



701 Ninth Street, NW
Washington, DC 20068

Joseph M. Rigby
President
Chief Operating Officer

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202-872-2219
202-331-6485 Fax
joe.rigby@pepcoholdings.com

The Honorable Roger Berliner
Montgomery County Council
100 Maryland Avenue
Rockville, Maryland 20850

Dear Councilmember Berliner:

I am writing to you as a follow-up to the July 10, 2008, meeting between yourself, Kim Watson, Ray Bourland and me. We appreciate your arranging the meeting and are happy to provide the information below in response to your request for further material from us.

As we discussed, there could be a number of near-term potential opportunities for Pepco and the Montgomery County Government to partner together to assist County residents to better manage and reduce their home energy use and to establish a "sustainable electric system." As promised, we have identified several near-term opportunities that we believe warrant additional discussion with you. There is one general caveat -- as we discussed at the meeting, any arrangement we reach will be subject to review by the Maryland Public Service Commission (Commission), and may require its approval.

Residential Energy Efficiency Retrofits

There is an opportunity in Montgomery County to significantly increase the efficiency of the County's existing homes. As we see it, the first step is to make a home energy audit program available to customers in order to identify energy efficiency opportunities. Pepco has proposed a home performance energy audit program to the Commission in several filings related to our "Blueprint for the Future." If the Commission approves that program, the costs of the program likely would be recovered over a five-year period through a Pepco DSM surcharge applied to our customers' bills. More importantly, approval would provide opportunities for all Pepco residential customers to participate in the program. If the Commission does not approve our audit program, we are willing to discuss with you a partnership involving County funding of the audit program.

The Commission's jurisdiction over Pepco's operations raises a matter we discussed on July 10 but which bears repeating. Due to the Commission's jurisdiction over Pepco, to avoid any possibility of confusion we will keep the Commission informed of our discussions and the development of any programs. If either Pepco or the Commission determines that Commission approval is necessary before any particular program can be implemented, that is the course we will follow.

As to other home efficiency ideas, we agree that there are many opportunities worthy of further discussion. Subject to the Commission's jurisdiction, we are willing to explore methods of fulfilling those needs through a partnership between the County and Pepco. To that end, we have identified the following concepts that we think warrant discussion.

First, while we have a home energy audit program pending before the Commission, if the Commission determines that the program should not be implemented we are willing to discuss with you the following ideas, and others that you may have:

- Establish an energy audit program co-branded by Montgomery County Government and Pepco.
- The audit program would be managed by Pepco in consultation with the Montgomery County.
- Funding would come from Montgomery County, not Pepco ratepayers.
- Energy audit services would be provided through a competitively selected third party contractor.
- Both Pepco and Montgomery County would market the program.
- The program would be available to any Pepco residential customer residing in Montgomery County.
- Pepco would identify and target high energy use customers. (Pepco will maintain the confidentiality of all customer data.)
- Montgomery County would identify and target low income customers.
- The cost recovery period from the County would need a maximum term (possibly 5 years), with interest on unrecovered amounts set equal to the Company's allowed rate of return. The County would select the funding source, which could not be a surcharge or any other charge on our customers' bills.
- The County would establish annual program expenditure caps.
- We think it best to have a minimum project duration of 5 years, but consisting of one-year increments that would allow for termination at the end of any one program year. This structure should be sufficient to justify set-up expense, support a marketing campaign, and attract potential service vendors, while allowing for program termination on a rational basis should the Commission later approve a similar program.
- Experience shows that people value a service more if they have to pay for it than if it is offered for free. The County may wish to consider a charge at some level (\$50 to \$150?), although the County may wish to consider a lower or no fee for low income households.
- Our energy audit program pending before the Commission allows, with customer approval, installation of up to 5 compact fluorescent lights and other low-cost measures that can be installed at the time of the audit, and we think that feature is worthy of incorporation into a County/Pepco program should the Commission not approve our pending proposal.

- An audit should be designed to estimate potential energy savings due to infiltration and heat loss through walls and attics. If a central air conditioner or heat pump is present, an assessment of the age and size of the unit and the last service date, as well as an assessment of duct leakage and insulation, are warranted. The audit report would be presented to the customer with recommendations for upgrades and information about any available rebates.
- Pepco will prepare a program evaluation report every three years or at the conclusion of the program, whichever occurs first.

There are other opportunities that we are willing to explore with you for a retrofit program, including insulation installation and other building shell measures, and air conditioner/heat pump replacements. As you know, such items are much more expensive and would require significant expansion of the necessary financial commitments by the County. We also are willing to discuss these opportunities with you on a stand-alone basis if the Commission accepts our audit program filing.

If the Commission rejects our pending audit proposal but allows us to work with you on a County-funded alternative, we do need to plan for the contingency of program termination should the Commission later institute a similar program for the Pepco territory. In that contingency, we envision that the County/Pepco program would be merged into any Commission approved home energy audit/retrofit program at the conclusion of the current program year. Finally, in any event, we will need to submit any County/Pepco Retrofit Program Agreement to the Commission for its review and, if necessary, its approval.

Smart Grid Initiative

Pepco is developing a smart grid initiative. We plan to deploy a "smart metering" system and other smart grid technologies on a phased implementation basis. Details concerning implementation and even technology are still being discussed at Pepco, but we envision concentrating the initial rollout of the technology in a geographic area defined by the characteristics of a discrete subset of our distribution system. Implementation on that engineering basis will allow us to maximize technology benefits and minimize project expense. We hope to be able to target a specific community, or at least significant portions thereof, as the site for the initial roll-out.

As you know, this initiative will take advantage of new technology to improve utility distribution service, reduce utility operating costs, support voluntary innovative rate structures, assist consumers to reduce both their overall electricity consumption and their electricity demand during high load periods, support the integration of small scale renewable generators into the electric grid, and accommodate new electric end-uses such as plug-in hybrid vehicles. Costs associated with the smart grid initiative would be recovered through distribution utility rates and are subject to the Commission's jurisdiction.

The Company has established an internal technical smart grid design team to determine the specific characteristics of this technically complex initiative. Representatives of the Pepco technical design team aim to be prepared to meet with you and/or other appropriate Montgomery County officials during September to discuss the specifics of this near-term initiative, including possible benefits to Montgomery County electricity consumers, possible County geographic locations, and the timing of equipment installations.

By the way, you will not be surprised to learn that officials in at least one other Maryland County are interested in having one of their communities be part of the initial deployment of smart grid technology. We will do our best to accommodate the interests of our customers' representatives while ensuring that the initial phase of deployment is accomplished in a responsible, cost-effective manner.

Other Near-term Opportunities

Pepco has proposed to the Commission the establishment of a general energy awareness marketing campaign to inform customers about energy savings opportunities. If funding for the program becomes available, Pepco would welcome the opportunity to develop a co-branded campaign in Montgomery County to extend the reach of this messaging to County businesses and residents. We want to discuss with you establishing a joint marketing campaign upon our receipt of funding approval by the Commission.

Next Steps

We would like to set up two separate meetings with you or your staff to discuss the specifics of the Residential Retrofit Program and the Smart Grid Initiative. Steve Sunderhauf, our DSM expert, is currently engaged in preparing two major EmPOWER Maryland filings due to the Commission on September 1, and also is preparing for the Commission's August 20 Administrative Meeting, at which time the Commission will be delving into DSM filings from both Pepco and Delmarva. If possible, we would like to set the meeting on the audit/retrofit program in early September, with the smart grid meeting to occur in mid-late September. Please advise as to whether those general timeframes are satisfactory to you.

Assuming we reach agreements, we will assume the responsibility to prepare draft partnership proposals for your consideration and final discussion. Due to the Commission's regulatory oversight, we will provide a copy of any joint agreement to the Commission for its review and final approval, if required.

We are enthusiastic about this opportunity to discuss partnership possibilities with Montgomery County to assist its businesses and residents in managing their energy costs, reducing their overall energy consumption and peak electricity use, and improving electric distribution service through the use of newly available smart grid technology. Please contact either Ray Bourland at 202-331-6708, Steve Sunderhauf at 202-872-3507, or Kim Watson at 202-872-2524 if you have any questions.

Sincerely,



Joseph M. Rigby
President and Chief Operating Officer
Pepco Holdings, Inc.

cc: Mr. Calvin Timmerman, Assistant Executive Director
Maryland Public Service Commission