledge, (i) the Quarterly Report on Form 10-Q of Pepco Holdings, Inc. for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Pepco Holdings, Inc.

August 3, 2011	/s/ JOSEPH M. RIGBY
	Joseph M. Rigby Chairman of the Board, President and Chief Executive Officer
August 3, 2011	/s/ ANTHONY J. KAMERICK
	Anthony J. Kamerick Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Pepco Holdings, Inc. and will be retained by Pepco Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certificate of Chief Executive Officer and Chief Financial Officer

of

Potomac Electric Power Company

(pursuant to 18 U.S.C. Section 1350)

I, David M. Velazquez, and I, Anthony J. Kamerick, each certify that, to the best of my knowledge, (i) the Quarterly Report on Form 10-Q of Potomac Electric Power Company for the quarter ended June 30, 2011 filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Potomac Electric Power Company.

August 3, 2011	/s/ DAVID M. VELAZQUEZ David M. Velazquez President and Chief Executive Officer
August 3, 2011	/s/ ANTHONY J. KAMERICK Anthony J. Kamerick Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Potomac Electric Power Company and will be retained by Potomac Electric Power Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.3

Certificate of Chief Executive Officer and Chief Financial Officer

of

Delmarva Power & Light Company

(pursuant to 18 U.S.C. Section 1350)

I, David M. Velazquez, and I, Anthony J. Kamerick, each certify that, to the best of my knowledge, (i) the Quarterly Report on Form 10-Q of Delmarva Power & Light Company for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Delmarva Power & Light Company.

August 3, 2011	/s/ DAVID M. VELAZQUEZ
	David M. Velazquez President and Chief Executive Officer
August 3, 2011	/s/ ANTHONY J. KAMERICK
	Anthony J. Kamerick Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Delmarva Power & Light Company and will be retained by Delmarva Power & Light Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.4

Certificate of Chief Executive Officer and Chief Financial Officer

of

Atlantic City Electric Company

(pursuant to 18 U.S.C. Section 1350)

I, David M. Velazquez, and I, Anthony J. Kamerick, each certify that, to the best of my knowledge, (i) the Quarterly Report on Form 10-Q of Atlantic City Electric Company for the quarter ended June 30, 2011, filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Atlantic City Electric Company.

August 3, 2011	/s/ DAVID M. VELAZQUEZ David M. Velazquez President and Chief Executive Officer
August 3, 2011	/s/ ANTHONY J. KAMERICK Anthony J. Kamerick Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Atlantic City Electric Company and will be retained by Atlantic City Electric Company and furnished to the Securities and Exchange Commission or its staff upon request.