

BEFORE THE
PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

IN THE MATTER OF)
)
The Application of POTOMAC)
ELECTRIC POWER COMPANY) Formal Case No.
For An Increase In Its Retail)
Rates For The Sale)
Of Electric Energy)

VOLUME II OF III: Direct Testimony and Exhibits
of Company Witnesses GAUSMAN and
BROWNING

December 12, 2006

W.M. VONSTEUBEN
Direct Testimony
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (C)

POTOMAC ELECTRIC POWER COMPANY

BEFORE THE
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
DIRECT TESTIMONY OF W. MICHAEL VONSTEUBEN
FORMAL CASE NO. _____

1 Q. PLEASE STATE YOUR NAME AND POSITION.

2 A. My name is W. Michael VonSteuben, Manager, Revenue
3 Requirements, Pepco Holdings Inc. (PHI). I am testifying
4 on behalf of Potomac Electric Power Company ("Pepco",
5 "Company").

6 Q. PLEASE STATE YOU EDUCATIONAL BACKGROUND AND PROFESSIONAL
7 QUALIFICATIONS.

8 A. I received a Bachelor of Science Degree in Business
9 Administration from the University of Delaware in 1976.
10 In December 1978, I joined Delmarva Power and Light
11 Company in the Payroll section of the Accounting
12 Department. In 1980, I was promoted into the Plant
13 Accounting Department with responsibility related to the
14 book and tax treatment regarding the Company's utility
15 plant.

16 In September 1984, I was promoted to Senior Analyst
17 in the Regulatory Practice Department. I was promoted to
18 Staff Analyst in June 1987 and to Supervisor in March
19 1998. I was designated a Senior Regulatory leader in

1 2000 and promoted to my current position in November
2 2004. My responsibilities include the coordination of
3 revenue requirement determinations in the District of
4 Columbia, Maryland, Delaware, Virginia, and New Jersey as
5 well as coordinating various other regulatory compliance
6 matters.

7 Q. WHAT IS THE SCOPE OF YOUR DIRECT TESTIMONY IN THIS
8 PROCEEDING?

9 A. I present the Company's District of Columbia cost of
10 service information for the proposed partially projected
11 September 30, 2006 test period and an historical March
12 31, 2006 test period. I present the revenue requirement
13 study which demonstrates the need for the \$50,454,000
14 increase in annual distribution revenues which the
15 Company is requesting in this case. As shown at PEPCO
16 (C)-1, page 1, the Company is earning a rate of return of
17 only 5.41% on its fully adjusted rate base; this
18 translates to a return on equity of 4.53%. The
19 \$50,454,000 increase is necessary in order to provide the
20 Company the opportunity to earn the 8.42% return on
21 average rate base discussed in Dr. Morin's testimony
22 (PEPCO (B)). This requested increase is based on the
23 Company's District of Columbia allocated adjusted results

1 of providing distribution service for the test period
2 ending September 30, 2006; this test period consists of
3 six months actual results and six months of projected
4 data. This testimony and accompanying exhibits were
5 prepared by me or under my direct supervision. The source
6 documents for my testimony are Company records, public
7 documents, and my personal knowledge and experience.

8 Q. WHY DID THE COMPANY SELECT THE PARTIALLY PROJECTED TWELVE
9 MONTHS ENDING SEPTEMBER 30, 2006 AS THE TEST YEAR IN THIS
10 PROCEEDING?

11 A. We are proposing the use of a partially projected
12 test year ending September 30, 2006, because it is a
13 current test period which, when properly adjusted, is
14 reflective of conditions which are expected to prevail
15 during the period, beginning in the second half of 2007,
16 that the rates set in this proceeding are likely to be in
17 effect.

18 Q. PLEASE PROVIDE THE BASIS FOR INCLUDING PROJECTED DATA IN
19 THE PROPOSED TEST PERIOD IN THIS PROCEEDING.

20 A. Commission Rule 200.4 states that "...the proposed
21 test year may include forecasted data provided that the
22 proposed test year does not include more than six (6)
23 months of forecasted data." The use of a partially

1 projected test year provides a test period which will be
2 closer to the rate-effective period than would a fully
3 historical test year. Further, the use of a partially
4 projected test year is consistent with the Company's
5 presentation in previous rate cases. The Company based
6 its last application on a six months actual, six months
7 projected test year, which the Commission found to be
8 reasonable, appropriate, and consistent with Commission
9 precedent (Formal Case No. 939, Order No. 10646, page 5).

10 Q. PLEASE DESCRIBE THE KEY ASSUMPTIONS CONTAINED IN THE
11 PROJECTED UNADJUSTED RATEMAKING DATA FOR THE PROPOSED
12 TEST YEAR.

13 A. The key assumptions underlying that portion of the
14 test period based on projected results are as follows:

15 1. MWH Sales (District of Columbia billed
16 distribution) - six months actual of 5,609,369
17 MWH and six months projected of 6,111,689 MWH.

18 2. Sale of Electricity (District of Columbia
19 billed distribution) - six months actual of
20 \$161,204,000 and six months projected of
21 \$183,970,000.

22 3. Other Operation & Maintenance Expense (System
23 Distribution-related) - six months actual of

1 \$116,694,000 and six months projected of
2 \$100,965,000.

3 4. Construction Expenditures (System Distribution
4 related) - six months actual of \$94,000,000
5 and six months projected of \$121,000,000.

6 Q. PLEASE DESCRIBE THE PROCEDURES EMPLOYED IN THE
7 PREPARATION OF THE PROJECTED DATA.

8 A. The six months of projected data were based on the
9 Company's 2006 budgeted data. The projected data were
10 combined with six months actual data, then directly
11 assigned and/or allocated as applicable first to the
12 Company's distribution business, then to the District of
13 Columbia jurisdiction.

14 Q. HAVE YOU PREPARED EXHIBITS WHICH SUPPORT THE COMPANY'S
15 RATE INCREASE REQUEST?

16 A. Yes. PEPCO (C)-1 presents the necessary financial
17 and accounting data for the test period ending September
18 30, 2006, which supports the Company's \$50,454,000
19 increase in annual revenues.

20 Q. PLEASE SUMMARIZE THE CONTENTS OF PEPCO (C)-1.

21 A. Page 1 presents the Company's unadjusted and
22 adjusted District of Columbia jurisdictional results of
23 operation, for the provision of distribution service, for

1 the twelve months ending September 30, 2006. The
2 \$50,454,000 revenue increase necessary to achieve an
3 8.42% rate of return on rate base is also presented.

4 The ratemaking adjustments are summarized on pages
5 2-3; pages 4 through 27 present the detailed derivation
6 of each of the ratemaking adjustments, along with any
7 associated tax effect.

8 Page 28 presents the revenue requirement associated
9 with each of the ratemaking adjustments.

10 Page 29 presents the statutory tax rates and
11 associated gross-up factors used in determining the
12 Company's revenue requirement.

13 The Company's June 30, 2006 capital structure and
14 associated cost rates that were used in deriving the
15 District of Columbia jurisdictional revenue requirement
16 of \$50,454,000 presented at page 1 of PEPCO (C)-1 (line
17 13, column 4) are discussed by Dr. Morin at PEPCO (B).
18 Derivation of the Company's cash working capital
19 allowance presented at line 5 of PEPCO (C)-1, page 1 is
20 described in the testimony of Ms. Hook at PEPCO (D).

21 Q. PLEASE DISCUSS THE DEVELOPMENT OF PEPCO'S COST OF SERVICE
22 ON A DISTRIBUTION-ONLY BASIS.

23 A. The basis for Pepco's distribution-only cost of

1 service is the distribution accounts as specified in the
2 Federal Energy Regulatory Commission (FERC) Uniform
3 System of Accounts. In addition, a portion of cost
4 elements functionalized as general, intangible, and
5 miscellaneous have been allocated to distribution, as
6 discussed in the testimony of Dr. Browning, presented at
7 PEPCO (F).

8 Q. ASIDE FROM THE DEVELOPMENT OF A DISTRIBUTION-ONLY COST OF
9 SERVICE, IS THE REVENUE REQUIREMENT STUDY AND COST OF
10 SERVICE REFLECTED IN PEPCO (C) IN CONFORMANCE WITH PAST
11 COMMISSION RATEMAKING DETERMINATIONS?

12 A. Yes, the operating results presented in PEPCO (C)
13 are based upon past Commission ratemaking determinations.
14 Unadjusted rate base is presented on a thirteen-month
15 average basis. Rate base has been reduced by the amount
16 of customer deposits in account 235; Plant Held for
17 Future Use was also excluded from rate base, consistent
18 with the Commission's decision in Formal Case No. 929.
19 Rate base includes plant materials and operating
20 supplies, net of related accounts payable. Rate base also
21 includes the net average balance of the Company's prepaid
22 pension asset/other post employment benefit (OPEB)
23 liability, net of associated accumulated deferred income

1 taxes.

2 Q. PLEASE DISCUSS THE REASON FOR INCLUSION OF THE NET
3 PREPAID PENSION/OPEB ASSET IN RATE BASE.

4 A. In addressing the implementation of Statement of
5 Financial Accounting Standards 106 and the external
6 funding of OPEB costs, the Commission ruled in a Bell
7 Atlantic case (Formal Case No. 926) that C&P was required
8 to continue its current policy, which was to place an
9 amount equal to the SFAS accrual into an external funding
10 mechanism to the extent that tax advantaged vehicles
11 exist, with any accruals in excess of that amount applied
12 as a reduction to rate base. The Commission reaffirmed
13 that ruling in Pepco's Formal Case No. 929, concluding
14 that "as in the BA-DC case, it is appropriate that Pepco
15 account for 'any amounts not externally funded...as a
16 reduction to the rate base' (Formal Case No. 926, Order
17 No. 10353 at 58." (Formal Case No. 929, Order No. 10387
18 at 145.) The Company's proposed treatment of the net
19 prepaid pension asset/OPEB liability is consistent with
20 these rulings.

21 Historically, Pepco has funded its pension plan,
22 with the use of investor-supplied capital, to the level
23 of its Accumulated Benefit Obligation (ABO). The ABO is

Witness VonSteuben

1 based on employees' current and past (as opposed to
2 projected future) compensation levels, and reflects the
3 Company's future liability for employees who are
4 currently serving customers. To the extent these cash
5 contributions have exceeded annual FAS 87 expense, a
6 prepaid pension asset has resulted, earnings on which
7 serve to reduce the annual FAS 87 expense as determined
8 by the Company's actuarial firm, Watson Wyatt Worldwide,
9 thus benefiting customers by reducing the revenue
10 requirement.

11 In the case of the OPEB liability, the opposite is
12 true. The annual FAS 106 OPEB expense as determined by
13 Watson Wyatt Worldwide exceeds the annual cash
14 contributions. This is due to the Company's policy of
15 funding only to the extent that the cash contributions
16 are deductible for income tax purposes (the Company's
17 pension contributions also do not exceed the amount
18 deductible for income tax purposes). This has resulted in
19 an accrued OPEB liability on the Company's balance sheet.
20 This liability is included as a reduction to rate base,
21 in recognition of the fact that the amount of OPEB
22 expense included in the cost of service is greater than
23 the Company's tax deductible cash outlays to fund its

1 OPEB obligation.

2 Q. PLEASE DISCUSS THE RATEMAKING ADJUSTMENTS WHICH ARE
3 SUMMARIZED ON PEPCO (C)-1, PAGE 2, AND PRESENTED IN
4 DETAIL AT PAGES 4 THROUGH 27.

5 A. Further explanations of the ratemaking adjustments
6 reflected in the September 30, 2006 historical test
7 period are as follows:

8 Adjustment 1 adjusts operating revenues to reflect
9 average weather over a thirty-year period, as directed by
10 the Commission in Formal Case No. 939 (Order No. 10646,
11 page 75). Dr. Browning discusses the development of
12 weather adjusted sales and revenues for the test period
13 at PEPCO (E). Additionally, Adjustment 1 adjusts test
14 year billing month revenues to make them reflective of
15 365 billing days, and annualizes them to the rates in
16 effect the entire test period (the six months projected
17 data reflect an anticipated adjustment to distribution
18 rates [concurrent with a change in transmission rates]
19 which has not occurred). Adjustment 1 also adjusts
20 District of Columbia expense to include the original
21 generation-only RAD subsidy in distribution rates.

22 Adjustment 2 excludes from cost of service costs
23 associated with non-qualified supplemental executive

1 retirement plans, as ordered by the Commission in Formal
2 Case No. 939 (Order No. 10646, page 128).

3 Adjustment 3 removes from test year operating
4 expense costs associated with industry memberships and
5 contributions, except for those associated with the
6 American National Standards Institute, which were
7 specifically allowed by the Commission in Formal Case No.
8 889 (Order No. 9509), 11 D.C.P.S.C. 302, 368 (1990).

9 Adjustment 4 removes from the test period expenses
10 associated with institutional and promotional
11 advertising, consistent with the Commission's rules and
12 longstanding Commission precedent. Any advertising
13 expenditures remaining in the test period are associated
14 with advertising which is informational in nature and
15 whose costs are therefore properly included in the cost
16 of service. PEPCO (C)-6 presents a detailed analysis of
17 informational advertising expenditures for the historical
18 test year ended March 31, 2006 and the projected test
19 year ending September 30, 2006.

20 Adjustment 5 increases operation and maintenance
21 expense, in accordance with past practice and Commission
22 precedent, to reflect interest expense related to the
23 average level of customer deposits at the 2006 rate of

1 4.12%. In Formal Case No. 748, the Commission determined
2 that customer deposits constitute a customer-supplied
3 source of capital which should be deducted from rate
4 base. The Commission also found it appropriate to adjust
5 operating expense to reflect the interest paid on such
6 deposits (Order No. 7457), 2 D.C.S.P.C. 401, 422-423
7 (1981). Income taxes are adjusted for the difference
8 between the interest rate reflected in the tax included
9 in unadjusted cost of service and the 2006 rate.

10 Adjustment 6 adjusts operating expenses to reflect a
11 three-year average amount of regulatory expenses,
12 consistent with the Commission's decisions in Formal Case
13 Nos. 905, 912, 929, and 939.

14 Adjustment 7 removes costs associated with merger
15 integration success incentives from the Company's cost of
16 service, in accordance with the Agreement of Stipulation
17 and Settlement in Formal Case No. 1002, as approved by
18 Order No. 12395.

19 Adjustment 8 adjusts operation and maintenance
20 expense to annualize employee salary and wage increases
21 which occurred in the test year (March 1, 2006 for exempt
22 employees and June 1, 2006 for union/bargaining unit
23 employees). Additionally, it reflects reasonably known

1 and certain increases for the rate effective period.

2 Adjustment 9 adjusts operation and maintenance
3 expense to reflect changes in employee health and welfare
4 costs in the rate effective period. Changes associated
5 with medical, dental, and vision plans reflect
6 anticipated percentage increases developed by the Human
7 Resources department. Increases in pension and other post
8 employment benefits (OPEB) are based on information from
9 the Company's actuarial firm, Watson Wyatt Worldwide. As
10 shown at PEPCO (C)-1, page 12, anticipated year-to-year
11 increases in plan costs are to some extent offset by 2006
12 savings in costs versus the budgeted costs reflected in
13 the six months projected data. These savings have
14 resulted from implementation of new PHI benefit plan
15 designs. An increased focus on Health Maintenance
16 Organization (HMO) options, increased co-pays and
17 deductibles for non-HMO plans, and replacement of
18 traditional medical indemnity plans with Preferred
19 Provider Organizations (PPO's) for non-union employees
20 have enabled the Company to greatly reduce expenditures
21 for medical costs. A new prescription drug plan design,
22 which includes increased utilization of generic drugs,
23 increased participant cost shares, and a three-tier

1 formulary has also contributed to the cost reductions the
2 Company is experiencing.

3 Adjustment 10 normalizes operation and maintenance
4 expense associated with storm restoration efforts to
5 their three-year average level.

6 Adjustment 11 removes from operation and maintenance
7 expense Mirant bankruptcy-related outside counsel costs
8 incurred in the test period. In the pending settlement
9 between Mirant and Pepco in Mirant's bankruptcy
10 proceeding, Mirant has agreed to reimburse the Company
11 for these costs. Additionally, a de minimis amount of
12 other outside counsel costs that were inadvertently
13 recorded in above the line accounts were removed.

14 Adjustment 12 adjusts operation and maintenance
15 expense for annual recurring costs associated with
16 enhanced customer care initiatives being undertaken by
17 the Company.

18 The Company is taking steps to expand capacity for
19 having calls answered by customer care representatives
20 (CCR's), as opposed to the automated system. Fifteen new
21 CCR's are expected to be hired and trained by the rate
22 effective period. In addition, the Company intends to
23 expand its seasonal use of outsourced CCR's, to provide

1 more extensive coverage during peak times (for example,
2 the summer storm season).

3 Adjustment 13 adjusts test period other tax expense
4 to reflect Pepco's portion of the Fiscal Year 2006
5 Commission and Office of Peoples' Counsel operating
6 budgets. (Order Nos. 14051 and 14047.)

7 Adjustment 14 reflects the increased allocation of
8 shared costs allocated to Pepco from the Service Company
9 that will result from the pending sale or shut-down of
10 PHI's B.L.England, Keystone-Conemaugh, and Delaware City
11 operations. The pooling of resources and sharing of costs
12 among several users clearly benefits all entities
13 involved, because any individual entity's contribution to
14 the shared cost will in all likelihood be less than the
15 cost of acquiring that service independently. Conversely,
16 the closing of any facility which receives an allocation
17 of shared corporate costs results in an increased level
18 of those costs allocated to the remaining operations.
19 This does not negate the benefit of shared services;
20 Pepco's District of Columbia customers have received and
21 will continue to receive the benefit of reduced costs
22 through the pooling of common resources within the
23 holding company structure. It is necessary, though, to

1 adjust the level of such costs incurred in the test
2 period to the level that will likely exist in the rate
3 effective period. Even with this adjustment, the cost of
4 providing these necessary services to Pepco is lower than
5 the costs Pepco would have incurred on a stand-alone
6 basis.

7 Adjustment 15 adjusts operation and maintenance
8 expense to annualize the increase in United States postal
9 service rates effective in January 2006. This adjustment
10 is consistent with longstanding Commission precedent
11 regarding known and certain changes. The Commission noted
12 in Formal Case No. 748 that "our review of past decisions
13 shows that adjustments have been allowed to reflect known
14 and certain changes which will better reflect reality
15 during the period the new rates are in effect." (Order
16 No. 7457, 2 D.C.P.S.C. at 433, 1981.)

17 Adjustment 16 adjusts operation and maintenance
18 expense to reflect costs associated with the filing of
19 this base rate proceeding, including costs for the cost
20 of capital witness and outside counsel. The total amount
21 of these incremental costs was assumed to be recoverable
22 over a three year period.

23 Adjustment 17 adjusts operation and maintenance

1 expense to reflect an increase in costs associated with
2 the use of the Company's vehicle resources. This
3 adjustment reflects increased fuel costs, licensing,
4 registration fees, and higher interest rates associated
5 with the Company's leased fleet that are not reflected in
6 the test year.

7 Adjustment 18 adjusts test year District of Columbia
8 revenues to reflect reduced sales due to recent supply
9 price increases. This adjustment is discussed in detail
10 by Dr. Browning at PEPCO (F).

11 Adjustment 19 adjusts amortization expense and rate
12 base for the impacts of known and certain changes to
13 software amortization in the rate effective period.
14 Software projects which became fully amortized within the
15 test period, as well as software projects which will
16 become fully amortized within one year of the end of the
17 test period, were removed from cost of service. A similar
18 adjustment in Formal Case No. 939 was uncontested by the
19 parties and accepted by the Commission as "proper,
20 accurate, and consistent with Commission precedent."
21 (Order No. 10646, page 89.) Additionally, the rate base
22 and amortization expenses impacts of projects which were
23 placed in service by September 30, 2006, but which had

1 not been included in the six months projected data, were
2 included in cost of service.

3 Adjustment 20 adjusts operation and maintenance
4 expense to amortize over three years costs associated
5 with a Power Delivery severance program initiated in
6 December 2004. In addressing the ratemaking treatment of
7 a Voluntary Severance Program in Formal Case No. 939, the
8 Commission noted its expectation that the Company would
9 "continue its efforts to increase savings from this and
10 other cost containment programs. Accordingly, we find no
11 basis to exclude the costs of this program from Pepco's
12 cost of service, and we find that Pepco's ratemaking
13 treatment of the costs and benefits of this program is
14 appropriate for ratemaking in this case." (Order No.
15 10646, page 116.) The Company's three-year amortization
16 period and inclusion of the unamortized balance in rate
17 base is consistent with ratemaking treatment approved in
18 Formal Case No. 939.

19 Adjustment 21 adjusts the Company's average
20 accumulated deferred income tax balance for the
21 deductible mixed service cost method.

22 In 2001, Pepco adopted a tax accounting method for
23 capitalized overheads that allowed for current deduction

1 of certain overhead costs that had previously been
2 capitalized into the cost of self-constructed assets and
3 depreciated over a twenty year life for tax purposes. As
4 a result of this method change, the Company was able to
5 generate on its 2001 through 2004 tax returns additional
6 tax benefits based on this new method as compared to the
7 Company's prior tax accounting method. This transaction
8 was originally recorded on Pepco's books during the
9 fourth quarter of 2002. Because for book purposes these
10 costs are capitalized and depreciated on a straight-line
11 basis and over a longer period of time, a book-tax timing
12 difference, and thus an increase in deferred taxes, was
13 created.

14 In August 2005, the Treasury Department issued
15 proposed and temporary regulations that will, if adopted
16 in their current form, essentially eliminate the
17 Company's ability to continue to use this tax accounting
18 method. When a temporary and proposed regulation is
19 issued, it is effective and requires full compliance as
20 of the date of its release. Thus, the Company changed
21 its method of accounting for these overhead costs to
22 another method. Further, the Company must repay the
23 difference in the tax computed under the new method as

1 compared to what was deductible under the prior method
2 over a two year period beginning in tax year 2005.
3 Adjustment 21 removes the average accumulated deferred
4 income tax balance for the amount of the taxes the
5 Company is required to repay.

6 Adjustment 22 adjusts rate base and operating
7 expenses to include the investment in the Northeast
8 Substation System, which will go in service June 2007.
9 Because the substation will be in service for the entire
10 rate effective period, Electric Plant in Service has been
11 adjusted to reflect the full value of the investment that
12 will be placed in service June 2007. Depreciation
13 expense for the first year of service, which falls within
14 the period rates determined by this proceeding will be in
15 effect, has been included, as has the first year average
16 balance of accumulated depreciation. Accumulated deferred
17 taxes have also been adjusted to reflect the difference
18 between tax and book depreciation. This adjustment
19 reflects a known and certain change which will take place
20 within nine months of the end of the test year, and prior
21 to the date that rates established as a result of this
22 proceeding are likely to go into effect. If this
23 adjustment is not adopted, the rates authorized by the

1 Commission will not fully reflect the costs which the
2 Company will incur during the rate effective period, and
3 the Company will not be provided a reasonable opportunity
4 to earn the rate of return authorized by the Commission
5 in this proceeding.

6 When reviewing this type of adjustment, the
7 Commission historically has considered whether rate base
8 additions will benefit customers during the rate
9 effective period. In Formal Case No. 905, the Company
10 proposed an adjustment to include costs associated with
11 four Chalk Point combustion turbines (CT's) going into
12 service six months after the test period, but within the
13 rate effective period. In allowing the adjustment, the
14 Commission stated that because the "plant will be used
15 and useful during the entire rate effective period, the
16 Commission concludes that it is appropriate that the
17 Company earn a return on the full value of the Chalk
18 Point investment." The Commission went on to cite
19 precedent from a Washington Gas case, noting, in "Formal
20 Case No. 870, the Commission authorized the recovery of a
21 DCNG investment in rate base (i.e., a [gas] transmission
22 line) which was placed into service approximately a year
23 after the test year. Formal Case No. 870, Order No. 9146,

1 9 D.C.P.S.C. 452, 483-485, 500 (1988)." 12 D.C.P.S.C. 682
2 (1991).

3 In Formal Case No. 912, the Commission allowed a
4 similar adjustment to include the full value of a new
5 combustion turbine at Station H. In accepting the
6 adjustment, the Commission stated: "the Commission
7 affirms its finding in Formal Case Nos. 870 and 905, and
8 finds that Pepco's proposal to include the Station H CTs
9 complies with the Commission's rulings regarding CWIP in
10 rate base, pre-approval of extraterritorial power plants
11 and the use of end-of-period costs. In particular, the
12 Commission has previously ruled that end-of-period costs
13 are appropriate to ensure that a return is earned on the
14 full value of the investment in an out-of-period plant.
15 ..Moreover, since the Station H CT will benefit customers
16 for the entire rate-effective period, it is appropriate
17 for Pepco to earn a full return on its investment." 13
18 D.C.P.S.C. 569 (1992).

19 Details regarding the project cost and schedule, as
20 well as the need for this project to enable the Company
21 to reliably serve its District of Columbia customers, are
22 provided by Mr. Gausman at PEPCO (E).

23 Adjustment 23 adjusts rate base to include the

1 average balance of several District of Columbia
2 distribution projects that are complete, are in service,
3 and are thus used and useful to customers, but which have
4 not been transferred from construction work in progress
5 (CWIP) to electric plant in service (EPIS) in the
6 financial records of the Company. These projects fall
7 into one of two categories: (1) projects which have not
8 been cut into service in the financial records of the
9 Company because they are still within a 90-day "buffer"
10 period (in effect, a holding period to ensure that all
11 invoices related to the project have been received before
12 the accounting transfer to EPIS is finalized), and (2)
13 projects awaiting final accounting and unitization before
14 being transferred in the accounting records to EPIS.
15 Further description of these projects, and discussion of
16 the difference between when the projects become used and
17 useful to customers as opposed to when they are
18 officially recognized as EPIS in the financial records of
19 the Company is presented by Mr. Gausman at PEPCO (E).

20 Adjustment 24 adjusts District of Columbia and
21 Federal income tax expense to reflect the synchronization
22 of interest expense for income tax purposes with that
23 inherent in the Company's return on rate base. This

1 treatment is in accordance with the Commission's decision
2 in Formal Case No. 939 and prior cases.

3 Q. WHAT IS THE PURPOSE OF PEPCO (C)-2?

4 A. Commission Rule 200.3 (h) requires a rate change
5 application to include the most recent historic balance
6 sheet available as of the date of the filing. A balance
7 sheet as of September 30, 2006 has been provided on page
8 1 of PEPCO (C)-2. Note that the amounts presented reflect
9 total Pepco; a distribution-only balance sheet is not
10 available.

11 Q. WHAT IS THE PURPOSE OF PEPCO (C)-3?

12 A. Commission Rule 200.1 (a) requires that a statement
13 of an historical test year and the basis for choosing
14 that test year be included with the rate change
15 application. Schedules similar to the ones presented in
16 PEPCO (C)-1 are presented in PEPCO (C)-3 for the twelve
17 months ended March 31, 2006. This period was chosen as a
18 recent historical period for which distribution-only
19 jurisdictional data are available.

20 Q. WHAT IS THE PURPOSE OF PEPCO (C)-4?

21 A. Commission Rule 200.5 (d) requires that an analysis
22 of changes in jurisdictional rate base, jurisdictional
23 expenses, and jurisdictional operating income between the

1 historical test year and the proposed test year be
2 provided when a utility submits forecasted data as part
3 of its proposed test year data. PEPCO (C)-4 provides such
4 an analysis.

5 Q. WHAT IS THE PURPOSE OF PEPCO (C)-5?

6 A. PEPCO (C)-5 sets forth the Company's regulatory
7 expense related to matters before the Commission for the
8 twelve months ended March 31, 2006. The schedule shows
9 amounts expended by the Company arising from assessments
10 by the Commission and the People's Counsel. This exhibit
11 also provides similar expenses for the three years
12 preceding the test period as required by Order No. 7135
13 in Formal Case No. 715, 2 D.C.P.S.C. 15, 15-58 (1980).

14 Q. IN ACCORDANCE WITH THE COMMISSION'S DECISIONS IN FORMAL
15 CASE NOS. 869, 889, 905, 912, 929, AND 939, DOES THE TEST
16 YEAR COST OF SERVICE CONTAIN ANY LEGAL EXPENSES
17 ASSOCIATED WITH SETTLED DISCRIMINATION CASES?

18 A. No. Consistent with Commission precedent, the test
19 year cost of service contains no legal expenses
20 associated with settled discrimination cases.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

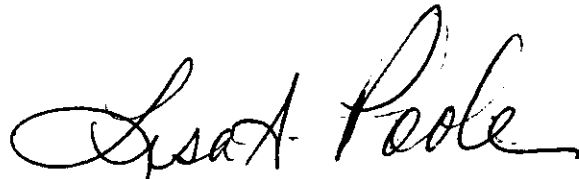
22 A. Yes.

AFFIDAVIT

City of Washington)
District of Columbia) ss:

Before me, the undersigned Notary Public in and for the City of Washington, District of Columbia, this day personally appeared W. MICHAEL VONSTEUBEN, Manager, Revenue Requirements for Pepco Holdings, Inc. to me personally known, who stated under oath that the foregoing direct testimony and exhibits were prepared by him or under his direct supervision and control; that he has knowledge of the matters set forth in said direct testimony and exhibits; and that such matters are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 12th day of December, 2006 in the City of Washington, District of Columbia.


Notary Public

My Commission expires July 31, 2007

W.M. VONSTEUBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(C)-1

Potomac Electric Power Company

District of Columbia
Ratemaking Results - Distribution Only
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.		D.C. Average (Unadjusted) (1)	Ratemaking Adjustments (2)	D.C. Adjusted (3)	Revenue to Achieve 11.00% Return on Equity (4)	Adjusted to Reflect 11.00% Return on Equity (5)
	Rate Base					
1	Electric Plant in Service	\$ 1,892,424	\$ 67,644	\$ 1,960,068		\$ 1,960,068
2	Accumulated Depreciation	(645,859)	(924)	(646,783)		(646,783)
3	Accumulated Amortization	(12,962)	2,441	(10,521)		(10,521)
4	Materials and Supplies	15,639		15,639		15,639
5	Cash Working Capital	11,075		11,075		11,075
6	Accumulated Deferred Income Taxes	(363,325)	6,341	(356,984)		(356,984)
7	Prepaid Pension/OPEB liab (net of tax)	23,294		23,294		23,294
8	Customer Deposits	(15,630)		(15,630)		(15,630)
9	Unamortized Severance Program Costs	0	478	478		478
10	Total Rate Base	\$ 904,656	\$ 75,980	\$ 980,636		\$ 980,636
	Operating Revenues					
11	Sale of Electricity	\$ 345,174	\$ (6,732)	\$ 338,442		
12	Other Revenues	3,914		3,914		
13	Operating Revenues	\$ 349,088	\$ (6,732)	\$ 342,356	\$ 50,454	\$ 392,810
	Operating Expenses					
14	Operation and Maintenance	\$ 82,746	\$ 4,168	\$ 86,914		\$ 86,914
15	Depreciation	49,327	1,607	50,934		50,934
16	Amortization	3,748	(197)	3,551		3,551
17	Other Taxes	127,575	2,142	129,717		129,717
18	D.C. Income Tax	4,167	(1,337)	2,830	5,033	7,863
19	Federal Income Tax	20,105	(4,741)	15,364	15,897	31,261
20	Total Operating Expenses	\$ 287,668	\$ 1,642	\$ 289,310	\$ 20,930	\$ 310,240
21	Operating Income	\$ 61,420	\$ (8,374)	\$ 53,046	\$ 29,524	\$ 82,570
22	D.C. Jurisdictional Return on Rate Base	6.79%		5.41%		8.42%
23	Less Weighted Cost of Long Term Debt:	3.30%		3.30%		3.30%
24	Net amount available for common equity	3.49%		2.11%		5.12%
25	Common Equity ratio	0.4655		0.4655		0.4655
26	D.C. Jurisdictional Return on Equity	7.50%		4.53%		11.00%

Potomac Electric Power Company

District of Columbia Ratemaking Adjustments – Distribution Only
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

RMA No.	Ratemaking Adjustments	Rate Base (1)	Revenue (2)	Operation & Maintenance (3)	Depreciation (4)	Amortization (5)	Other Taxes (6)	DCIT (7)	FIT (8)
1	Weather normalization / annualization of revenues		\$ (4,469)				\$ 550	\$ (501)	\$ (1,581)
2	Exclusion of supplemental executive retirement plans			\$ (349)				35	110
3	Exclusion of industry contributions and membership fees			(365)				36	115
4	Exclusion of institutional advertising/selling expenses			(183)				22	56
5	Inclusion of interest expense on customer deposits			567				(6)	(20)
6	Reflection of 3-year average regulatory expense			445				(44)	(140)
7	Exclusion of merger-related costs			(12)				1	4
8	Annualization of wage increases			1,357				(135)	(428)
9	Annualization of changes in employee health & welfare costs			343				(34)	(108)
10	Reflection of 3-year average storm costs			90				(9)	(28)
11	Removal of Mirant Bankruptcy and other outside counsel fees			(599)				60	189
12	Customer care enhancement			737				(73)	(232)
13	Reflection of increase in PSC & OPC FY 2006 budget assessments							(159)	(502)
14	Reflection of increased allocation of service company costs						1,592	(141)	(446)
15	Annualization of 2006 postal rate increase			1,414				(1)	(4)
16	Inclusion of costs associated with current proceeding			12				(8)	(27)
17	Reflection of increase in vehicle resource use costs			85				(35)	(111)
18	Reflection of sales adjustment		(2,263)	353				(85)	(762)

Potomac Electric Power Company

District of Columbia Ratemaking Adjustments -- Distribution Only
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

RMA No.	Rate-making Adjustments	Rate Base (1)	Revenue (2)	Operation & Maintenance (3)	Depreciation (4)	Amortization (5)	Other Taxes (6)	DCIT (7)	FIT (8)
19	Annualization of software amortization EPIS	\$ (1,209)							
	Accumulated amortization	2,441							
	Amortization expense		\$ (197)					20	62
20	Amortization of severance programs Program costs	478		\$ 273				(27)	(86)
	Accumulated deferred taxes	(128)							
21	Annualization of Deductible Mixed Service Cost tax method	7,489							
22	Inclusion of NE Substation System EPIS	51,930							
	Accumulated depreciation	(702)							
	Accumulated deferred taxes	(936)			\$ 1,164			(116)	(367)
	Depreciation expense								
23	Inclusion of projects completed and in service EPIS	16,923							
	Accumulated depreciation	(222)							
	Accumulated deferred taxes	(84)							
	Depreciation expense				443			(44)	(140)
24	Interest synchronization							(93)	(295)
	Total Rate-making Adjustments	\$ 75,980	\$ (6,732)	\$ 4,168	\$ 1,607	\$ (197)	\$ 2,142	\$ (1,337)	\$ (4,741)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 1 - Weather Normalization/Annualization of Revenues	
1	Adjustment to weather normalize billed distribution revenues	\$ (315)
2	Adjustment to reflect 365 billing days	(454)
3	Adjustment to annualize D.C. revenues (excluding surcharges) to current rates	<u>(3,700)</u>
4	Total adjustment to District of Columbia revenues	<u>\$ (4,469)</u>
5	Adjustment for RAD generation subsidy	<u>\$ 550</u>
6	Adjustment to D.C. income tax expense	<u>\$ (501)</u>
7	Adjustment to Federal income tax expense	<u>\$ (1,581)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 2 - Exclusion of Non-Qualified Supplemental Executive Retirement Plans		
1	Pension expense--Non-Qualified Plans--Pepco Utility for the twelve months ending September 30, 2006	\$	1,132
2	Service Company Non-Qualified Plan expense		2,389
3	Percent of Service Company Executive Management costs charged to Pepco for the twelve months ending September 30, 2006		<u>31.9%</u>
4	Service Company Non-Qualified Plan expense charged to Pepco (line 2 x line 3)		<u>762</u>
5	Total Pepco Non-Qualified Plan expense for the 12 months ending September 30, 2006 (Line 1 + line 4)		1,894
6	Distribution Labor ratio		<u>0.8932</u>
7	Distribution-related amount		1,692
8	Percent charged to operation & maintenance expense		<u>54.7%</u>
9	Adjustment to Operation & Maintenance expense		(926)
10	D.C. O&M less A&G Ratio		<u>0.3774</u>
11	Adjustment to D.C. Operation & Maintenance expense	\$	<u>(349)</u>
12	Adjustment to D.C. income tax expense	\$	<u>35</u>
13	Adjustment to Federal income tax expense	\$	<u>110</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 3 - Exclusion of Industry Contributions and Membership Fees	
1	Industry contributions and membership fees for the twelve months ending September 30, 2006	\$ 971
2	Fees and contributions allowable per Order No. 9509: American National Standards Institute	<u>5</u>
3	Total industry contributions and membership fees to be excluded	966
4	D.C. O&M less A&G Ratio	<u>0.3774</u>
5	Adjustment to operation and maintenance expense	<u>\$ (365)</u>
6	Adjustment to D.C. income tax expense	<u>\$ 36</u>
7	Adjustment to Federal income tax expense	<u>\$ 115</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 4 - Exclusion of Advertising and Selling Expense	
1	Total advertising/selling expenses (FERC A/C's 909, 911, 912, 913, 930.1) for the twelve months ending September 30, 2006	\$ 1,511
2	Expenses included above associated with informational activity	<u>953</u>
3	Institutional/promotional advertising, selling expenses excludable from cost of service (line 1 - line 2)	558
4	Pepco labor costs associated with institutional/promotional advertising	<u>28</u>
5	Total excludable advertising/selling expenses	586
6	D.C. Sales expense ratio	<u>0.3124</u>
7	Adjustment to operation and maintenance expense	<u>\$ (183)</u>
8	Adjustment to D.C. income tax expense	<u>\$ 22</u>
9	Adjustment to Federal income tax expense	<u>\$ 56</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 5 - Interest Expense on Customer Deposits	
1	13-Month average balance - D.C. active customer deposits	<u>\$ 13,762</u>
2	Interest on customer deposits at 2006 rate (4.12% x Line 1)	567
3	Interest for 12 Months Ending September 30, 2006	<u>505</u>
4	Difference in interest expense on D.C. customer deposits	<u>\$ 62</u>
5	Adjustment to D.C. income tax expense	<u>\$ (6)</u>
6	Adjustment to Federal income tax expense	<u>\$ (20)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 6 - Regulatory Costs at 3-Year Average Amount	<u>D.C. Direct</u>
1	2004 regulatory expense	\$ 1,512
2	2005 regulatory expense	2,378
3	Test Period regulatory expense	<u>1,277</u>
4	D.C. 3-year total	<u>\$ 5,167</u>
5	Three-year average D.C. regulatory expense	\$ 1,722
6	D.C. regulatory expense for the twelve months ending September 30, 2006	<u>1,277</u>
7	Adjustment to operation & maintenance expense	<u>\$ 445</u>
8	Adjustment to D.C. income tax expense	<u>\$ (44)</u>
9	Adjustment to Federal income tax expense	<u>\$ (140)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 7 - Exclusion of Merger-Related Costs	
1	Merger-related costs reflected in the twelve months ending September 30, 2006	
2	Distribution Labor Ratio	\$ 35
3	Distribution-related expense	<u>0.8932</u>
4	D.C. O&M less A&G Ratio	31
5	Adjustment to operations and maintenance expense	<u>0.3774</u>
6	Adjustment to D.C. income tax	<u>\$ (12)</u>
7	Adjustment to Federal income tax	<u>\$ 1</u>
		<u>\$ 4</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Rate-making Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

No. Adjustment 8 - Annualization of Wage Increases

Line No.	Description	Bargaining Unit		Total
		Exempt	Unit	
1	Exempt o & m labor (distribution), excluding one-time payments, before 3/1/06	\$ 12,400		\$ 12,400
2	Bargaining unit o & m (distribution) labor, excl. one-time pmts, before 6/1/06		\$ 25,473	25,473
3	Total O & M distribution labor, exclusive of one-time payments, before annual wage increases	12,400	25,473	37,873
4	Test period wage increase	3.31%	3.00%	
5	Adjustment to annualize increases occurring in test pd (Ln 3 x Ln 4)	410	764	1,174
6	Exempt o & m labor (distribution), excl one-time pmts - 12 mos ending 9/30/06	31,397		31,397
7	Bargaining unit o & m labor (distr), excl one-time pmts - 12 mos ending 9/30/06		39,779	39,779
8	Annualization adjustment (line 5)	410	764	1,174
9	Total annualized O & M distribution labor, exclusive of one-time payments, for the twelve months ending 9/30/06	31,807	40,543	72,350
10	Rate effective period wage increases (3/1/07 & 08 Exempt and 6/1/07 Bargaining unit)	3.50%	3.00%	
11	Annualization of 2007 increases (Ln 9 x Ln 10 (x 13/12 for exempt only))	1,206	1,216	2,422
12	Total increase (line 5 + line 11)	1,616	1,980	3,596
13	Allocation factor - D.C. (O&M less A&G)	0.3774	0.3774	
14	Adjustment to operations & maintenance for wage increases	\$ 610	\$ 747	\$ 1,357
15	Adjustment to D.C. income tax expense			\$ (135)
16	Adjustment to Federal income tax expense			\$ (428)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

No. Adjustment 9 - Annualization of Changes in Employee Health & Welfare Costs

	<u>Plan</u>	<u>Test Period Amount</u>	<u>Rate Effective Period Amount</u>	<u>Projected Change</u>
1	Medical	\$ 10,730	\$ 9,933	\$ (797)
2	Dental	1,061	1,029	(32)
3	Vision	179	161	(18)
4	Other Post-Employee Benefits (OPEB)	12,884	13,617	733
5	Pension	7,149	8,281	<u>1,132</u>
6	Total change in health & welfare costs included in O&M			1,018
7	Allocation to distribution (labor ratio)			<u>0.8932</u>
8	Distribution-related adjustment to O&M			909
9	Allocation factor - D.C. (O&M less A&G)			<u>0.3774</u>
10	Adjustment to operations and maintenance expense for increased employee health & welfare costs			<u>\$ 343</u>
11	Adjustment to D.C. income tax expense			<u>\$ (34)</u>
12	Adjustment to Federal income tax expense			<u>\$ (108)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 10 - Reflection of 3-Year Average Storm Costs	<u>Total</u>
	Storm damage restoration costs reflected in distribution-only operations and maintenance (O&M) expense	
1	2004	
2	2005	\$ 3,251
3	Test Period storm costs	4,022
		<u>3,278</u>
4	3-year average	3,517
5	Storm damage costs reflected in test year O&M	<u>3,278</u>
6	Adjustment to reflect 3-year average	239
7	D.C. O&M less A&G Ratio	<u>0.3774</u>
8	Adjustment to D. C. expense	<u>\$ 90</u>
9	Adjustment to D.C. income tax expense	<u>\$ (9)</u>
10	Adjustment to Federal income tax expense	<u>\$ (28)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 11- Removal Mirant Bankruptcy and Other Outside Counsel Fees	
1	Mirant-related outside counsel fees included in test year expense	\$ 1,545
2	Other outside counsel fees not applicable to distribution cost of service	<u>42</u>
3	Total outside counsel fees excluded	\$ 1,587
4	Allocation factor - D.C. (O&M less A&G)	<u>0.3774</u>
5	Adjustment to O & M expense	<u>\$ (599)</u>
6	Adjustment to D.C. income tax expense	<u>\$ 60</u>
7	Adjustment to Federal income tax expense	<u>\$ 189</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 12 - Customer Care Enhancement	
1	Annual recurring costs associated with additional customer service representatives	\$ 1,953
2	Allocation factor - D.C. (O&M less A&G)	<u>0.3774</u>
3	Adjustment to D.C. operations & maintenance expense	<u>\$ 737</u>
4	Adjustment to D.C. income tax expense	<u>\$ (73)</u>
5	Adjustment to Federal income tax expense	<u>\$ (232)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

<u>Line No.</u>	<u>Adjustment 13 - Reflection of Increase in PSC & OPC FY 2006 Budget Assessment</u>	
1	PSC & OPC assessments included in the twelve months ending September 30, 2006	\$ 5,330
2	Actual FY 2006 PSC & OPC assessments	<u>6,922</u>
3	Increase to D.C. other tax expense	<u>\$ 1,592</u>
4	Adjustment to D.C. income tax expense	<u>\$ (159)</u>
5	Adjustment to Federal income tax expense	<u>\$ (502)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 14 - Reflection of Increased Allocation of Service Company Costs	
1	Additional operation and maintenance expense charged to Pepco	\$ 4,194
2	Allocation to distribution (labor ratio)	<u>0.8932</u>
3	Total increase to distribution-related operations & maintenance expense	3,746
4	D.C. allocation factor (O&M less A&G)	<u>0.3774</u>
5	Adjustment to D.C. distribution-related O&M	<u>\$ 1,414</u>
6	Adjustment to D.C. income tax expense	<u>\$ (141)</u>
7	Adjustment to Federal income tax expense	<u>\$ (446)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

No. Adjustment 15 - Annualization of 2006 Postal Rate Increase

Month	# of D.C. Distribution Customers	Postage at Average 2005 Rate (28.7 ¢/mailing)	Postage at Average 2006 Rate (30.4 ¢/mailing)	Adjustment
1 October 2005	233,936	\$ 67	\$ 71	\$ 4
2 November 2005	234,221	67	71	4
3 December 2005	235,044	67	71	4
4 Adjustment to annualize to 2006 rates				<u>\$ 12</u>
5 Adjustment to D.C. income tax expense				<u>\$ (1)</u>
6 Adjustment to Federal income tax expense				<u>\$ (4)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Rate-making Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 16 - Inclusion of Costs Associated with Current Proceeding	
1	Outside consulting for current base rate proceeding (cost of capital witness, outside counsel)	\$ 245
2	Court Reporting, other miscellaneous	<u>10</u>
3	Adjustment to D.C. operations & maintenance expense	255
4	Annual increase assuming 3-year recovery period	<u>\$ 85</u>
5	Adjustment to D.C. income tax expense	<u>\$ (8)</u>
6	Adjustment to Federal income tax expense	<u>\$ (27)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 17 - Reflection of Increase in Vehicle Resource Use Costs	
1	Vehicle resource use costs for the twelve months ending September 30, 2006	\$ 5,750
2	Vehicle resource use costs for the rate effective period	<u>6,845</u>
3	Total increase to operations & maintenance expense	1,095
4	Allocation to distribution (plant ratio)	<u>0.8549</u>
5	Total increase to distribution-related operations & maintenance expense	936
6	D.C. allocation factor (O&M less A&G)	<u>0.3774</u>
7	Adjustment to D.C. distribution-related O&M	<u>\$ 353</u>
8	Adjustment to D.C. income tax expense	<u>\$ (35)</u>
9	Adjustment to Federal income tax expense	<u>\$ (111)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

<u>No.</u>	<u>Adjustment 18 - Reflection of Sales Adjustment</u>	
1	Total adjustment to D.C. revenues (excluding surcharges)	<u>\$ (2,263)</u>
2	Adjustment to D.C. income tax expense	<u>\$ (85)</u>
3	Adjustment to Federal income tax expense	<u>\$ (762)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 19 - Annualization of Software Amortization	Non-AFUDC	D.C. AFUDC	Total
ADJUSTMENT TO RATE BASE				
1	13-month average EPIS included in test period of software projects ending within one year	\$ 8,052	\$ 90	\$ 8,142
2	13-month average EPIS of new software projects capitalized	4,421	491	4,912
3	Change in average EPIS	(3,631)	401	(3,230)
4	Distribution Labor ratio	0.8932	0.8932	
5	Change in distribution-related average EPIS	(3,243)	358	(2,885)
6	D.C. Distribution Plant less AFUDC Ratio	0.4831	1.0000	
7	Adjustment to D.C. EPIS	\$ (1,567)	\$ 358	\$ (1,209)
8	13-month average accumulated amortization included in test period for software projects ending within one year	\$ (6,436)	\$ (72)	\$ (6,508)
9	13-month average accumulated amortization of new software projects capitalized	(768)	(78)	(846)
10	Change in average accumulated amortization	5,668	(6)	5,662
11	Distribution Labor ratio	0.8932	0.8932	
12	Change in distribution-related average accumulated amortization	5,063	(5)	5,058
13	D.C. Distribution Plant less AFUDC Ratio	0.4831	1.0000	
14	Adjustment to D.C. accumulated amortization	\$ 2,446	\$ (5)	\$ 2,441
ANNUALIZATION OF AMORTIZATION EXPENSE				
15	Amortization expense included in test period for software projects ending by September 30, 2006	\$ 1,507	\$ 17	\$ 1,524
16	Annual amortization expense for new projects capitalized	884	98	982
17	Adjustment to amortization expense	(623)	81	(542)
18	Distribution Labor ratio	0.8932	0.8932	
19	Distribution-related adjustment to amortization expense	(556)	72	(484)
20	D.C. Distribution Plant less AFUDC Ratio	0.4831	1.0000	
21	Adjustment to D.C. amortization expense	(269)	72	\$ (197)
22	Adjustment to D.C. income tax expense			\$ 20
23	Adjustment to Federal income tax expense			\$ 62

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

No. Adjustment 20 - Amortization of 2004 Severance Program Costs

	Program Costs	Accumulated Deferred Taxes	Net
1	13-month average unamortized balance	\$ 1,267	\$ (339)
2	Allocation factor - D.C. (O&M less A&G)	0.3774	0.3774
3	Adjustment to include the unamortized balance in rate base	<u>\$ 478</u>	<u>\$ (128)</u>
4	Annual amortization expense based on 3-year amortization period		724
5	Severance payments in twelve months ending September 30, 2006		-
6	Adjustment to O&M		724
7	Allocation factor - D.C. (O&M less A&G)		<u>0.3774</u>
8	Net adjustment to operating expenses for annual program costs		<u>\$ 273</u>
9	Adjustment to D.C. income tax expense		<u>\$ (27)</u>
10	Adjustment to Federal income tax expense		<u>\$ (86)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line

No. Adjustment 21 - Annualization of Deductible Mixed Service Cost Tax Method

1	Average reduction to Accumulated Deferred Taxes for the twelve months ending September 30, 2006	\$ 18,133
2	Allocation to distribution (Plant less AFUDC)	<u>0.8549</u>
3	Total reduction to distribution-related accumulated deferred taxes	15,502
4	D.C. Allocation factor (Plant less AFUDC)	<u>0.4831</u>
5	Adjustment to D.C. allocated Accumulated Deferred Income Tax - per book (distribution only)	<u><u>\$ 7,489</u></u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 22 - Inclusion of Northeast Substation System	<u>Subtransmission</u>	<u>Distribution</u>	<u>Total</u>
1	Adjustment to average EPIS, excluding AFUDC	\$ 36,807	\$ 35,816	72,623
2	D.C. allocation factor (Average & Excess Subtr.)	<u>0.4079</u>	<u>1.0000</u>	
3	Adjustment to average D.C. EPIS, excluding AFUDC	15,014	35,816	50,830
4	Adjustment to average D.C. EPIS for AFUDC	<u>-</u>	<u>1,100</u>	<u>1,100</u>
5	Total adjustment to average D.C. EPIS	<u>\$ 15,014</u>	<u>\$ 36,916</u>	<u>\$ 51,930</u>
6	Adjustment to average D.C. accumulated depreciation			<u>\$ (702)</u>
7	Adjustment to average D.C. accumulated deferred taxes			<u>\$ (936)</u>
8	Adjustment to D.C. depreciation expense			<u>\$ 1,164</u>
9	Adjustment to D.C. income expense			<u>\$ (116)</u>
10	Adjustment to Federal income tax expense			<u>\$ (367)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ending September 30, 2006
 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 23 - Inclusion of Projects Completed and In Service	
1	Average balance of D.C. Distribution CWIP in "buffer days" category	\$ 10,224
2	Average balance of D.C. Distribution CWIP awaiting final accounting	<u>6,699</u>
3	Adjustment to D.C. Distribution EPIS for CWIP includable in EPIS under legacy accounting systems	<u>\$ 16,923</u>
4	Adjustment to D.C. accumulated depreciation	<u>\$ (222)</u>
5	Adjustment to D.C. average accumulated deferred taxes (assuming 20-year tax depreciation)	<u>\$ (84)</u>
6	Adjustment to D.C. depreciation expense	<u>\$ 443</u>
7	Adjustment to D.C. income expense	<u>\$ (44)</u>
8	Adjustment to Federal income tax expense	<u>\$ (140)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Adjustment 24 - Interest Synchronization	
1	D.C. adjusted rate base	\$ 980,636
2	Weighted cost of debt @ June 30, 2006	<u>3.30%</u>
3	Pro-forma interest	32,361
4	D.C. allocated per book interest	<u>31,424</u>
5	Difference	<u>\$ 937</u>
6	Adjustment to D.C. income tax expense to reflect interest synchronization per Commission Order 9216	<u>\$ (93)</u>
7	Adjustment to Federal income tax expense to reflect interest synchronization per Commission Order 9216	<u>\$ (295)</u>

Potomac Electric Power Company

District of Columbia
Analysis of Revenue Requirement -- Distribution Only
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

(Thousands of Dollars)

	<u>Rate Base</u>	<u>Operating Income</u>	<u>Revenue Requirement</u>
Unadjusted amounts based on 11.00% return on equity (8.42% ROR)	\$ 904,656	\$ 61,420	\$ 25,211
Adjustments			
1 Weather normalization/annualization of revenues		(2,937)	5,019
2 Exclusion of supplemental executive retirement plans		204	(349)
3 Exclusion of industry contributions and membership fees		214	(366)
4 Exclusion of institutional advertising/selling expenses		105	(179)
5 Inclusion of interest expense on customer deposits		(541)	925
6 Reflection of 3-year average regulatory expense		(261)	446
7 Exclusion of merger-related costs		7	(12)
8 Annualization of wage increases		(794)	1,357
9 Annualization of changes in employee health & welfare costs		(201)	343
10 Reflection of 3-year average storm costs		(53)	91
11 Removal of Mirant bankruptcy and other outside counsel fees		350	(598)
12 Customer care enhancement		(432)	738
13 Reflection of increase in PSC FY 2006 budget assessment		(931)	1,591
14 Reflection of increased allocation of service company costs		(827)	1,413
15 Annualization of 2006 postal rate increase		(7)	12
16 Inclusion of costs associated with current proceeding		(50)	85
17 Reflection of increase in vehicle resource use costs		(207)	354
18 Reflection of sales adjustment		(1,416)	2,420
19 Annualization of software amortization	1,232	115	(19)
20 Amortization of severance programs	350	(160)	324
21 Annualization of Deductible Mixed Service Cost tax method	7,489		1,078
22 Inclusion of N.E. Substation System	50,292	(681)	8,399
23 Inclusion of projects completed and in service	16,617	(259)	2,834
24 Interest synchronization		388	(663)
Total adjustments	75,980	(8,374)	25,243
Total revenue requirement based on 11.00% return on equity	<u>\$ 980,636</u>	<u>\$ 53,046</u>	<u>\$ 50,454</u>

POTOMAC ELECTRIC POWER COMPANY

Computation of District of Columbia Tax Factors
Twelve Months Ending September 30, 2006

<u>Line No.</u>	<u>Description</u>	<u>Statutory Tax Rate</u>
1	D.C. Franchise Tax Rate	9.975%
2	Federal Income Tax Rate	35.00%

<u>Line No.</u>	<u>Description</u>	<u>Computation</u>	<u>Tax Factor</u>
3	D.C. Franchise Tax Factor	line 1	9.97500%
4	Federal Income Tax Factor	(100% - (line 3)) x line 2	31.50875%
5	Complement of Composite Tax Factor	100% - (line 3 + line 4)	58.51625%

W.M. VONSTEUBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (C)-2

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code

Assets

=====

Current Assets

7000	131000	Cash - General	12,280,868.36
7000	131001	Cash - Clearing	(81,506.63)
7000	131050	Cash-In Transit - CIS	2,800,942.12
7000	135000	Working Funds - General	122,600.00
7000	135160	Working Funds - Benefit Providers	404,000.00
		Cash & Cash Equivalents	15,526,903.85
7000	142000	Customer Accounts Rec - General	9,207,335.91
7000	142070	Customer Accounts Rec - Washington DC	79,960,585.06
7000	142120	Customer Accounts Rec - MD	102,791,443.30
7000	142130	Customer Accounts Rec - VA	24,230.59
7000	142210	AR-Supply Portion (all customers)	45,149,232.01
7000	142350	Customer Accounts Rec-Cash Clearing-Was	(3,837,335.62)
7000	142420	Customer Accounts Rec-Returned CK	1,058.00
7000	142450	Customer Accounts Rec-Merchandise	3,647,424.20
7000	143000	Accounts Receivable - General	796,706.00
7000	143100	A/R - Employee Purchases	93,995.48
7000	143118	A/R - Tuition Aid Reimbursement - Forme	75,904.15
7000	143200	A/R-PJM Interchange	4,045,293.94
7000	143700	Accounts Receivable - Interchange Power	35,577,733.78
7000	143900	Accounts Receivable Special Billing Unb	4,228,039.76
7000	143901	Accounts Receivable Special Billing	5,996,118.47
7000	171900	I/C Interest Receivable	398,572.29
7000	172000	Rents Receivable - General	16,636.43
7000	172901	Rents Receivable - CATV(Reconciliation)	333,982.82
7000	172902	Rents Receivable-Special Billing (Recon	24,456.87
7000	173100	Accrued Utility Revenue - Unbilled Reve	108,415,756.00
		Accounts Receivable	396,947,169.44
7000	144000	PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(7,795,380.22)
7000	144005	Provision for Uncollectible Accounts -	(9,600,000.00)
		Provision for Uncollectible	(17,395,380.22)
7000	146003	I/C - Pepco/PES - Retail Access	(22,266,943.89)
7000	146004	I/C - Pepco/PES - Special Billing Contr	(4,581,028.47)
7000	146506	I/C-PEPCO / ACE 7000/1500	3,258.01
7000	146528	I/C-PEPCO / CDG 7000/3010	7,235.00
7000	146974	I/C-PEPCO / PEPCO Energy Services 7000	(549,546.28)
7000	146975	I/C-PEPCO / PEPCO Holdings, Inc. 7000/	(104,853.79)
7000	146976	I/C-PEPCO / PHISC 7000/9000	(6,701,951.88)
7000	146991	I/C-PEPCO / CESI 7000/3000	(3,966,841.06)
7000	146996	I/C-PEPCO / DPL 7000/1000	17,345.33
		Accounts Receivable from Associated Companies	(38,143,327.03)
7000	154000	Material & Operating Supplies - General	39,287,307.24
7000	154080	Inventory - Blocked Stock	(4,229.89)
7000	163000	Stores Exp Undistributed - General	3,641,933.38
		Inventories - Fuel, Materials and Supplies	42,925,010.73
7000	134006	Other Special Deposits - Refundable (Cu	12,968,375.00
7000	165000	Prepayments - General	2,141,760.35
7000	165100	Prepayments - Other Taxes	16,841,798.04

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code		
7000	165206 Prepayments - Workmen's Compensation	1,001,855.51
7000	165213 Prepayments - Ordinary Life	886,185.26
7000	165406 Prepayments-Postage General	66,453.22
7000	190110 Deferred Income Tax Asset - Federal - S	2,869,541.00
7000	190210 Deferred Income Tax Asset - State - Sho	367,426.00
	Prepaid Expenses and Other	37,143,394.38
	Total	437,003,771.15
	Investments and Other Assets	
7000	182250 Regulatory Assets - Asset Retirement Ob	65,016.00
7000	182300 Other Regulatory Assets - General	3,929,834.05
7000	182500 Other Reg Assets - Income Tax Recov thr	43,267,963.70
7000	182507 Other Reg Assets - Divestiture Gain - S	773,522.23
7000	182515 Other Regulatory Assets - Workers Comp	35,607,231.88
7000	182520 Other Regulatory Assets - MD SOS Energy	7,306,569.00
7000	182522 Other Reg Assets - MD SOS Administrativ	4,709,417.79
7000	182526 Other Reg Assets - DC SOS Administrativ	3,137,818.20
7000	182531 Other Regulatory Assets - Phase-In Cred	801,787.94
7000	189000 Unamortized Loss on Reacquired Debt - G	5,661,678.68
7000	189300 Unamortized Loss - Pollution Bonds	324,274.84
7000	189400 Unamortized Loss - First Mortgage Bonds	37,452,225.93
	Regulatory Assets	143,037,340.24
7000	123265 Investment In POM Holdings	1,000.00
	Investment in Consolidated Companies	1,000.00
7000	186308 Prepaid Pension Costs	152,107,319.54
	Prepaid Pension Expense	152,107,319.54
7000	128116 Other Special Funds-Deferred Comp	54,724,611.67
7000	128117 Other Special Funds - Deferred Comp - T	1,734,060.11
7000	128118 Other Special Funds - Deferred Comp PHI	1,790,456.64
7000	134000 Other Special Deposits - General	1,899.35
7000	181000 Unamortized Debt Expense - General	452,443.43
7000	181100 Unamortized Debt Expense - First Mortag	6,671,909.22
7000	181300 Unamortized Debt Expense - Other	2,107,615.76
7000	181500 Unamortized Debt Expense - Medium Term	5,660.68
7000	183000 Preliminary Survey & Investigation Char	224,657.51
7000	184200 Clearing supplier discounts (Net method	2,157.04
7000	184300 Clearing Accounts AP Cash Return	(214,150.83)
7000	186000 Miscellaneous Deferred Debits - General	878,098.08
7000	186120 Suspense - Asset Management	4,666.70
7000	186250 Misc Deferred Debits-Officer's Life Ins	17,229,050.40
7000	186251 Misc Deferred Debits-COLI Plan	62,310,929.64
7000	186878 Misc Def Debits - Property Sales - Curr	9,384.28
7000	242413 Loans against Life Insurance Contract I	(42,585,029.03)
	Other	105,348,420.65
	Total	400,494,080.43
	Property, Plant, and Equipment	
7000	101010 Plant In Service-Electric	4,637,339,659.49
7000	101100 Property under Capital Lease (Manual)	154,553,474.36

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code		
7000	101250 Asset Retirement Obligation (ARO) Asset	283,373.00
7000	101601 Plant-Miscellaneous Intangible Plant	80,695,701.30
7000	105000 Plant Held for Future Use - General	6,400,222.69
7000	107010 Asset Under Construction-Electric	149,301,408.60
7000	107100 Asset Under Construction - Adjustments	8,402,842.64
7000	107300 Asset Under Construction - New Load Acc	2,245,260.28
7000	107302 Asset Under Construction - Emergency Op	2,729,789.23
7000	121000 Nonutility Property - General	80,220,040.19
7000	186340 Intangible Asset-SERP	49,770.76
	Property, Plant and Equipment	5,122,221,542.54
7000	101110 Capital Lease - Amortization (Manual)	(24,203,560.77)
7000	101125 Capital lease - Amortization (Reconcili	(12,680,738.31)
7000	108010 Accumulated Depreciation-Electric	(2,127,521,960.57)
7000	108011 Accumulated Cost of Removal - Electric	37,589,093.72
7000	108012 Accumulated Gains and Losses - Electric	22,644,164.16
7000	108013 Clearing Acct. Proceeds/Salvage - Elect	(823,717.01)
7000	108018 Accumulated Depreciation - Removal Cost	91,257,300.00
7000	108019 Insurance Proceeds	(4,909,770.60)
7000	108250 Accumulated Reserve - Asset Retirement	(20,958.00)
7000	111601 Acc Amort - Intangible Plant	(58,101,177.30)
7000	111640 Acc Amort - General Plant	(3,110,012.07)
7000	122000 Acc Depr & Amort of Nonutility Property	(63,469,747.52)
	Accumulated Depreciation & Amortization	(2,143,351,084.27)
	Total	2,978,870,458.27
	Total Assets	3,816,368,309.85
	=====	
	Capitalization & Liabilities	
	=====	
	Current Liabilities	
7000	226100 Commercial Paper-Unamortized Discount	0.04
	Short-term Debt	0.04
7000	224500 Other Long-Term Debt - Current Portion	(85,000,000.00)
	Current Portion of Long-term Debt	(85,000,000.00)
7000	233059 Money Pool - PEPCO	32,860,490.25
	Money Pool Lendings	32,860,490.25
7000	184100 Clearing-Goods Received/Invoice Receive	(1,508,466.33)
7000	232000 Accounts Payable Reconciliation - Gener	(18,659,641.77)
7000	232004 Cashed Checks - A/P	11,240,784.35
7000	232008 Outstanding Checks-Customer Refund	(1,686,090.82)
7000	232011 Outstanding Checks - EDI/EFT	(2,813.15)
7000	232012 Outstanding Checks - A/P	(16,061,134.52)
7000	232022 Outstanding Checks - Overdraft Offset	81,506.63
7000	232100 Accounts Payable-Consignment Sale	(6,162.47)
7000	232150 Accounts Payable - Internet Returns	(15,779.53)
7000	232200 Accounts Payable Reconciliation Employe	(717.70)
7000	232400 Accounts Payable Accrual	(2,990,571.18)

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code		
7000	232420	Accounts Payable Accrual - Power Broker
		(1,000,000.00)
7000	232430	Accounts Payable Accrual - Purchased Po
		(108,436,067.04)
7000	232455	Accounts Payable-Quarterly Accruals
		(28,672,464.72)
7000	232500	Accounts Payable-Wages Payable
		(167,562.30)
7000	232502	Accounts Payable-Accrued Payroll
		(1,848,346.78)
7000	232625	AP-P/R Savings & Thrift Vanguard
		(470.14)
7000	232631	AP-P/R Savings Bonds
		(5,849.89)
7000	232650	Accounts Payable - Third Party Supplier
		(27,441,556.32)
7000	232655	Retail Customer Accounts - Credits
		(9,284,489.67)
		Accounts Payable
		(206,465,893.35)
7000	236100	Federal Incomes Taxes Accrued - Current
		26,677,495.09
7000	236160	Federal Incomes Taxes Accrued - Safe Ha
		(488,149.35)
7000	236200	State Income Taxes Accrued - Current
		(72,499,338.39)
7000	236250	Taxes Accrued - Taxes other than income
		(41,200,304.41)
7000	236260	State Income Taxes Accrued - Safe Harbo
		(53,642.76)
7000	236292	Use Tax Payable
		(308,851.07)
		Taxes Accrued
		(87,872,790.89)
7000	237100	Interest Accrued - Customer Deposits
		(3,722,311.32)
7000	237110	Interest Accrued - Customer Deposits -
		(32,092.21)
7000	237200	Interest Accrued - First Mortgage Bonds
		(20,220,865.99)
7000	237400	Interest Accrued - Other
		(377,156.43)
7000	237600	Interest Accrued - Medium Term Notes
		(966,500.00)
		Interest Accrued
		(25,318,925.95)
7000	243000	Obligations under Capital Lease - Gener
		(5,280,433.16)
		Current Portion of Capital Lease Obligation
		(5,280,433.16)
7000	235120	Customer Deposits - MD
		(14,672,543.24)
7000	235140	Customer Deposits - Washington DC
		(14,213,412.32)
7000	235160	Customer Deposits - Inactive
		(169,005.79)
7000	241000	Tax Collections Payable - General
		(684.11)
7000	241200	Maryland Environmental Surcharge
		(177,865.00)
7000	241300	Maryland Sales Tax Payable
		(1,612,771.24)
7000	241335	Gross Receipts Tax Payable
		(1,365,102.57)
7000	241340	G/R Tax Payable-Washington DC
		(6,441,913.95)
7000	241365	Washington DC Sales Tax Payable
		(1,646,476.41)
7000	241375	Sales Taxes Payable
		(168,385.30)
7000	241750	PG County Energy Tax Payable
		(7,948,978.71)
7000	242000	Accrued Liab-General
		(71,944,100.00)
7000	242009	Accrued Liab-Environmental Site Exp - S
		(87,000.00)
7000	242018	Accrued Liab-Environmental Fees
		(564,280.77)
7000	242200	Accrued Liab-Required Health Claims Res
		(2,617,021.25)
7000	242201	Accrued Liab-General Liability
		(1,646,459.71)
7000	242202	Accrued Liabilities - Workers Comp - Cu
		(5,166,387.00)
7000	242204	Accrued Liab-Auto Liability
		(703,300.92)
7000	242208	Accrued Liabilities - Disability - Curr
		(1,665,911.52)
7000	242300	Accrued Liab-Unclaimed Monies
		(1,249,929.41)
7000	242350	Accrued Liab - Reliable Energy Trust Fu
		(787,736.96)
7000	242415	Accrued Severance
		(154,860.57)
7000	242440	Accrued Liability - Directors' Fees - C
		(104,000.00)
7000	242442	Accrued Liability - Term/Employ Contrac
		(171,028.56)
7000	242461	Accrued Liab-Safety Incentive
		(191,087.19)
7000	242466	Accrued Liability - Prime Rate Deferred
		(5,219.75)
7000	242497	Accrued Liab-Sick Pay Carryover
		(5,810,242.40)

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code		
7000	242498	Accrued Liab-Vacation (9,815,040.97)
7000	242520	Accrued Liab-Unclaimed Monies - MD 8,424.83
7000	242525	Accrued Liab-Unclaimed Monies - Washing 532,048.50
7000	242526	Accrued Liab-Unclaimed Monies - PA 23,893.74
7000	242530	Accrued Liab-Unclaimed Monies - VA 444.49
7000	242531	Accrued Liab - Cashier's Account (183,355.27)
7000	242540	Accrued Liab-Unclaimed Monies - Escheat (127,217.69)
7000	242600	Accrued Liab - Other (600,474.00)
	Other	(151,446,981.02)
	Total	(528,524,534.08)
	Deferred Credits	
7000	254018	Oth Regulated Liab - Removal Costs - FA (91,257,300.00)
7000	254170	Other Reg Liabilities - Divestiture Gai (859,629.22)
7000	254171	Oth Reg Liab - Generation Procurement C (8,599,042.03)
7000	254172	Oth Reg Liab - Generation Procurement C (18,087,401.82)
7000	254250	Oth Reg Liab - Asset Retirement Obligat (327,431.00)
7000	254521	Other Reg Liability - MD SOS Transmissi (1,978,529.34)
7000	254524	Other Regulatory Liability - DC SOS Ene (406,365.36)
7000	254525	Other Reg Liability - DC SOS Transmissi (3,007,190.31)
7000	254900	SFAS109-Regulatory Liability Electric (30,819,457.60)
	Regulatory Liabilities	(155,342,346.68)
7000	190050	Deferred Income Tax - Federal - NOL's - (2,347,112.00)
7000	190100	Def Inc Tx-Acc Fed Def Inc Tax 158,006,985.19
7000	190200	Def Inc Tx-Acc State Def Inc Tax 24,224,347.67
7000	190250	Deferred Income Tax Asset-State-NOL 6,706,033.00
7000	190500	Def Inc Tx-Investment Tax Credit 17,260,169.00
7000	282100	Def Inc Tx - Property - Fed Def Inc Tax (613,531,367.36)
7000	282200	Def Inc Tx - Property - State Def Inc T (80,581,647.63)
7000	283100	Def Inc Tax-Other-Fed Def Inc Tax (112,445,500.08)
7000	283200	Def Inc Tax-Other-State Def Inc Tax (15,632,100.82)
7000	283999	Deferred Income Taxes-Other Comprehensi 2,320,573.80
	Deferred Income Taxes	(616,019,619.23)
7000	255000	Accumulated Deferred Investment Tax Cre (15,034,843.00)
	Deferred Investment Tax Credit	(15,034,843.00)
7000	242212	Accrued Liabilities - Workers Comp - Lo (23,086,928.34)
7000	242218	Accrued Liabilities - Disability - Long (10,763,350.28)
7000	242410	Accrued Liab-Deferred Compensation (19,506,647.00)
7000	242441	Accrued Liability - Directors' Fees - L (359,050.00)
7000	242443	Accrued Liability - Term/Employ Contrac (1,907,198.44)
7000	242450	Accrued Liab-SERP (8,528,443.39)
7000	242465	Accrued Liability - Deferred Comp (PHI) (4,869,259.62)
7000	242611	Accrued Liab-OPEB (50,283,641.14)
7000	253000	Deferred Credits-General (1,024,737.67)
7000	253020	Deferred Credit-Customer Deposits-Spec (1,010,018.16)
7000	253021	Deferred Credit-Customer Deposits-Spec (1,465,542.63)
7000	253023	Deferred Credit-Special Billing (740,639.12)
7000	253028	Deferred Credit - CIS Transfers (25,691.62)
7000	253370	Deferred Credits - Safe Harbor Leases (363,955.80)
7000	253371	Deferred Credits - Reliable Energy Trus (2,058,231.05)
7000	254000	Other Long-Term Liabilities (2,500,000.00)

POTOMAC ELECTRIC POWER COMPANY

Monthly Balance Sheet
September 30, 2006

Co. Code			
7000	254201	Accrued Liab-Environmental Site Exp - L	(2,773,000.27)
		Other	(131,266,334.53)
		Total	(917,663,143.44)
		Long-term Debt	
7000	221100	Bonds Payable - First Mortgage Bonds	(1,116,800,000.00)
7000	224200	Other Long-Term Debt - Medium Term Note	(50,000,000.00)
7000	226000	Bonds Payable-Unamortized Discount - Ge	1,917,617.93
		Long-term Debt	(1,164,882,382.07)
7000	227000	Obligations under Capital Lease - Noncu	(113,567,230.65)
		Long-term Capital Lease Obligation	(113,567,230.65)
		Long-term Debt	(1,278,449,612.72)
		Capitalization	
7000	201000	Common Stock Issued - General	(1.00)
		Common Stock	(1.00)
7000	207000	Premium on Capital Stock - General	(8,100,463.75)
7000	209000	Reduction in Par Value - Capital Stock	(496,274,514.00)
7000	210000	Gain on Resale or Canc of Reacq Cap Stk	(2,509,762.16)
7000	211000	Paid in Capital - General	(538,811.92)
		Additional P.I.C. Common	(507,423,551.83)
7000	211240	Minimum Liability - SERP	5,768,266.97
7000	211340	Income Taxes - Minimum Liability - SERP	(2,320,573.80)
		Post-Merger Other Comprehensive Income	3,447,693.17
7000	216000	Unappropriated Retained Earnings - Gene	(574,325,376.19)
7000	216200	Dividends Declared-Common Stock	64,000,000.00
		Retained Earnings	(510,325,376.19)
		Total	(1,014,301,235.85)
		Profit for the Period	(77,429,783.76)
		Total Capitalization & Liabilities	(3,816,368,309.85)
		=====	

W.M. VONSTEUBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (C)-3

Potomac Electric Power Company

District of Columbia
Ratemaking Results - Distribution Only
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.		D.C. Average (Unadjusted) (1)	Ratemaking Adjustments (2)	D.C. Adjusted (3)	Revenue to Achieve 11.00% Return on Equity (4)	Adjusted to Reflect 11.00% Return on Equity (5)
Rate Base						
1	Electric Plant in Service	\$ 1,848,030	\$ 69,386	\$ 1,917,416		\$ 1,917,416
2	Accumulated Depreciation	(627,898)	(924)	(628,822)		(628,822)
3	Accumulated Amortization	(12,059)	965	(11,094)		(11,094)
4	Materials and Supplies	15,837		15,837		15,837
5	Cash Working Capital	11,268		11,268		11,268
6	Accumulated Deferred Income Taxes	(372,744)	9,726	(363,018)		(363,018)
7	Prepaid Pension/OPEB liab (net of tax)	23,959		23,959		23,959
8	Customer Deposits	(15,276)		(15,276)		(15,276)
9	Unamortized Severance Program Costs	0	616	616		616
10	Total Rate Base	\$ 871,117	\$ 79,769	\$ 950,886		\$ 950,886
Operating Revenues						
11	Sale of Electricity	\$ 341,675	\$ (4,248)	\$ 337,427		
12	Other Revenues	3,831		3,831		
13	Operating Revenues	\$ 345,506	\$ (4,248)	\$ 341,258	\$ 49,088	\$ 390,346
Operating Expenses						
14	Operation and Maintenance	\$ 87,086	\$ 2,444	\$ 89,530		\$ 89,530
15	Depreciation	48,145	1,607	49,752		49,752
16	Amortization	4,182	106	4,288		4,288
17	Other Taxes	127,975	953	128,928		128,928
18	D.C. Income Tax	3,502	(548)	2,954	4,897	7,851
19	Federal Income Tax	16,714	(2,248)	14,466	15,466	29,932
20	Total Operating Expenses	\$ 287,604	\$ 2,314	\$ 289,918	\$ 20,363	\$ 310,281
21	Operating Income	\$ 57,902	\$ (6,562)	\$ 51,340	\$ 28,725	\$ 80,065
22	D.C. Jurisdictional Return on Rate Base	6.65%		5.40%		8.42%

Potomac Electric Power Company

District of Columbia Ratemaking Adjustments -- Distribution Only
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

RMA No.	Ratemaking Adjustments	Rate Base (1)	Revenue (2)	Operation & Maintenance (3)	Depreciation (4)	Amortization (5)	Other Taxes (6)	DCIT (7)	FIT (8)
1	Weather normalization / annualization of revenues	\$ (1,966)						\$ (196)	\$ (620)
2	Exclusion of supplemental executive retirement plans			\$ (355)				35	112
3	Exclusion of industry contributions and membership fees			(257)				26	81
4	Exclusion of institutional advertising/selling expenses			(100)				12	31
5	Inclusion of interest expense on customer deposits			553				(18)	(58)
6	Reflection of 3-year average regulatory expense			(389)				39	123
7	Exclusion of merger-related costs			(12)				1	4
8	Annualization of wage increases			1,263				(125)	(398)
9	Annualization of changes in employee health & welfare costs			940				(93)	(296)
10	Reflection of 3-year average storm costs			(455)				45	144
11	Removal of Mirant bankruptcy-related and other outside counsel fees			(1,649)				164	520
12	Customer care enhancement			739				(73)	(233)
13	Reflection of increase in PSC/OPC FY 2006 budget assessment						953	(95)	(300)
14	Reflection of increased allocation of service company costs			1,417				(141)	(447)
15	Annualization of 2006 postal rate increase			35				(3)	(11)
16	Inclusion of costs associated with current proceeding			85				(8)	(27)
17	Reflection of increase in vehicle resource use costs			355				(35)	(112)
18	Reflection of sales adjustment		(2,282)					(86)	(769)

Potomac Electric Power Company

District of Columbia Ratemaking Adjustments -- Distribution Only
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

RMA No.	Ratemaking Adjustments	Rate Base (1)	Revenue (2)	Operation & Maintenance (3)	Depreciation (4)	Amortization (5)	Other Taxes (6)	DCIT (7)	FIT (8)
19	Annualization of software amortization EPIS	\$ 533							
	Accumulated amortization	965							
	Amortization expense					\$ 106		\$ (11)	\$ (33)
20	Amortization of severance program Program costs	616		\$ 274					
	Accumulated deferred taxes	(165)						(27)	(86)
21	Annualization of Deductible Mixed Service Cost tax method	10,911							
22	Inclusion of NE Substation System EPIS	51,930							
	Accumulated depreciation	(702)							
	Accumulated deferred taxes	(936)							
	Depreciation expense				\$ 1,164			(116)	(367)
23	Inclusion of projects completed and in service EPIS	16,923							
	Accumulated depreciation	(222)							
	Accumulated deferred taxes	(84)							
	Depreciation expense			443				(44)	(140)
24	Interest synchronization							201	634
	Total Ratemaking Adjustments	\$ 79,769	\$ (4,248)	\$ 2,444	\$ 1,607	\$ 106	\$ 953	\$ (548)	\$ (2,248)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 1 - Weather Normalization/Annualization of Revenues	
1	Adjustment to weather normalize billed distribution revenues	\$ (1,847)
2	Adjustment to reflect 365 billing days	<u>(119)</u>
3	Total adjustment to District of Columbia revenues	<u>\$ (1,966)</u>
4	Adjustment to D.C. income tax expense	<u>\$ (196)</u>
5	Adjustment to Federal income tax expense	<u>\$ (620)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 2 - Exclusion of Non-Qualified Supplemental Executive Retirement Plans	
1	Pension expense--Non-Qualified Plans--Pepco Utility for the twelve months ended March 31, 2006	\$ 1,234
2	Service Company Non-Qualified Plan expense	2,205
3	Percent of Service Company Executive Management costs charged to Pepco for the twelve months ended March 31, 2006	<u>31.2%</u>
4	Service Company Non-Qualified Plan expense charged to Pepco (line 2 x line 3)	<u>687</u>
5	Total Pepco Non-Qualified Plan expense for the 12 months ended March 31, 2006 (Line 1 + line 4)	1,921
6	Distribution Labor ratio	<u>0.8932</u>
7	Distribution-related amount	1,716
8	Percent charged to operation & maintenance expense	<u>54.7%</u>
9	Adjustment to Operation & Maintenance expense	(939)
10	D.C. O&M less A&G Ratio	<u>0.3784</u>
11	Adjustment to D.C. Operation & Maintenance expense	<u>\$ (355)</u>
12	Adjustment to D.C. income tax expense	<u>\$ 35</u>
13	Adjustment to Federal income tax expense	<u>\$ 112</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 3 - Exclusion of Industry Contributions and Membership Fees	
1	Industry contributions and membership fees for the twelve months ended March 31, 2006	\$ 684
2	Fees and contributions allowable per Order No. 9509: American National Standards Institute	<u>5</u>
3	Total industry contributions and membership fees to be excluded	679
4	D.C. O&M less A&G Ratio	<u>0.3784</u>
5	Adjustment to operation and maintenance expense	<u>\$ (257)</u>
6	Adjustment to D.C. income tax expense	<u>\$ 26</u>
7	Adjustment to Federal income tax expense	<u>\$ 81</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 4 - Exclusion of Advertising and Selling Expense	
1	Total advertising/selling expenses (FERC A/C's 909, 911, 912, 913, 930.1) for the twelve months ended March 31, 2006	\$ 1,462
2	Expenses included above associated with informational activity	<u>1,158</u>
3	Institutional/promotional advertising, selling expenses excludable from cost of service (line 1 - line 2)	304
4	Pepco labor costs associated with institutional/promotional advertising	<u>15</u>
5	Total excludable advertising/selling expenses	319
6	D.C. Sales expense ratio	<u>0.3124</u>
7	Adjustment to operation and maintenance expense	<u>\$ (100)</u>
8	Adjustment to D.C. income tax expense	<u>\$ 12</u>
9	Adjustment to Federal income tax expense	<u>\$ 31</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 5 - Interest Expense on Customer Deposits	
1	13-Month average balance - D.C. active customer deposits	<u>\$ 13,433</u>
2	Interest on customer deposits at 2006 rate (4.12% x Line 1)	553
3	Interest for 12 Months ended March 31, 2006	<u>368</u>
4	Difference in interest expense on D.C. customer deposits	<u>\$ 185</u>
5	Adjustment to D.C. income tax expense	<u>\$ (18)</u>
6	Adjustment to Federal income tax expense	<u>\$ (58)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line

No. Adjustment 6 - Regulatory Costs at 3-Year Average Amount

		<u>D.C. Direct</u>
1	2004 regulatory expense	\$ 1,512
2	2005 regulatory expense	2,378
3	Test Period regulatory expense	<u>2,529</u>
4	D.C. 3-year total	<u>\$ 6,419</u>
5	Three-year average D.C. regulatory expense	\$ 2,140
6	D.C. regulatory expense for the twelve months ended March 31, 2006	<u>2,529</u>
7	Adjustment to operation & maintenance expense	<u>\$ (389)</u>
8	Adjustment to D.C. income tax expense	<u>\$ 39</u>
9	Adjustment to Federal income tax expense	<u>\$ 123</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 7 - Exclusion of Merger-Related Costs	
1	Merger-related costs reflected in the twelve months ended March 31, 2006	\$ 35
2	Distribution Labor Ratio	<u>0.8932</u>
3	Distribution-related expense	31
4	D.C. O&M less A&G Ratio	<u>0.3784</u>
5	Adjustment to operations and maintenance expense	<u>\$ (12)</u>
6	Adjustment to D.C. income tax	<u>\$ 1</u>
7	Adjustment to Federal income tax	<u>\$ 4</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 8 - Annualization of Wage Increases	Bargaining		Total
		Exempt	Unit	
1	Exempt o & m labor (distribution), excluding one-time payments, before 3/1/06	\$ 26,942		\$ 26,942
2	Bargaining unit o & m (distribution) labor, excl. one-time pmts, before 6/1/05		\$ 6,150	6,150
3	Total O & M distribution labor, exclusive of one-time payments, before annual wage increases	26,942	6,150	33,092
4	Test period wage increase	3.31%	3.25%	
5	Adjustment to annualize increases occurring in test pd (Ln 3 x Ln 4)	892	200	1,092
6	Exempt o & m labor (distribution), excl one-time pmts - 12 mos ended 3/31/06	29,550		29,550
7	Bargaining unit o & m labor (distr), excl one-time pmts - 12 mos ended 3/31/06		39,131	39,131
8	Annualization adjustment (line 5)	892	200	1,092
9	Total annualized O & M distribution labor, exclusive of one-time payments, for the twelve months ended 3/31/06	30,442	39,331	69,773
10	Rate effective period wage increases (3/1/07 Exempt and 6/1/06 Bargaining unit)	3.50%	3.00%	
11	Annualization of increases (Ln 9 x Ln 10)	1,065	1,180	2,245
12	Total increase (line 5 + line 11)	1,957	1,380	3,337
13	Allocation factor - D.C. (O&M less A&G)	0.3784	0.3784	
14	Adjustment to operations & maintenance for wage increases	\$ 741	\$ 522	\$ 1,263
15	Adjustment to D.C. income tax expense			\$ (125)
16	Adjustment to Federal income tax expense			\$ (398)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line

Line No.	Adjustment 9 - Annualization of Changes in Employee Health & Welfare Costs	Test Period Amount	Rate Effective Period Amount	Projected Change
1	Medical	\$ 9,115	\$ 9,933	\$ 818
2	Dental	979	1,029	50
3	Vision	152	161	9
4	Other Post-Employee Benefits (OPEB)	13,298	13,617	319
5	Pension	6,696	8,281	1,585
6	Total change in health & welfare costs included in O&M			2,781
7	Allocation to distribution (labor ratio)			0.8932
8	Distribution-related adjustment to O&M			2,484
9	Allocation factor - D.C. (O&M less A&G)			0.3784
10	Adjustment to operations and maintenance expense for increased employee health & welfare costs			\$ 940
11	Adjustment to D.C. income tax expense			\$ (93)
12	Adjustment to Federal income tax expense			\$ (296)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 10 - Reflection of 3-Year Average Storm Costs	<u>Total</u>
	Storm damage restoration costs reflected in distribution-only operations and maintenance (O&M) expense	
1	2004	\$ 3,251
2	2005	4,022
3	Test Period	<u>5,439</u>
4	3-year average	4,237
5	Storm damage costs reflected in test year O&M	<u>5,439</u>
6	Adjustment to reflect 3-year average	(1,202)
7	D.C. O&M less A&G Ratio	<u>0.3784</u>
8	Adjustment to D. C. expense	<u>\$ (455)</u>
9	Adjustment to D.C. income tax expense	<u>\$ 45</u>
10	Adjustment to Federal income tax expense	<u>\$ 144</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 11- Removal of Mirant Bankruptcy and Other Outside Counsel Fees	
1	Mirant-related outside counsel fees included in test year expense	\$ 4,298
2	Other outside counsel fees not applicable to distribution cost of service	<u>59</u>
3	Total outside counsel fees excluded	4,357
4	Allocation factor - D.C. (O&M less A&G)	<u>0.3784</u>
5	Adjustment to O & M expense	<u>\$ (1,649)</u>
6	Adjustment to D.C. income tax expense	<u>\$ 164</u>
7	Adjustment to Federal income tax expense	<u>\$ 520</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Rate-making Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 12 - Customer Care Enhancement	
1	Annual recurring costs associated with additional customer service representatives	1,953
2	Allocation factor - D.C. (O&M less A&G)	<u>0.3784</u>
3	Adjustment to D.C. operations & maintenance expense	<u>\$ 739</u>
4	Adjustment to D.C. income tax expense	<u>\$ (73)</u>
5	Adjustment to Federal income tax expense	<u>\$ (233)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

<u>Line No.</u>	<u>Adjustment 13 - Reflection of Increase in PSC & OPC FY 2006 Budget Assessment</u>	
1	PSC & OPC assessments for the twelve months ended March 31, 2006	\$ 5,969
2	Actual FY 2006 PSC & OPC assessments	<u>6,922</u>
3	Increase to D.C. other tax expense	<u>\$ 953</u>
4	Adjustment to D.C. income tax expense	<u>\$ (95)</u>
5	Adjustment to Federal income tax expense	<u>\$ (300)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 14 - Reflection of Increased Allocation of Service Company Costs		
1	Additional operation and maintenance expense charged to Pepco	\$	4,194
2	Allocation to distribution (labor ratio)		<u>0.8932</u>
3	Total increase to distribution-related operations & maintenance expense		3,746
4	D.C. allocation factor (O&M less A&G)		<u>0.3784</u>
5	Adjustment to D.C. distribution-related O&M	\$	<u>1,417</u>
6	Adjustment to D.C. income tax expense	\$	<u>(141)</u>
7	Adjustment to Federal income tax expense	\$	<u>(447)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line

No. Adjustment 15 - Annualization of 2006 Postal Rate Increase

Month	# of D.C. Distribution Customers	Postage at Average 2005 Rate (28.7 ¢/mailing)	Postage at Average 2006 Rate (30.4 ¢/mailing)	Adjustment
1 April 2005	230,693	\$ 66	\$ 70	\$ 4
2 May 2005	230,818	66	70	4
3 June 2005	231,112	66	70	4
4 July 2005	231,545	66	70	4
5 August 2005	231,873	67	70	3
6 September 2005	232,648	67	71	4
7 October 2005	233,936	67	71	4
8 November 2005	234,221	67	71	4
9 December 2005	235,044	67	71	4
10 Adjustment to annualize to 2006 rates				\$ 35
11 Adjustment to D.C. income tax expense				\$ (3)
12 Adjustment to Federal income tax expense				\$ (11)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 16 - Inclusion of Costs Associated with Current Proceeding		
1	Outside consulting for current base rate proceeding (cost of capital witness, outside counsel)	\$	245
2	Court Reporting, other miscellaneous		<u>10</u>
3	Adjustment to D.C. operations & maintenance expense		255
4	Annual increase assuming 3-year recovery period	\$	<u>85</u>
5	Adjustment to D.C. income tax expense	\$	<u>(8)</u>
6	Adjustment to Federal income tax expense	\$	<u>(27)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 17 - Reflection of Increase in Vehicle Resource Use Costs	
1	Vehicle resource use costs for the twelve months ended March 31, 2006	\$ 5,748
2	Vehicle resource use costs for the rate effective period	<u>6,845</u>
3	Total increase to operations & maintenance expense	1,097
4	Allocation to distribution (plant ratio)	<u>0.8549</u>
5	Total increase to distribution-related operations & maintenance expense	938
6	D.C. allocation factor (O&M less A&G)	<u>0.3784</u>
7	Adjustment to D.C. distribution-related O&M	<u>\$ 355</u>
8	Adjustment to D.C. income tax expense	<u>\$ (35)</u>
9	Adjustment to Federal income tax expense	<u>\$ (112)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 18 - Reflection of Sales Adjustment	
1	Total adjustment to D.C. revenues (excluding surcharges)	<u>\$ (2,282)</u>
2	Adjustment to D.C. income tax expense	<u>\$ (86)</u>
3	Adjustment to Federal income tax expense	<u>\$ (769)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 19 - Annualization of Software Amortization	Non-AFUDC	D.C. AFUDC	Total
ADJUSTMENT TO RATE BASE				
1	13-month average EPIS included in test period of software projects ending within one year	\$ 4,084	\$ 57	\$ 4,141
2	13-month average EPIS of new software projects capitalized	4,421	491	4,912
3	Change in average EPIS	337	434	771
4	Distribution Labor ratio	0.8932	0.8932	
5	Change in distribution-related average EPIS	301	388	689
6	D.C. Distribution Plant less AFUDC Ratio	0.4821	1.0000	
7	Adjustment to D.C. EPIS	\$ 145	\$ 388	\$ 533
8	13-month average accumulated amortization included in test period for software projects ending within one year	\$ (3,106)	\$ (31)	\$ (3,137)
9	13-month average accumulated amortization of new software projects capitalized	(768)	(78)	(846)
10	Change in average accumulated amortization	2,338	(47)	2,291
11	Distribution Labor ratio	0.8932	0.8932	
12	Change in distribution-related average accumulated amortization	2,088	(42)	2,046
13	D.C. Distribution Plant less AFUDC Ratio	0.4821	1.0000	
14	Adjustment to D.C. accumulated amortization	\$ 1,007	\$ (42)	\$ 965
ANNUALIZATION OF AMORTIZATION EXPENSE				
15	Amortization expense included in test period for software projects ending by September 30, 2006	\$ 818	\$ 11	\$ 829
16	Annual amortization expense for new projects capitalized	884	98	982
17	Adjustment to amortization expense	66	87	153
18	Distribution Labor ratio	0.8932	0.8932	
19	Distribution-related adjustment to amortization expense	59	78	137
20	D.C. Distribution Plant less AFUDC Ratio	0.4821	1.0000	
21	Adjustment to D.C. amortization expense	28	78	\$ 106
22	Adjustment to D.C. income tax expense			\$ (11)
23	Adjustment to Federal income tax expense			\$ (33)

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
 Ratemaking Adjustment Calculation
 Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line

No. Adjustment 20 - Amortization of 2004 Severance Program Costs

	<u>Program Costs</u>	<u>Accumulated Deferred Taxes</u>	<u>Net</u>
1	13-month average unamortized balance	\$ 1,629	\$ (435) \$ 1,194
2	Allocation factor - D.C. (O&M less A&G)	<u>0.3784</u>	<u>0.3784</u>
3	Adjustment to include the unamortized balance in rate base	<u>\$ 616</u>	<u>\$ (165) \$ 451</u>
4	Annual amortization expense based on 3-year amortization period		724
5	Severance payments in twelve months ended March 31, 2006		<u>-</u>
6	Adjustment to O&M		724
7	Allocation factor - D.C. (O&M less A&G)		<u>0.3784</u>
8	Net adjustment to operating expenses for annual program costs		<u>\$ 274</u>
9	Adjustment to D.C. income tax expense		<u>\$ (27)</u>
10	Adjustment to Federal income tax expense		<u>\$ (86)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line

No. Adjustment 21 - Annualization of Deductible Mixed Service Cost Tax Method

1	Average reduction to Accumulated Deferred Taxes for the twelve months ended March 31, 2006	\$ 26,475
2	Allocation to distribution (Plant less AFUDC)	<u>0.8549</u>
3	Total reduction to distribution-related accumulated deferred taxes	22,633
4	D.C. Allocation factor (Plant less AFUDC)	<u>0.4821</u>
5	Adjustment to D.C. allocated Accumulated Deferred Income Tax - per book (distribution only)	<u>\$ 10,911</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 22 - Inclusion of Northeast Substation System	<u>Subtransmission</u>	<u>Distribution</u>	<u>Total</u>
1	Adjustment to average EPIS, excluding AFUDC	\$ 36,807	\$ 35,816	72,623
2	D.C. allocation factor (Average & Excess Subtr.)	<u>0.4079</u>	<u>1.0000</u>	
3	Adjustment to average D.C. EPIS, excluding AFUDC	15,014	35,816	50,830
4	Adjustment to average D.C. EPIS for AFUDC	<u>-</u>	<u>1,100</u>	<u>1,100</u>
5	Total adjustment to average D.C. EPIS	<u>\$ 15,014</u>	<u>\$ 36,916</u>	<u>\$ 51,930</u>
6	Adjustment to average D.C. accumulated depreciation			<u>\$ (702)</u>
7	Adjustment to average D.C. accumulated deferred taxes			<u>\$ (936)</u>
8	Adjustment to D.C. depreciation expense			<u>\$ 1,164</u>
9	Adjustment to D.C. income expense			<u>\$ (116)</u>
10	Adjustment to Federal income tax expense			<u>\$ (367)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 23 - Inclusion of Projects Completed and In Service	
1	Average balance of D.C. Distribution CWIP in "buffer days" category	\$ 10,224
2	Average balance of D.C. Distribution CWIP awaiting final accounting	<u>6,699</u>
3	Adjustment to D.C. Distribution EPIS for CWIP includable in EPIS under legacy accounting systems	<u>\$ 16,923</u>
4	Adjustment to D.C. accumulated depreciation	<u>\$ (222)</u>
5	Adjustment to D.C. average accumulated deferred taxes (assuming 20-year tax depreciation)	<u>\$ (84)</u>
6	Adjustment to D.C. depreciation expense	<u>\$ 443</u>
7	Adjustment to D.C. income expense	<u>\$ (44)</u>
8	Adjustment to Federal income tax expense	<u>\$ (140)</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Ratemaking Adjustment Calculation
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

Line No.	Adjustment 24 - Interest Synchronization	
1	D.C. adjusted rate base	\$ 950,886
2	Weighted cost of debt @ June 30, 2006	<u>3.30%</u>
3	Pro-forma interest	31,379
4	D.C. allocated per book interest	<u>33,390</u>
5	Difference	<u>\$ (2,011)</u>
6	Adjustment to D.C. income tax expense to reflect interest synchronization per Commission Order 9216	<u>\$ 201</u>
7	Adjustment to Federal income tax expense to reflect interest synchronization per Commission Order 9216	<u>\$ 634</u>

Potomac Electric Power Company

District of Columbia
Analysis of Revenue Requirement -- Distribution Only
Twelve Months Ended March 31, 2006

(Thousands of Dollars)

	<u>Rate Base</u>	<u>Operating Income</u>	<u>Revenue Requirement</u>
Unadjusted amounts based on 11.00% return on equity (8.42% ROR)	\$ 871,117	\$ 57,902	\$ 26,396
Adjustments			
1 Weather normalization/annualization of revenues		(1,150)	1,965
2 Exclusion of supplemental executive retirement plans		208	(355)
3 Exclusion of industry contributions and membership fees		150	(256)
4 Exclusion of institutional advertising/selling expenses		57	(97)
5 Inclusion of interest expense on customer deposits		(477)	815
6 Reflection of 3-year average regulatory expense		227	(388)
7 Exclusion of merger-related costs		7	(12)
8 Annualization of wage increases		(740)	1,265
9 Annualization of changes in employee health & welfare costs		(551)	942
10 Reflection of 3-year average storm costs		266	(455)
11 Removal of Mirant bankruptcy and other outside counsel fees		965	(1,649)
12 Customer care enhancement		(433)	740
13 Reflection of increase in PSC/OPC FY 2006 budget assessment		(558)	954
14 Reflection of increased allocation of service company costs		(829)	1,417
15 Annualization of 2006 postal rate increase		(21)	36
16 Inclusion of costs associated with current proceeding		(50)	85
17 Reflection of increase in vehicle resource use costs		(208)	355
18 Reflection of sales adjustment		(1,427)	2,439
19 Annualization of software amortization	1,498	(62)	322
20 Amortization of severance programs	451	(161)	340
21 Annualization of Deductible Mixed Service Cost tax method	10,911		1,570
22 Inclusion of N.E. Substation System	50,292	(681)	8,399
23 Inclusion of projects completed and in service	16,617	(259)	2,833
24 Interest synchronization		(835)	1,427
Total adjustments	79,769	(6,562)	22,692
Total revenue requirement based on 11.00% return on equity	\$ 950,886	\$ 51,340	\$ 49,088

POTOMAC ELECTRIC POWER COMPANY

Computation of District of Columbia Tax Factors
Twelve Months Ended March 31, 2006

Line No.	Description	Statutory Tax Rate
1	D.C. Franchise Tax Rate	9.975%
2	Federal Income Tax Rate	35.00%

Line No.	Description	Computation	Tax Factor
3	D.C. Franchise Tax Factor	line 1	9.97500%
4	Federal Income Tax Factor	$(100\% - (\text{line } 3)) \times \text{line } 2$	31.50875%
5	Complement of Composite Tax Factor	$100\% - (\text{line } 3 + \text{line } 4)$	58.51625%

W.M. VONSTEBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(C)-4

Potomac Electric Power Company

PEPCO (C)-4

Analysis of Changes in Average Unadjusted District of Columbia Jurisdictional Rate Base and Operating Income
Between the Twelve Months Ended March 31, 2006
and the Twelve Months Ending September 30, 2006 (Six Months Actual; Six Months Projected)

(Thousands of Dollars)

Line No.	Rate Base	12 Months Ended March 2006	12 Months Ending September 2006	Increase (Decrease)	Explanation of Change
1	Electric Plant in Service	\$ 1,848,030	\$ 1,892,424	\$ 44,394	Higher cut-ins in Sept-Oct 05 and Mar 06 reflected for 6 additional months
2	Accumulated Depreciation	(627,898)	(645,859)	(17,961)	Higher electric plant in service
3	Accumulated Amortization	(12,059)	(12,962)	(903)	
4	Materials and Supplies	15,837	15,639	(198)	
5	Cash Working Capital	11,268	11,075	(193)	
6	Accumulated Deferred Income Taxes	(372,744)	(363,325)	9,419	Reversal of deferred tax related to Mixed Service Cost
7	Prepaid Pension/OPEB liab (net of tax)	23,959	23,294	(665)	
8	Customer Deposits	(15,276)	(15,630)	(354)	
9	Total Rate Base	\$ 871,117	\$ 904,656	\$ 33,539	
10	Operating Revenues				
11	Sale of Electricity	\$ 341,675	\$ 345,174	\$ 3,499	
12	Other Revenues	3,831	3,914	83	
	Operating Revenues	\$ 345,506	\$ 349,088	\$ 3,582	
	Operating Expenses				
13	Operation and Maintenance	\$ 87,086	\$ 82,746	\$ (4,340)	Six mos budgeted 2006 distribution maintenance and outside services (incl. servco) lower than 6 mos actual Apr-Sep 05
14	Depreciation	48,145	49,327	1,182	
15	Amortization	4,182	3,748	(434)	
16	Other Taxes	127,975	127,575	(400)	
17	D.C. Income Tax	3,502	4,167	665	
18	Federal Income Tax	16,714	20,105	3,391	Impact of higher revenues/lower expenses
19	Total Operating Expenses	\$ 287,604	\$ 287,668	\$ 64	
20	Operating Income	\$ 57,902	\$ 61,420	\$ 3,518	

W.M. VONSTEUBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (C)-5

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Analysis of Account 928 - Regulatory Expense
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

Description	OPC Deposits	PSC Deposits	Outside Experts and Consultants	Total	Distr Only
Cases 100% distribution-related					
Other Internal Order 5223192 (DC Regulation)			\$ 736,471	\$ 736,471	
982 Invest. Into Interruption of Elec Svc	\$ 60,000			60,000	
991 Manhole explosions		\$ 150,000		150,000	
1044 Emergence Appl for Cert of Public Conven&Necessity (69,230kv)	166,700	150,000		316,700	
				<u>1,263,171</u>	\$ 1,263,171
Cases allocable to distribution based on labor ratio					
Order 12888 re audit of accig practice		15,000		15,000	13,398
					0.8932
Cases not allocable to distribution					
945 Elec svc/competition/divestiture	178,500			178,500	
Total	<u>\$ 405,200</u>	<u>\$ 315,000</u>	<u>\$ 736,471</u>	<u>\$ 1,456,671</u>	<u>\$ 1,276,569</u>

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Analysis of Account 928 - Regulatory Expense
Twelve Months Ended December 31, 2005

Description	OPC Deposits	PSC Deposits	Other, including Outside Experts and Consultants	Total	Distr Only
Cases 100% distribution-related					
766 Productivity Improvement Plan	\$ 53,650			\$ 53,650	
1023 Effect of Mirant Bankruptcy	950,000	\$ 150,000		1,100,000	
Other Internal Order 5223192 (DC Regulation)			\$ 644,732	644,732	
982 Invest. Into Interruption of Elec Svc	60,000			60,000	
1044 Emergence Appl for Cert of Public Conven&Necessity (69,230kv)	138,700	150,000		288,700	
1002/1032 Merger / D.C. Rate Review	196,000		21,445	217,445	
				<u>2,364,527</u>	\$ 2,364,527
Cases allocable to distribution based on labor ratio					
712 Invest. Into Rules of Pract & Proc		15,000		15,000	13,398
Cases not allocable to distribution					
1017 D.C. SOS	171,000	170,000		341,000	
945 Elec svc/competition/divestiture	178,500	160,000		338,500	
				<u>679,500</u>	
Total	\$ 1,747,850	\$ 645,000	\$ 666,177	\$ 3,059,027	\$ 2,377,925

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Analysis of Account 928 - Regulatory Expense
Twelve Months Ended December 31, 2004

Description	OPC Deposits	PSC Deposits	Other, including Outside Experts and Consultants	Total	Distr Only
Cases 100% distribution-related					
1019 Use of Solid State Meters			\$ 45,928	\$ 45,928	
1023 Effect of Mirant Bankruptcy		(266,160)		(266,160)	
1026 Undergrounding of cables	\$ 49,250			49,250	
Other Internal Order 5223192 (DC Regulation)			287,972	287,972	
982 Invest. into Interruption of Elec Svc	185,651			185,651	
991 Manhole explosions		225,000		225,000	
1002/1032 Merger / D.C. Rate Review	600,255	148,738	91,649	840,642	
				<u>1,368,283</u>	\$ 1,368,283
Cases allocable to all jurisdictions					
Mirant PPA		156,664		<u>156,664</u>	\$ 59,125
Cases allocable to distribution based on labor ratio					
1009 Code of Conduct			1,691	1,691	
Order 12888 re audit of acctg practice				46,850	
712 Invest. into Rules of Pract & Proc		46,850	46,568	46,568	
				<u>95,109</u>	84,951
					0.8932
Cases not allocable to distribution					
1017 D.C. SOS	140,000	515,000		655,000	
766 FAC Audit & Review	45,889			45,889	
813 Investigation into rates		(7,500)		(7,500)	
				<u>693,389</u>	
Total	\$ 1,021,045	\$ 818,592	\$ 473,808	\$ 2,313,445	\$ 1,512,359

POTOMAC ELECTRIC POWER COMPANY

District of Columbia
Analysis of Account 928 - Regulatory Expense
Twelve Months Ended December 31, 2003

Description	OPC Deposits	PSC Deposits	Other, including Outside Experts and Consultants	Total	Distr Only
Cases 100% distribution-related					
813 (Utility Discount Program Working Group)	5,000			5,000	
939 Base Rate Proceeding	(114,673)			(114,673)	
1019 Use of Solid State Meters	35,000			35,000	
1023 Effect of Mirant Bankruptcy		405,550		405,550	330,877
				<u>330,877</u>	
Cases allocable to distribution based on labor ratio					
1009 Code of Conduct			13,852	13,852	
Order 12888 re audit of acctg practice		46,251		46,251	
				<u>60,103</u>	0.8932
Cases not allocable to distribution					
1017 D.C. SOS	408,085			408,085	
834 Least Cost Energy Plan	(104,658)	291,800	120	700,005	
944 Elec svc/competition/divestiture				(104,658)	
945 Elec svc/competition/divestiture		(34,599)	416	(34,599)	
				<u>416</u>	
				<u>561,164</u>	
Total	\$ 223,754	\$ 709,002	\$ 14,388	\$ 952,144	\$ 384,561

W.M. VONSTEUBEN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(C)-6

POTOMAC ELECTRIC POWER COMPANY

Summary of Advertising Expenditures
Twelve Months Ended March 31, 2006

Ad #	Ad Description	Synopsis of Text	Information Conveyed to Customer	Twelve Months Ended March 2006
715	Children's Safety	Public service message warning of dangers of playing (e.g. kite flying) near power lines/substations.	Safety Information	\$ 5,271
720	Children's Safety	Public service message warning of dangers of playing (e.g. kite flying) near power lines/substations.	Safety Information	10,005
721	Children's Safety	Public service message warning of dangers of playing (e.g. kite flying) near power lines/substations.	Safety Information	1,640
758	Reliability/Website Address	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	3,000
773	Reliability/Website Address	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	65,924
781	Minority Business	Opportunities for minority vendors.	Contractor Opportunities	16,697
786	Weathering the Storm	Pepco is changing its procedures for emergency response and enhancing coordination with local officials. We're also improving the information we provide to customers when trouble strikes. Visit our web site to get a copy of "Weathering the Storm" or call (202) 833-7500 to have a brochure sent to you.	Weather Preparation	1,254
802	Minority Business	Opportunities for minority vendors.	Contractor Opportunities	3,870
808	Reliability/Website Address	Customers tell us they care about reliability. So do we.	Reliability/Website Address	254
811	Energy Conservation	Caulking around windows and setting thermostat at 68 degrees in winter and 78 degrees in summer.	Energy Savings Tips	3,400
812	Storm Preparation	What to put in a storm kit.	Storm Safety Tips	3,400
815	Utility Assistance Expo	Information about Utility Assistance Expo	Utility Assistance Expo	4,668
816	Trees & Reliable Electric Service	Planting the right trees in the right places.	Tree Planting Tips	119,066
817	Wires Down	Danger of downed power lines and restoration process of downed wires.	Downed Power Line Restoration	123,616
818	Outage Preparedness	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	133,666
819	Energy Conservation	Energy savings tips for the summer.	Energy Savings Tips	124,166
820	Storm Kit	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	14,141
821	Outage Prevention-Trees	Planting the right trees in the right places.	Tree Planting Tips	3,435
822	Save Energy - Summer	Energy savings tips for the summer.	Energy Savings Tips	8,424
823	Save Energy - Winter	Energy savings tips for the winter.	Energy Savings Tips	9,285
824	Emergency Preparedness	Tips on how to prepare yourself for power outages.	Power Outage Preparation	5,843
825	Summer Energy Tips	Advice on how to save energy and money.	Energy Savings Tips	15,690

POTOMAC ELECTRIC POWER COMPANY

Summary of Advertising Expenditures
Twelve Months Ended March 31, 2006

Ad #	Ad Description	Synopsis of Text	Information Conveyed to Customer	Twelve Months Ended March 2006
826	Bill Payment Options	Fast and convenient ways to pay your electric bill.	Payment Options	13,954
827	Emergency Preparedness	Have a plan with your family in case of an emergency.	Power Outage Preparation	9,698
828	Emergency Preparedness	Have a plan with your family in case of an emergency.	Power Outage Preparation	10,978
829	Bill Payment Options	Fast and convenient ways to pay your electric bill.	Payment Options	37,845
830	Phone to report outages	Call 1-877-Pepco-62 to report outages. Call 202-872-3432 to report downed power lines.	Phone Numbers for Pepco	37,845
831	Reliability (Korean)	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	1,800
832	Utility Discount Day	Information about Utility Discount Day	Utility Discount Day	5,853
833	Bill Payment Options (Spanish)	Fast and convenient ways to pay your electric bill.	Payment Options	12,977
834	Reliability/Website Address (Spanish)	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	11,340
835	Mutual Assistance	Discusses importance of and Pepco's participation in mutual assistance between utilities after natural disasters	Mutual Assistance/Storm Restoration	666
836	Emergency Preparedness	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Emergency Preparation	707
837	Weathering the Storm	Tips on how to prepare yourself for power outages.	Power Outage Preparation	28,671
838	Energy Conservation	Energy efficiency tips.	Energy Savings Tips	78,931
839	Tip #3 Storm Kit	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	What to keep in a storm kit	27,005
840	Emergency Preparedness (Spanish)	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	12,000
841	Utility Discount Day (Spanish)	Information about Utility Discount Day	Utility Discount Day	4,968
842	Energy Conservation/Web Site Address	Pepco brochure "85 Ways to Save Money and Energy" provides ideas on how to use energy wisely to control costs; available on website at Pepco.com	Energy Savings Tips	1,414
843	Utility Discount Day	Information about Utility Discount Day	Utility Discount Day	19,950
845	Electricity - Always Make it Safe	Public service message with tips about staying safe around electricity.	Safety Information	707
846	Tip #2 - Tree Planting	Types of trees to plant if you are within 20 feet of overhead power lines.	Tree Planting Tips	34,232

POTOMAC ELECTRIC POWER COMPANY

Summary of Advertising Expenditures
Twelve Months Ended March 31, 2006

Ad #	Ad Description	Synopsis of Text	Information Conveyed to Customer	Twelve Months Ended March 2006
849	Diversity/Minority Business (Spanish)	Opportunities for minority vendors.	Contractor Opportunities	1,398
850	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	236
854	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	79
855	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	79
883	Energy Know How Solutions	New interactive tool on Pepco web site that can analyze your electric bill, explain any changes and offer you specific ways to save energy with a customized home energy audit.	Interactive Tool for Energy Savings Tips	79
Account Management/Misc. fees				127,430
Informational advertising included in cost of service				<u>\$ 1,157,557</u>

POTOMAC ELECTRIC POWER COMPANY

Summary of Advertising Expenditures
Twelve Months Ending September 30, 2006

Ad #	Ad Description	Synopsis of Text	Information Conveyed to Customer	Twelve Months Ending Sept 2006
Actual expense incurred in the six months ended March 31, 2006				
715	Children's Safety	Public service message warning of dangers of playing (e.g. kite flying) near power lines/substations.	Safety Information	\$ 5,271
720	Children's Safety	Public service message warning of dangers of playing (e.g. kite flying) near power lines/substations.	Safety Information	10,005
758	Reliability/Website Address	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	2,000
773	Reliability/Website Address	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	19,710
781	Minority Business	Opportunities for minority vendors.	Contractor Opportunities	12,959
811	Energy Conservation	Caulking around windows and setting thermostat at 68 degrees in winter and 78 degrees in summer.	Energy Savings Tips	3,400
812	Storm Preparation	What to put in a storm kit.	Storm Safety Tips	3,400
816	Trees & Reliable Electric Service	Planting the right trees in the right places.	Tree Planting Tips	47,670
817	Wires Down	Danger of downed power lines and restoration process of downed wires.	Downed Power Line Restoration	51,695
818	Outage Preparedness	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	62,020
819	Energy Conservation	Energy savings tips for the summer.	Energy Savings Tips	65,170
820	Storm Kit	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	7,315
822	Save Energy - Summer	Energy savings tips for the summer.	Energy Savings Tips	3,185
823	Save Energy - Winter	Energy savings tips for the winter.	Energy Savings Tips	9,285
824	Emergency Preparedness	Tips on how to prepare yourself for power outages.	Power Outage Preparation	5,843
825	Summer Energy Tips	Advice on how to save energy and money.	Energy Savings Tips	8,971
826	Bill Payment Options	Fast and convenient ways to pay your monthly electric bill.	Payment Options	9,730
827	Emergency Preparedness	Have a plan with your family in case of an emergency.	Power Outage Preparation	5,488
828	Emergency Preparedness	Have a plan with your family in case of an emergency.	Power Outage Preparation	6,768
829	Bill Payment Options	Fast and convenient ways to pay your electric bill.	Payment Options	21,185
830	Phone to report outages	Call 1-877-Pepco-62 to report outages. Call 202-872-3432 to report downed power lines.	Pepco Phone Numbers	21,185
832	Utility Discount Day	Information about Utility Discount Day	Utility Discount Day	5,700
833	Bill Payment Options (Spanish)	Fast and convenient ways to pay your electric bill.	Payment Options	7,359

POTOMAC ELECTRIC POWER COMPANY

Summary of Advertising Expenditures
Twelve Months Ending September 30, 2006

Ad #	Ad Description	Synopsis of Text	Information Conveyed to Customer	Twelve Months Ending Sept 2006
Actual expense incurred in the six months ended March 31, 2006				
834	Reliability/Website Address (Spanish)	Using innovative technologies, Pepco monitors systems and tracks performance to improve reliability for customers.	Reliability/Website Address	7,359
835	Mutual Assistance	Discusses importance of and Pepco's participation in mutual assistance between utilities after natural disasters	Mutual Assistance/Storm Restoration	666
836	Emergency Preparedness	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Emergency Preparation	707
838	Energy Conservation	Energy efficiency tips.	Energy Savings Tips	78,060
839	Tip #3 Storm Kit	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Be Prepared	22,871
840	Emergency Preparedness (Spanish)	What to put in a storm kit. Call 1-877-Pepco-62 to report outages.	Power Outage Preparation	12,000
841	Utility Discount Day (Spanish)	Information about Utility Discount Day	Utility Discount Day	4,968
842	Energy Conservation/Web Site Address	Pepco brochure "85 Ways to Save Money and Energy" provides ideas on how to use energy wisely to control costs; available on website at Pepco.com	Energy Savings Tips	1,414
843	Utility Discount Day	Information about Utility Discount Day	Utility Discount Day	19,950
845	Electricity - Always Make it Safe	Public service message with tips about staying safe around electricity.	Safety Information	707
846	Tip #2 - Tree Planting	Types of trees to plant if you are within 20 feet of overhead power lines.	Tree Planting Tips	34,232
849	Diversity (Spanish)	Opportunities for minority vendors.	Contractor Opportunities	1,398
850	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	236
854	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	79
855	Energy Conservation	Steps to take for home energy reductions. Also refers to Pepco's brochure, 85 Ways to Save Money and Energy on our web site.	Energy Savings Tips	79
883	Energy Know How Solutions	New interactive tool on Pepco web site that can analyze your electric bill, explain any changes and offer you specific ways to save energy with a customized home energy audit.	Interactive Tool for Energy Savings Tips	79
	Account Management/Misc. fees			50,387
Projected informational advertising April through September 2006 (detail by ad no. not available)				322,324
Informational advertising included in cost of service				\$ 952,830

L.J. HOOK
Direct Testimony
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (D)

POTOMAC ELECTRIC POWER COMPANY

BEFORE THE
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
DIRECT TESTIMONY OF LINDA J. HOOK
FORMAL CASE NO. _____

1 Q. PLEASE STATE YOUR NAME AND POSITION.

2 A. My name is Linda J. Hook. My title is Regulatory
3 Affairs Manager, Pepco Holdings, Inc. I am testifying on
4 behalf of Potomac Electric Power Company ("Pepco", the
5 "Company").

6 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL
7 QUALIFICATIONS.

8 A. I graduated from The Pennsylvania State University
9 in 1977, receiving a degree of Bachelor of Science in
10 Accounting, conferred with Highest Distinction. In 1981,
11 I attained the degree of Master of Business
12 Administration, also from The Pennsylvania State
13 University. I have been employed by Potomac Electric
14 Power Company (subsequently Pepco Holdings, Inc.) since
15 1987, serving in positions of escalating responsibility
16 within the revenue requirements function. My present
17 position is Regulatory Affairs Manager.

18 Q. WHAT IS THE SCOPE OF YOUR DIRECT TESTIMONY IN THIS
19 PROCEEDING?

1 A. I present the calculation of the cash working
2 capital included in the Company's rate base, as based on
3 the results of the Company's 2005 Cash Working Capital
4 (lead/lag) study. This testimony and accompanying
5 exhibits were prepared by me or under my direct
6 supervision. The source documents for my testimony are
7 Company records, public documents, and my personal
8 knowledge and experience.

9 Q. PLEASE DISCUSS THE CONCEPT OF A CASH WORKING CAPITAL
10 ALLOWANCE.

11 A. Cash working capital allowance refers to the amount
12 of investor-supplied capital which the Company requires
13 to carry out its day-to-day operations. To the extent a
14 differential exists between when the Company receives
15 revenue for the services it provides (as measured by its
16 revenue lag) and when it must pay for expenses incurred
17 in providing those services (as measured by its expense
18 lag), there is a need for operating funds. Because these
19 funds are provided by the Company's investors, they are
20 included as a component of rate base.

21 Q. HOW WAS THE COMPANY'S WORKING CAPITAL ALLOWANCE COMPUTED?

22 A. The level of working capital allowance is determined
23 by applying the Company's net lag days, or the difference

1 between its revenue lag and its expense lag, to the
2 average daily expense incurred in the test period.

3 Q. HAVE YOU PROVIDED AN EXHIBIT DEMONSTRATING THE DERIVATION
4 OF THE CASH WORKING CAPITAL ALLOWANCE?

5 A. Yes; this calculation is presented at PEPCO (D)-1.
6 As shown on this exhibit, the Company's composite
7 District of Columbia revenue lag for the twelve months
8 ending September 30, 2006 is 52.67 days. This is a
9 weighted average, representing both Sale of Electricity
10 (based upon application of the appropriate class of
11 business lag days to billed District of Columbia
12 distribution revenues for the test period) and Other
13 Revenues. The Company's composite expense lag is 37.11
14 days, and was derived by applying the lag days for each
15 type of expense to District of Columbia expenses for the
16 twelve months ending September 30, 2006. The result is a
17 net lag of 15.56 days, which when applied to average
18 District of Columbia daily expenses of \$702,581, results
19 in a District of Columbia working capital allowance of
20 \$10,932,160.

21 Q. IS THAT THE FINAL CASH WORKING CAPITAL ALLOWANCE YOU ARE
22 RECOMMENDING FOR INCLUSION IN RATE BASE?

23 A. No; consistent with past Commission practice, two

1 additional adjustments must be made. First, \$87,937 of
2 District of Columbia allocated withholding taxes is
3 deducted, in recognition of the Commission's previous
4 finding that the Company has the use of employee payroll
5 withholdings from the payroll date until the funds are
6 remitted to the government. Second, the Company's
7 District of Columbia allocated imprest funds requirement
8 of \$230,306 is added. With these adjustments, the
9 Company's working capital allowance is \$11,074,529.

10 Q. HAVE YOU PROVIDED AN EXHIBIT SHOWING COMPUTATION OF THE
11 REVENUE AND EXPENSE LAG DAYS USED IN DETERMINING THE
12 COMPANY'S NET LAG DAYS?

13 A. Yes. The revenue and expense lag days used in
14 determining the Company's cash working capital allowance
15 were determined in a detailed lead-lag study. The results
16 of the study are presented at PEPCO (D)-2.

17 Q. PLEASE DISCUSS THE DETERMINATION OF THE COMPANY'S REVENUE
18 LAG DAYS.

19 A. The revenue lag for Sale of Electricity measures the
20 period of time between the rendition of electric service
21 and the receipt of customer payment for that service. The
22 total lag for Sale of Electricity is comprised of three
23 components, each of which is determined by class of

1 business, on a monthly basis; the lags by class are
2 presented at PEPCO (D)-2, page 1. The first component,
3 the average service period, is the midpoint in days from
4 the prior meter reading date to the current meter reading
5 date. The second component measures the time from the
6 current meter reading date to when the bill is sent out.
7 Both of these components are based upon scheduled dates
8 for meter reading and billing as indicated in the
9 rendition group schedule. The third component, the
10 collection lag, measures the period of time between when
11 bills are sent out (again, pursuant to the rendition
12 group schedule) and when payment is received, based upon
13 detailed revenue extracts from the customer information
14 system. The revenue extract reports were designed to
15 examine only Pepco revenues, i.e., any amounts received
16 for third party suppliers for whom Pepco billed customers
17 were excluded from the study. The monthly results of the
18 three components were then combined to create annual
19 weighted average lags by customer class, based on the
20 months of October, 2004 through September 2005. The total
21 lag days, including the three components, for each class
22 of business are shown at PEPCO (D)-2, page 1 of 11.

23 Distribution-related Other Revenues were lagged

1 based on the lag days determined for each other revenue
2 category as presented at PEPCO (D)-2, page 2 of 11. Other
3 revenues that are collected through the normal customer
4 billing process, such as forfeited discounts or fees for
5 the CEO Online program, are lagged at the weighted
6 average Sale of Electricity lag for the test period.

7 Q. PLEASE DISCUSS COMPUTATION OF THE COMPANY'S EXPENSE LAG
8 DAYS.

9 A. Calculation of the individual expense lags are
10 provided at pages 3 through 11 of PEPCO (D)-2. These
11 lags represent the average number of days from the date a
12 cost is incurred (as measured from either the midpoint of
13 the service period for services or the invoice date for
14 goods received) to the date it is paid. Separate lags
15 were computed for labor and wages, the control center
16 lease payment, OPEB/pension cash contributions, and other
17 operations and maintenance expense. Lag days for
18 application to the Company's labor/wages expense were
19 computed based on separate analyses of 2005 weekly and
20 semi-monthly payrolls; a weighted average was computed
21 (pages 7-9, PEPCO (D)-2). The lag for payment of the
22 control center lease was based on two contractual
23 payments per year (page 5, PEPCO (D)-2). The lag for cash

1 contributions to the Company's OPEB trusts was based on
2 one 2005 contribution, and is shown at page 6, PEPCO (D)-
3 2). The lag for all other operation and maintenance
4 expenses was based upon a weighted average of two
5 components—a stratified, random sample of invoices paid
6 directly by Pepco (consistent with methods used in past
7 cash working capital studies) and the average lag on
8 Service Company transfers. (Pages 3-4 of PEPCO (D)-2.)

9 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

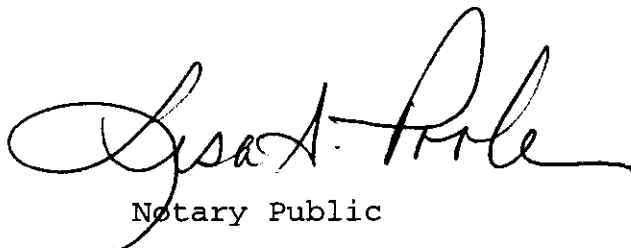
10 A. Yes.

AFFIDAVIT

City of Washington)
District of Columbia) ss:

Before me, the undersigned Notary Public in and for the City of Washington, District of Columbia, this day personally appeared LINDA J. HOOK, Regulatory Affairs Manager for Pepco Holdings, Inc., to me personally known, who stated under oath that the foregoing direct testimony and exhibits were prepared by her or under her direct supervision and control; that she has knowledge of the matters set forth in said direct testimony and exhibits; and that such matters are true and correct to the best of her knowledge, information, and belief.

Subscribed and sworn to before me this 12th day of December, 2006 in the City of Washington, District of Columbia.


Notary Public

My Commission expires July 31, 2007

L.J. HOOK
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(D)-1

Potomac Electric Power Company
District of Columbia Unadjusted Cash Working Capital
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

	<u>2005 STUDY</u>		
	<u>Test Year</u>	<u>Lag</u>	<u>Annual</u>
<u>Operating Revenues (lag days on DC basis):</u>	<u>Amount</u>	<u>Days</u>	<u>Lag Dollars</u>
Residential	\$ 49,420,457	58.76	\$ 2,903,946,053
RTM	1,126,222	44.45	50,060,568
MMA	10,634,025	52.70	560,413,118
General Service-LV	51,735,762	54.77	2,833,567,685
General Service-HV	57,796	38.73	2,238,439
Time of Day-LV	150,607,550	50.66	7,629,778,483
Time of Day-HV	71,483,130	52.64	3,762,871,963
Metro RT	8,522,065	48.92	416,899,420
Street Lighting	1,586,998	108.05	171,475,134
Total Distribution revenue	\$ 345,174,005	53.11	\$ 18,331,250,863
Rent from Electric Property	\$ 2,089,408	-33.27	(69,514,604)
Forfeited discounts	781,596	53.11	41,508,453
D.C. RETF funding for RAD	672,389	112.86	75,885,823
Misc Svc revenues	241,497	4.54	1,096,396
CEO Online-DC portion	56,379	53.11	2,994,136
Billing services - DC portion	73,157	56.68	4,146,539
	\$ 349,088,431		\$ 18,387,367,606
Composite Days Lag in D.C. Revenues		<u>52.67</u>	
<u>Operating Expenses:</u>			
PEPCO Labor - Wages	19,487,181	11.20	218,256,427
Other operating expenses	53,910,346	38.83	2,093,338,735
OPEB cash contribution	555,464	180.00	99,983,520
Control Center lease	2,874,503	90.75	260,861,147
Other Taxes			
Property Tax-DC	2,548,452	83.50	212,795,742
Property Tax-MD Montgomery	561,942	60.50	33,997,491
Property Tax-MD Prince George's	413,897	-90.50	(37,457,679)
Property Tax-MD Charles	18,100	-59.50	(1,076,950)
Property Tax-MD Other	48,722	-90.50	(4,409,341)
Property Tax-VA Alexandria	83,937	51.00	4,280,787
Property Tax-VA Arlington	22,425	139.50	3,128,288
Property Tax-VA Fairfax	1,942	220.50	428,211
Property Tax-VA Pr William	2,807	75.50	211,929
DC Business Improvement tax	55,359	-92.75	(5,134,547)
DC income tax (current portion)	9,184,873	58.95	541,448,263
DC PSC reimbursement	5,330,070	174.50	930,097,215
DC PSOS	18,592,569	-44.13	(820,490,070)
DC RETF	7,499,651	35.71	267,812,537
DC Delivery tax	88,003,492	35.71	3,142,604,699
DC Use tax	31,094	35.71	1,110,367
Payroll Taxes-Federal Unemployment	41,718	-55.50	(2,315,349)
Payroll Taxes-DC Unemployment	87,657	-54.85	(4,807,986)
Payroll Taxes-MD Unemployment	45,418	-54.91	(2,493,902)
FICA-Social Security	4,185,872	13.73	57,472,023
Federal income tax	42,854,729	58.95	2,526,286,275
Total Distribution expenses	\$ 256,442,220		\$ 9,515,927,832
Composite Days Lag in Expenses		37.11	
Net Lag		15.56	
D.C. Average Daily Expense		\$ 702,581	
Cash Working Capital Allowance			\$ 10,932,160
Less:			
FIT/FICA withholding	10,432	2.73	28,479
State withholding	2,242	26.52	59,458
Subtotal			88,937
Plus:			
Imprest funds			230,306
Total Distribution Working Capital Allowance			\$ 11,074,529

L.J. HOOK
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (D)-2

POTOMAC ELECTRIC POWER COMPANY

2005 Cash Working Capital Study
Annual Revenue Lag by Component
for the twelve months ended September 30, 2005

District of Columbia

Class	Annual Revenue Billed		Annual Average Service Period		Annual Reading to Billing		Annual Billing to Collection		Total Annual Dollar		Annual Lag
			Lag Days	Dollar Days	Lag Days	Dollar Days	Lag Days	Dollar Days	Days	Dollar	Days
Residential	\$	153,275,204.82	15.23	2,334,255,056.37	4.33	663,938,712.05	39.20	6,008,239,416.10	9,006,433	184.52	58.76
RTM		2,530,336.34	15.22	38,510,974.48	4.33	10,945,665.38	24.90	62,994,277.65	112,450,917.51	44.45	44.45
Master Metered Apts		22,243,340.41	15.28	339,986,010.24	4.29	95,524,789.13	33.13	737,010,910.59	1,172,521,709.96	52.70	52.70
GS-Low Voltage		100,386,209.87	15.21	1,526,901,142.17	4.28	430,122,961.19	35.28	3,541,678,419.06	5,498,702,522.42	54.77	54.77
GS-High Voltage		174,251.22	15.13	2,636,017.16	4.56	793,721.64	19.04	3,317,867.88	6,747,606.68	38.73	38.73
MGT-Low Voltage											
MGT-High Voltage											
TOD-Low Voltage		252,693,583.26	15.28	3,860,616,567.44	4.25	1,073,643,702.04	31.13	7,867,505,741.54	12,801,766,011.02	50.66	50.66
TOD-High Voltage		110,170,616.24	15.31	1,686,582,787.58	4.44	488,790,788.73	32.89	3,623,148,004.20	5,798,521,580.51	52.64	52.64
Streetlighting		5,037,715.42	15.24	76,770,364.83	4.48	22,550,348.40	88.33	444,963,747.72	544,284,460.95	108.05	108.05
Metro-RT		7,914,488.52	15.26	120,759,531.84	4.62	36,541,539.22	29.04	229,817,235.09	387,118,306.15	48.92	48.92

POTOMAC ELECTRIC POWER COMPANY

2005 Cash Working Capital Study
Summary – Other Revenue Lags

	Revenue	Dollar Days	Lag Days
Billing Services & Account Management for Third Party Suppliers	\$ 334,425.24	\$ 18,955,031.60	56.68
Rent from Electric Property	11,083,638.91	(368,758,667.42)	(33.27)
Miscellaneous Service Revenues			
Lag on Reconnect Fees due to fire/other property damage	50,776.24	1,760,436.94	34.67
Lag on Reconnect Fees due to non-payment	<u>336,605.00</u>	<u>-</u>	<u>0</u>
Wtd. Average lag on misc. service revenues	387,381.24	1,760,436.94	4.54
D.C. RETF	837,612.96	94,533,714.74	112.86

POTOMAC ELECTRIC POWER COMPANY

2005 Cash Working Capital Study
Other Operation and Maintenance Lag Days
January 1, 2005 -- December 31, 2005
Summary

<u>Strata Boundaries</u>	<u>Sample Amount</u>	<u>Sample Dollar Days</u>	<u>Strata Weighted Days</u>	<u>Population Amount</u>	<u>Population Dollar Days</u>	
\$0 to \$1,900	\$ 19,326.41	\$ 756,887.69	39.16	\$ 3,498,483.18	\$ 137,000,601.33	
\$1,901 to \$7,400	193,432.76	9,574,859.59	49.50	9,729,732.97	481,621,782.02	
\$7,401 to \$18,900	544,157.06	25,179,799.02	46.27	13,723,748.72	634,997,853.27	
\$18,901 to \$200,000	10,971,618.42	527,021,191.50	48.03	21,510,312.90	1,033,140,328.59	
Greater than \$200,000	<u>4,233,390.81</u>	<u>81,683,879.05</u>	19.30	<u>4,233,390.81</u>	<u>81,704,442.63</u>	
Total	<u>\$ 15,961,925.46</u>	<u>\$ 644,216,616.85</u>				
Weighted lag - other O & M invoices paid by Pepco				\$ 52,695,668.58	\$ 2,368,465,007.84	44.95
Weighted lag - O&M related intercompany				<u>114,561,992.15</u>	<u>4,126,522,957.24</u>	36.02
Weighted lag - other O&M				<u>\$ 167,257,660.73</u>	<u>\$ 6,494,987,965.08</u>	38.83

POTOMAC ELECTRIC POWER COMPANY
2005 Cash Working Capital Study

Intercompany Transfers

Service Period		Service Midpoint	Settlement Date	Lag Days	Net Transfer Amount	Lag Dollars	Wtd. Lag Days
Beginning	Ending						
1/1/2005	1/15/2005	7.50	1/31/2005	23.50	\$ 2,741,000.00	\$ 64,413,500.00	
1/3/2005	1/31/2005	14.50	2/19/2005	33.50	5,123,745.10	171,645,460.85	
2/1/2005	2/16/2005	8.00	2/28/2005	20.00	2,304,000.00	46,080,000.00	
2/1/2005	2/28/2005	14.00	3/26/2005	40.00	11,570,913.32	462,836,532.80	
3/1/2005	3/17/2005	8.50	3/26/2005	17.50	1,424,000.00	24,920,000.00	
3/1/2005	3/31/2005	15.50	4/23/2005	38.50	15,733,728.46	605,748,545.71	
4/1/2005	4/15/2005	7.50	4/30/2005	22.50	1,874,000.00	42,165,000.00	
4/1/2005	4/30/2005	15.00	5/31/2005	46.00	9,703,832.94	446,376,315.24	
5/1/2005	5/16/2005	8.00	5/21/2005	13.00	2,068,000.00	26,884,000.00	
5/1/2005	5/31/2005	15.50	6/25/2005	40.50	10,093,289.61	408,778,229.21	
6/1/2005	6/15/2005	7.50	6/25/2005	17.50	2,045,000.00	35,787,500.00	
6/1/2005	6/30/2005	15.00	7/23/2005	38.00	12,931,846.71	491,410,174.98	
7/1/2005	7/15/2005	7.50	7/31/2005	23.50	1,666,000.00	39,151,000.00	
7/1/2005	7/31/2005	15.50	8/21/2005	36.50	9,058,474.99	330,634,337.14	
8/1/2005	8/15/2005	7.50	8/21/2005	13.50	2,258,000.00	30,483,000.00	
8/1/2005	8/31/2005	15.50	9/24/2005	39.50	11,554,069.50	456,385,745.25	
9/1/2005	9/16/2005	8.00	9/24/2005	16.00	1,385,000.00	22,160,000.00	
9/1/2005	9/30/2005	15.00	10/22/2005	37.00	12,789,379.04	473,207,024.48	
10/1/2005	10/14/2005	7.00	10/31/2005	24.00	1,385,000.00	33,240,000.00	
10/1/2005	10/31/2005	15.50	11/26/2005	41.50	12,755,642.86	529,359,178.69	
11/1/2005	11/17/2005	8.50	11/26/2005	17.50	2,491,000.00	43,592,500.00	
11/1/2005	11/30/2005	15.00	12/24/2005	39.00	11,108,046.73	433,213,822.47	
12/1/2005	12/16/2005	8.00	12/24/2005	16.00	1,882,000.00	30,112,000.00	
12/1/2005	12/31/2005	15.50	1/21/2006	36.50	16,286,354.30	594,451,931.95	
						5,843,035,798.77	36.02
						162,232,323.56	

POTOMAC ELECTRIC POWER COMPANY

2005 Cash Working Capital Study
Other Operation & Maintenance -- Control Center Lease Lag Days
Payments made January - December 2005

<u>Obs. No.</u>	<u>Clearing Doc Number</u>	<u>Beginning Date</u>	<u>Ending Date</u>	<u>Midpoint</u>	<u>Date Paid</u>	<u>Lag Days</u>	<u>Amount</u>	<u>Dollar Days</u>
1	1907551	12/22/04	06/21/05	03/22/05	06/21/05	90.5	7,616,596.27	689,301,962.44
2	1915978	06/22/05	12/21/05	09/21/05	12/21/05	91.0	7,616,596.27	693,110,260.57
Control center lease						90.75	\$ 15,233,192.54	\$ 1,382,412,223.01

POTOMAC ELECTRIC POWER COMPANY

2005 Cash Working Capital Study
OPEB

<u>Service Period</u>		<u>Midpoint</u>	<u>Payment Date</u>	<u>(Lead)/Lag Days</u>	<u>Cash Contribution</u>	<u>Percent Paid</u>	<u>Weighted Lag Days</u>
<u>Beginning</u>	<u>Ending</u>						
1/1/2005	12/31/2005	182.00	12/29/2005	180.00	\$ 3,112,000	100.00%	180

POTOMAC ELECTRIC POWER COMPANY
2005 Cash Working Capital Study

Summary of Pepco Payroll Lag Days
Calendar Year 2005

<u>Item</u>	<u>Amount</u>	<u>Dollar Days</u>	<u>Weighted Lag Days</u>
Wages			
Weekly	\$ 43,002,191	\$ 412,501,495	9.59
Semi-Monthly	19,825,595	291,103,089	14.68
Subtotal	<u>\$ 62,827,786</u>	<u>\$ 703,604,584</u>	<u>11.20</u>

POTOMAC ELECTRIC POWER COMPANY
Cash Working Capital
SEMI Payroll Analysis - NET PAY
January - December 2005

PAY CYCLE	FROM	TO	MIDPOINT	PAY DATE	DR DEP LAG DAYS	CHECK LAG DAYS	DR DEP AMOUNT	CHECK AMOUNT	TOTAL \$ PAID	DR DEP LAG \$	CHECK LAG \$	TOTAL LAG \$
Dec 24 to Jan 08	12/24/2004	1/8/2005	8.00	1/14/2005	14.00	15.00	715,695.83	67,514.83	783,210.66	10,019,741.62	1,012,722.45	11,032,464.07
Jan 09 to Jan 23	1/9/2005	1/23/2005	7.50	1/31/2005	15.50	16.50	670,848.64	255,133.21	925,981.85	10,398,153.92	4,209,697.97	14,607,851.89
Jan 24 to Feb 08	1/24/2005	2/6/2005	8.00	2/15/2005	15.00	16.00	653,126.41	343,176.55	996,302.96	9,796,896.15	5,490,824.80	15,287,720.95
Feb 09 to Feb 23	2/9/2005	2/23/2005	7.50	2/28/2005	12.50	13.50	651,708.52	63,096.17	714,804.69	8,146,356.50	851,798.30	8,998,154.80
Feb 24 to Mar 8	2/24/2005	3/8/2005	6.50	3/15/2005	13.50	14.50	670,519.85	91,900.47	762,420.32	9,052,017.98	1,332,556.82	10,384,574.80
Mar 9th to Mar 23	3/9/2005	3/23/2005	7.50	3/31/2005	15.50	16.50	2,067,830.89	198,614.67	2,266,445.56	32,051,378.80	3,277,142.06	35,328,520.86
Mar 24 to Apr 08	3/24/2005	4/8/2005	8.00	4/15/2005	15.00	16.00	676,662.55	68,541.76	745,204.31	10,149,938.25	1,096,688.16	11,246,606.41
Apr 9 to Apr 23	4/9/2005	4/23/2005	7.50	4/29/2005	13.50	14.50	671,098.32	64,475.06	735,573.38	9,058,827.32	934,888.37	9,994,715.69
Apr 24 to May 8	4/24/2005	5/8/2005	7.50	5/13/2005	12.50	13.50	673,028.73	134,726.34	807,755.07	8,412,871.63	1,818,805.59	10,231,677.22
May 9th to May 23	5/9/2005	5/23/2005	7.50	5/31/2005	15.50	16.50	671,751.99	62,000.47	733,752.46	10,412,155.85	1,023,007.76	11,435,163.61
May 24 to Jun 08	5/24/2005	6/8/2005	8.00	6/15/2005	15.00	16.00	750,026.87	65,733.39	815,760.26	11,250,403.05	1,051,734.24	12,302,137.29
Jun 09 to Jun 23	6/9/2005	6/23/2005	7.50	6/30/2005	14.50	15.50	662,961.75	87,491.04	750,452.79	9,612,945.38	1,356,111.12	10,969,056.50
Jun 24 to Jul 08	6/24/2005	7/8/2005	7.50	7/15/2005	14.50	15.50	658,561.03	66,623.18	725,184.21	9,548,134.94	1,032,659.29	10,581,794.23
Jul 09 to Jul 23	7/9/2005	7/23/2005	7.50	7/29/2005	13.50	14.50	685,250.91	67,379.80	752,630.71	9,250,887.29	977,007.10	10,227,894.39
Jul 24 to Aug 08	7/24/2005	8/8/2005	8.00	8/15/2005	15.00	16.00	722,579.06	70,104.33	792,683.39	10,838,685.90	1,121,668.28	11,960,355.18
Aug 09 to Aug 23	8/9/2005	8/23/2005	7.50	8/31/2005	15.50	16.50	665,881.82	66,511.50	732,393.32	10,321,168.21	1,097,439.75	11,418,607.96
Aug 24 to Sep 08	8/24/2005	9/8/2005	8.00	9/15/2005	15.00	16.00	689,918.83	63,346.32	753,265.15	10,048,782.45	1,013,541.12	11,062,323.57
Sep 09 to Sep 23	9/9/2005	9/23/2005	7.50	9/30/2005	14.50	15.50	653,277.97	64,371.29	717,649.26	9,472,530.57	997,755.00	10,470,285.57
Sep 24 to Oct 08	9/24/2005	10/8/2005	7.50	10/14/05	13.50	14.50	684,796.48	62,916.98	747,713.46	9,244,752.48	912,296.21	10,157,048.69
Oct 09 to Oct 23	10/9/2005	10/23/2005	7.50	10/31/05	15.50	16.50	677,236.14	63,399.53	740,635.67	10,497,160.17	1,046,092.25	11,543,252.42
Oct 24 to Nov 08	10/24/2005	11/8/2005	8.00	11/15/05	15.00	16.00	653,634.69	58,075.36	711,710.05	9,804,520.35	929,205.76	10,733,726.11
Nov 9 to Nov 23	11/9/2005	11/23/2005	7.50	11/30/05	14.50	15.50	646,609.30	58,667.07	705,276.37	9,375,834.85	909,339.59	10,285,174.44
Nov 24 to Dec 08	11/24/2005	12/8/2005	7.50	12/15/05	14.50	15.50	646,715.09	63,147.82	709,862.91	9,377,368.81	978,791.21	10,356,160.02
Dec 09 to Dec 23	12/9/2005	12/23/2005	7.50	12/30/05	14.50	15.50	655,517.18	63,407.97	718,925.15	9,504,999.11	982,823.54	10,487,822.65
					14.48	15.48	17,555,239.85	2,270,355.11	19,825,594.96	255,648,511.58	35,454,577.74	291,103,089.32

source of items in yellow -- payroll dept

WEIGHTED LAG DAYS

14.68

POTOMAC ELECTRIC POWER COMPANY
2005 Cash Working Capital Study

Summary of Pepco Withholding Lag Days
Calendar Year 2005

<u>Item</u>	<u>Amount</u>	<u>Dollar Days</u>	<u>Weighted Lag Days</u>
FICA/FIT Withheld			
FIT Withheld			
Weekly	\$ 8,958,490	\$ 28,550,332	3.19
Semi-Monthly	4,313,971	7,394,766	1.71
Subtotal	\$ 13,272,461	\$ 35,945,098	2.71
FICA Withheld			
Weekly	\$ 5,802,925	\$ 18,476,825	3.18
Semi-Monthly	2,508,013	4,411,423	1.76
Subtotal	\$ 8,310,938	\$ 22,888,248	2.75
Total FICA and FIT	\$ 21,583,400	\$ 58,833,346	2.73
State Taxes Withheld			
D.C. Weekly			
	\$ 372,322	\$ 11,539,624	30.99
D.C. Semi-Monthly			
	212,783	5,638,419	26.50
Subtotal	\$ 585,105	\$ 17,178,043	29.36
Md. Weekly			
	\$ 2,551,879	76,736,535	30.07
Md. Semi-Monthly			
	906,258	25,654,944	28.31
Subtotal	\$ 3,458,136	\$ 102,391,479	29.61
Va. Weekly			
	\$ 185,643	\$ 587,585	3.17
Va. Semi-Monthly			
	337,452	606,026	1.80
Subtotal	\$ 523,095	\$ 1,193,611	2.28
W. Va. Weekly			
	\$ 38,867	\$ 1,290,023	33.19
W.Va. Semi-Monthly			
	17,254	461,632	26.76
Subtotal	\$ 56,121	\$ 1,751,655	31.21
Del Weekly			
	\$ 2,517	\$ 79,865	31.73
Del Semi-Monthly			
	-	-	-
Subtotal	\$ 2,517	\$ 79,865	31.73
Pa Weekly			
	\$ 17,974	\$ 556,849	30.98
Pa Semi-Monthly			
	1,311	33,808	25.79
Subtotal	\$ 19,285	\$ 590,657	30.63
Total State/local taxes withheld	\$ 4,644,259	\$ 123,185,310	26.52

FICA/FIT as a percent of gross wages:	<u>FICA/FIT w/held</u>	<u>Gross Payroll</u>	
Weekly	\$ 14,761,416	\$ 75,941,600.97	
Semi-Monthly	6,821,984	34,516,657.99	
Total	\$ 21,583,399.59	\$ 110,458,258.96	19.54%

State taxes as a percent of gross wages:	<u>State tax w/held</u>	<u>Gross Payroll</u>	
Weekly	\$ 3,169,201	\$ 75,941,600.97	
Semi-Monthly	1,475,058	34,516,657.99	
Total	\$ 4,644,258.97	\$ 110,458,258.96	4.20%

2005 Cash Working Capital Study
Other Tax Expense Lag
Calendar Year 2005

	2005 Expense	Lag Days	Dollar Days
District of Columbia Delivery Tax	\$ 87,829,067	35.71	\$ 3,136,229,600.79
Maryland Delivery Tax	9,779,422	37.00	361,838,614.00
Maryland Gross Receipts Tax	10,210,163	37.00	377,776,031.00
<u>Property Taxes</u>			
District of Columbia	3,213,474	83.50	268,325,079.00
Maryland:			
Montgomery County	17,990,433	60.50	1,088,421,196.50
Prince George's County	13,039,861	-90.50	(1,180,107,420.50)
Charles County	534,312	-59.50	(31,791,564.00)
Other	1,239,673	-90.50	(112,190,406.50)
Total Maryland	32,804,279		(235,668,194.50)
Virginia:			
Alexandria	293,135	51.00	14,949,885.00
Arlington Personal Property	75,367	139.50	10,513,696.50
Fairfax County	6,248	220.50	1,377,684.00
Prince William	8,468	75.50	639,334.00
Total Virginia	383,218		27,480,599.50
<u>Payroll Taxes</u>			
Unemployment - Federal	93,459	-55.50	(5,186,974.50)
Unemployment - D.C.	152,938	-54.85	(8,388,649.30)
Unemployment - Maryland	67,173	-54.91	(3,688,469.43)
FICA - Employer portion	8,310,938	13.73	114,109,178.74
Total Payroll Taxes	8,624,508		96,845,085.51
<u>Use Taxes</u>			
Maryland	1,102,717	35.71	39,376,186.21
D.C.	36,462	35.71	1,301,997.25
Total Use Taxes	1,139,179		40,678,183.46
<u>Public Service Commission Fees</u>			
District of Columbia	5,745,966	174.50	1,002,671,067.00
Maryland	1,561,296	-28.00	(43,716,288.00)
Total PSC Fees	7,307,262		958,954,779.00
<u>Income Taxes other than Federal</u>			
D.C. Income Tax	11,006,365	58.95	648,825,216.75
Maryland Income Tax	9,130,277	58.95	538,229,829.15
PA Income Tax	42,000	58.95	2,475,900.00
Va Income Tax	1,212	58.95	71,447.40
Total Income Taxes other than Federal	20,179,854		1,189,602,393.30
<u>Other</u>			
District of Columbia			
Public Space/Occupancy	19,247,193	-44.13	(849,282,391.13)
Business Improvement	42,912	-92.75	(3,980,088.00)
Reliable Energy Trust Fund	5,287,976	35.71	188,824,809.67
Maryland:			
Md. Environmental Trust	2,177,144	37.54	81,733,614.33
Montgomery County Fuel & Energy	88,988,209	61.63	5,483,898,379.63
Universal Service Charge	7,656,263	28.04	214,694,374.96
Pennsylvania:			
Franchise Tax	42,000	58.95	2,475,900.00
Federal:			
Federal Highway Use Tax	18,100	-136.50	(2,470,650.00)

W.M. GAUSMAN
Direct Testimony
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (E)

POTOMAC ELECTRIC POWER COMPANY

BEFORE THE
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
DIRECT TESTIMONY OF WILLIAM M. GAUSMAN
FORMAL CASE NO. _____

1 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS
2 ADDRESS.

3 A. William M. Gausman, Vice President Asset
4 Management for PHI Service Company, located at 701
5 Ninth Street NW, Washington DC, 20068.

6 Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR ROLE AS VICE
7 PRESIDENT ASSET MANAGEMENT?

8 A. I am responsible for the engineering, design and
9 planning for all transmission, substation and
10 distribution facilities constructed by Pepco Holdings,
11 Inc.(PHI) subsidiaries, which include Potomac Electric
12 Power Company (Pepco), Delmarva Power & Light Company,
13 and Atlantic City Electric Company. In addition, I am
14 responsible for all reliability planning and system
15 performance evaluation. A statement of my education
16 and occupational history is appended to my testimony.

17 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

18 A. Yes. Most recently I testified in Formal Case
19 No.1044, involving Pepco's application to construct
20 two 69kV lines and two 230kV lines.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. The purpose of my testimony is to describe a new
3 substation system located in Northeast Washington that
4 will begin serving existing load in the District of
5 Columbia in June 2007. I will also demonstrate that
6 the new substation is required to maintain reliable
7 electric service in the District of Columbia.
8 In addition, my testimony will provide evidence that
9 the costs of these electric facilities are reasonably
10 known and measurable.

11 Q. WILL YOUR TESTIMONY ADDRESS OTHER ISSUES IN ADDITION
12 OF THE NORTHEAST SUBSTATION SYSTEM?

13 A. Yes, I will present the need to include in
14 Pepco's rate base other electric distribution assets
15 that are complete, in service and were concurrently
16 carried on the books of the Company during portions of
17 the test year as Construction Work in Progress (CWIP).
18 These assets are in the final steps of the asset
19 accounting processes. The average balance of costs of
20 these assets in the test year is \$16.9 million. The
21 costs of these assets are fully known and measurable
22 and the assets were in service during the test year
23 proposed for this proceeding. This testimony and
24 accompanying exhibits were prepared by me or under my

1 direct supervision and control. The source documents
2 for my testimony are Company records, public
3 documents, and my personal knowledge and experience.

4 Q. PLEASE DESCRIBE THE NORTHEAST SUBSTATION SYSTEM
5 PROJECT.

6 A. In order to support the continued reliability of
7 electric service to our customers in the District of
8 Columbia, Pepco is constructing a new distribution
9 substation system in the Northeast section of the
10 City. The project is known as the Northeast Substation
11 System and further identified as Pepco Substation No.
12 212. The substation will initially be placed in
13 service in June of 2007, along with the 69kV
14 subtransmission supply system and the initial phase of
15 the 13kV distribution feeder system which supplies
16 electricity to customers and to the distribution
17 feeder network. I will refer to the combination of
18 the substation, subtransmission supply system and the
19 network and distribution feeder system as the
20 "Substation System."

21 Q. WHAT LOADS WILL THE SUBSTATION SYSTEM SERVE IN THE
22 DISTRICT OF COLUMBIA?

23 A. The Substation System is designed to support the
24 existing electric load within the District. The

1 Substation System will supply existing load, to be
2 transferred from existing Pepco substations to the new
3 Northeast Substation System. Ultimately, new load
4 will be served by the installation of the third and
5 fourth station transformers as well as additions to
6 the subtransmission and network feeder systems as that
7 new load is recognized on the electric system. The
8 incremental cost to supply the additional load is not
9 included in the cost of the Northeast Substation
10 System as described in my testimony. In addition to
11 the substation and related equipment, by June 2007,
12 the underground duct bank of the 69kV subtransmission
13 supply system will be installed which includes the
14 first two 69kV supply circuits from the Benning
15 Service Center in the District of Columbia to the
16 Northeast Substation. Along with the substation and
17 69kV subtransmission supply system, three 13kV network
18 feeders, serving existing customer load, will be in
19 service.

20 Q. PLEASE IDENTIFY THE COSTS ASSOCIATED WITH THE
21 SUBSTATION SYSTEM THAT PEPCO IS SEEKING TO INCLUDE IN
22 RATES IN THIS PROCEEDING.

23 A. In October of 2003, Pepco purchased a tract of
24 land in the Northeast area of the District upon which

1 it is building the substation. The utility portion of
2 this land, at 2.2 acres, was recorded in Account 105,
3 Electric Plant Held for Future Use, at \$4.4 million.
4 This amount was transferred to Electric Plant in
5 Service (EPIS) in November 2006.

6 My testimony is in support of having the costs of
7 the substation, subtransmission system, network feeder
8 system and land included as part of the Pepco rate
9 base in this proceeding. Specifically, I am
10 requesting that the planned expenditures for the
11 Northeast Substation System in the amount of \$73.7
12 million (inclusive of \$1.1 million Allowance for Funds
13 Used During Construction (AFUDC) already accrued on
14 the land), of which \$51.9 million will be allocated to
15 the District of Columbia, be included in rate base.

16 The substation, subtransmission system, network
17 distribution system and land, as described below, will
18 be placed in service and supplying customers in the
19 District of Columbia slightly prior to the beginning
20 of the rate effective period.

21 The financial and ratemaking aspects of this
22 request are included in Mr. VonSteuben's testimony.

23 Q. AS IT RELATES TO THE NORTHEAST SUBSTATION, PLEASE
24 PROVIDE AN OVERVIEW OF PEPCO'S RELIABILITY PLANNING

1 AND THE OVERALL ELECTRIC SYSTEM ARRANGEMENT FOR THE
2 HIGH DENSITY AREAS OF THE DISTRICT OF COLUMBIA.

3 A. As we have described in prior Productivity
4 Improvement Plans and Consolidated Reports in great
5 detail, the overall electric reliability plan
6 applicable to the higher density areas within the
7 District of Columbia is based on a network design,
8 similar to that used in most large cities within the
9 United States. This design consists of a substation
10 located near the load center. The substation
11 distributes electricity to customers through multiple,
12 underground, 13kV feeders. The feeder system is
13 designed such that the electric lines comprise a
14 system of supply to customers that can sustain
15 incremental failures with no loss of service to
16 customers. The ultimate limiting factor in the
17 network design is the electric distribution supply
18 capacity of the substations. This supply capacity is
19 measured as the percent utilization of the substations
20 currently serving a specific area. My testimony will
21 demonstrate that additional capacity, in the form of a
22 new substation system, is necessary to support
23 electric system reliability in the District.

1 When the network distribution design is used,
2 additional electric capacity is first added to an area
3 in the form of load transfers from existing
4 substations to adjacent substations by installing new
5 conduit and feeders and, as available, rearranging the
6 existing underground network feeder system.

7 When the existing substations transformer
8 capacity are fully allocated by way of feeder load
9 transfers, additional capacity is brought on line
10 through the installation of planned for new
11 transformers within the existing substations.
12 Eventually as that new transformer capacity from the
13 existing substations is assigned to and consumed by
14 customers, new substation systems must be constructed.
15 It has been 14 years since Pepco has constructed a
16 substation system in the District of Columbia;
17 Substation 10 was placed in service in 1992. With the
18 addition of the Northeast Substation System there will
19 be 56 distribution substations serving District of
20 Columbia customers.

21 Q. PLEASE PROVIDE AN OVERVIEW OF THE EXISTING ELECTRIC
22 SYSTEM SUBSTATION CAPACITY IN THE CENTRAL, HIGH
23 DENSITY AREAS OF THE DISTRICT OF COLUMBIA AND THE

1 EFFECT THAT THE NORTHEAST SUBSTATION WILL HAVE ON THE
2 RELIABILITY OF THIS AREA OF THE CITY.

3 A. PEPCO (E)-1 shows the substation capacity
4 utilization in the areas of the District that will be
5 served by the Northeast Substation and are currently
6 served by existing substations.

7 • As demonstrated on page one of this exhibit,
8 nearly all of this area has reached substation
9 utilization factors of 90% to greater than 100%
10 of installed substation capacity. This represents
11 the capacity requirements experienced during full
12 load conditions during the test year.

13 Pages two and three of PEPCO (E)-1 show the favorable
14 impact on available substation capacity that the
15 addition of the Northeast Substation will have on this
16 area.

17 • Page two of the exhibit shows the substation
18 capacity utilization after the first load
19 transfers are made from Substation 133 to the
20 Northeast Substation. This initial transfer
21 requires 16% of the available new capacity of the
22 Northeast substation and relieves the existing
23 load at Substation 133 from the forecasted
24 utilization in 2007 of 104% to a 97% capacity

1 utilization. The overall impact is that the large
2 portion of the area now shown (in RED on page
3 one) as being above a 100% capacity utilization
4 has been reduced to a range of 90% to 100%
5 utilization as shown on page 2.

- 6 • Similarly, page three of the exhibit show the
7 overall favorable effects on substation capacity
8 utilization after the additional load transfers
9 are made in 2008. Areas served by substations 52
10 and 161 are reduced to ranges of 80% up to 100%
11 of available substation capacity. These
12 transfers of existing load, that will take place
13 in 2008, bring the capacity utilization of the
14 Northeast substation to 65% of its installed
15 capacity.

16 The fourth page of the exhibit shows all three
17 substation capacity utilization maps that, taken
18 together, demonstrate the favorable progress in
19 capacity reductions through transfers of existing load
20 to the Northeast substation.

21 The Northeast Substation System is needed to
22 bring this area of the District of Columbia to an
23 electric supply capacity condition which will provide
24 designed reliability levels.

1 Q. PLEASE DISCUSS IN MORE DETAIL THE RELIABILITY PLANNING
2 AND GENERAL DESIGN CRITERIA THAT PEPCO USES IN THE
3 HIGH DENSITY AREAS OF THE DISTRICT OF COLUMBIA.

4 A. As I previously stated, the electric system in
5 the central business district is planned and
6 constructed in such a manner that a single event
7 (referred to as a contingency) affecting a substation
8 transformer, switchgear or transmission supply feeder
9 will not result in the loss of electric service to the
10 customer. This design criteria is referred to as the
11 "N-1" criteria. Similarly, the Pepco underground
12 network feeder system is also designed and constructed
13 using the N-1 criteria such that the loss of a single
14 network feeder will not result in the loss of load and
15 force a customer outage. These design standards were
16 established to provide additional reliability to dense
17 urban centers. These design criteria have been used
18 by Pepco in the District of Columbia for more than
19 fifty years. Similar design standards are used by
20 utilities where dense urban load is served, such as
21 New York City, Chicago and Boston. The Northeast
22 Substation System will continue to use this same
23 design and installation philosophy. The Northeast
24 Substation System will be an integral part of the

1 network electric system serving the District of
2 Columbia.

3 Q. PLEASE CONTINUE WITH THE DISCUSSION OF CURRENT
4 SUBSTATION PLANNING, TRANSFORMER LOADING AND AVAILABLE
5 SYSTEM RELIABILITY IN THE AREA SURROUNDING THE
6 NORTHEAST SUBSTATION.

7 A. There is nothing unsound in having a substation
8 operating at 100% of capacity when the overall network
9 electric system is designed to, and is operating
10 within, an "N-1" contingency arrangement. The
11 Substation Capacity Utilizations mentioned above and
12 shown in PEPCO (E)-1 are based on a 100% loading,
13 which is that capacity utilization where a failure can
14 occur in a substation, customer supply feeder, or
15 distribution supply feeder and there will not be an
16 immediate loss of customer load. The system can and
17 does operate reliably at a 100% capacity loading but
18 cannot be expected to operate for an indefinite period
19 of time at over 100% capacity and still remain within
20 the "N-1" design criteria. The dynamics of electric
21 utility operation are influenced by the duration a
22 system operates in an overload condition. While
23 individual overload events, whether on distribution
24 feeders or substation equipment components, are dealt

1 with, a long term weakening of a system that is caused
2 by sustained overload conditions lowers the overall
3 probability that load can be maintained throughout a
4 given failure. The Northeast Substation system is
5 timed to relieve the higher substation capacity
6 loadings on the existing area stations and maintain
7 the overall system within the design criteria of the
8 reliable "N-1" operating condition.

9 Q. YOU MENTIONED EARLIER IN YOUR TESTIMONY THAT THERE ARE
10 THREE AVAILABLE METHODS FOR SUPPLYING ADDITIONAL
11 ELECTRIC DISTRIBUTION CAPACITY. THESE METHODS ARE
12 LOAD TRANSFERS, INSTALLING NEW STATION TRANSFORMERS
13 AND, LASTLY, TO CONSTRUCT A NEW SUBSTATION SYSTEM.
14 WHAT MEASURES HAS PEPCO TAKEN TO RELIABLY SERVE THE
15 LOAD WITHIN THE DISTRICT WHILE APPROPRIATELY DEFERRING
16 THE NEED TO ADD A NEW SUBSTATION SYSTEM?

17 A. The steps that were taken to maintain reliability
18 in the District of Columbia prior to the construction
19 of the Northeast Substation System began with the
20 installation of Substation 10 in 1991 and completed
21 with the 2004 load transfers from Substation 52 to
22 Substation 10. In all there were six capacity
23 measures employed after the installation of Substation
24 10:

- 1 • June 1992 - The 3rd transformer was installed in
2 Substation 10 providing additional capacity in the
3 northwestern portion of the area to be served by the
4 Northeast Substation System.
- 5 • June 1993 - Load transfers were accomplished by
6 installing underground network feeder cutovers to
7 transfer load from Substation 161 to Substation 18.
- 8 • June 1995 - Overhead lines were reconstructed in
9 order to transfer load from Substation 133 to
10 Substation 190.
- 11 • June 1995 - Underground network load transfers were
12 accomplished by installing cutovers which
13 transferred load from Substation 161 to Substation
14 117.
- 15 • June 2002 - Overhead lines were reconstructed to
16 transfer load from Substation 133 to Substation 190.
- 17 • June 2004 - Underground network feeders were
18 installed to transfer load from Substation 52 to
19 Substation 10.

20 By the time that this last load transfer was
21 accomplished, in June of 2004, Pepco had already
22 purchased the land for the Northeast Substation and
23 was developing the Requests for Proposals (RFP's) for

1 professional services for the substation project. The
2 RFP's were issued for bid in August and December of
3 2004.

4 Q. PLEASE DISCUSS THE ANALYSES THAT LED YOU TO THE
5 DECISION TO BUILD THE NEW NORTHEAST SUBSTATION SYSTEM.

6 A. Pepco conducts an update of its electric system
7 planning process on an annual basis after the summer
8 peak load period has ended and the demand and supply
9 information of the preceding 12 month period is
10 available for analysis. An integral part of this
11 annual planning process is the development of the
12 future demand component of the analysis. The total
13 demand component incorporates the historical electric
14 demand in the area along with the load forecast for
15 those same areas. The demand component of this plan
16 is done at the individual feeder level so that actual
17 customer load information, along with known changes
18 in customer requirements, are represented in the load
19 forecast for each substation transformer. The supply
20 component of this annual update consists of
21 reconfirming earlier decisions to provide additional
22 electric capacity and modifying the plans to meet the
23 demand in a reliable fashion. Confirmation of the
24 capacity supply requirements includes a review of

1 maintenance processes and the replacement of electric
2 plant components as appropriate.

3 Q. WHEN DID THE SYSTEM PLANNING UPDATES INDICATE THAT A
4 NEW SUBSTATION SYSTEM WOULD BE REQUIRED?

5 A. The annual system planning updates in the 2000
6 through 2003 timeframe indicated that by 2007 the load
7 transfer options and additional substation transformer
8 options would be fully used and that to support
9 reliability at that time a new substation system would
10 be necessary.

11 Q. WHEN DID PEPCO BEGIN TO PLAN FOR THE CONSTRUCTION OF
12 THE NEW SUBSTATION SYSTEM?

13 A. In late 2000, Pepco began assessing the real
14 estate options in the Northeast area of the District
15 based on the possibility that a new substation would
16 be necessary. An industrial zoned site, allowing the
17 construction of an electric substation by ownership
18 right, was selected and purchased in October of 2003.

19 Q. WHY WAS THIS SITE SELECTED?

20 A. The planning process was able to provide assurance
21 that the selected site would be reasonably close to
22 the load now being served by the existing substations
23 that, by 2007, could not be reliably served by these
24 existing substations. The selected site reasonably

1 accomplishes the objectives of being near enough to
2 efficiently make load transfers from the existing
3 substations to the new substation and being reasonably
4 situated to serve the existing load in 2007.

5 Q. WHAT ARE THE FORESEEABLE CONSEQUENCES OF NOT
6 CONSTRUCTING THE NORTHEAST SUBSTATION SYSTEM IN
7 ACCORDANCE WITH PEPCO'S CURRENT SCHEDULE?

8 A. Again referring to PEPCO (E)-1 the vast majority
9 of the District shown in this exhibit is either above
10 a 90% substation capacity utilization or has reached
11 the 100% capacity utilization while serving existing
12 electric load. As mentioned above, Pepco has exhausted
13 the options to increase available capacity through
14 load transfers from substations with remaining
15 available capacity. If the Northeast Substation System
16 is not in service by June 2007, our planning shows
17 that there will be two overloads at existing
18 substations; one at Substation 133 and the second at
19 Substation 52. We also project that there will be two
20 network feeder group overloads.

21 Q. WHAT IS THE RISK OF OPERATING WITH THESE FORECASTED
22 OVERLOADS?

23 A. The risk of operating with these overloads in
24 place is that we will be forced to operate outside of

1 the N-1 design criteria. This means that in the event
2 of a single contingency (loss of transformer, feeder,
3 bus section, etc.), the remaining equipment would be
4 overloaded to the point that Pepco would have to shed
5 customer load immediately or risk permanently
6 damaging or destroying electric system equipment
7 should that event continue or an additional failure
8 occur. Such events can also lead to a catastrophic
9 failure, extensive customer outages and present
10 unacceptable safety conditions to customers, employees
11 and the general public. The lead time for a facility
12 of this type is nominally 4 years and requires that a
13 significant financial and resource allocation be
14 undertaken 2 to 3 years in advance, as Pepco has done.

15 Q. PLEASE DISCUSS THE BASIC PROJECT SCOPE OF THE
16 NORTHEAST SUBSTATION SYSTEM AND THE LEAD TIMES
17 NECESSARY TO SUPPORT ORDERLY, ON TIME, PERFORMANCE.

18 A. The information below in Table 2 identifies major
19 milestones within the project scope. These milestone
20 dates show the expected lead times to complete the
21 scope of work.

1 **Table 2**

<u>Project Scope</u>	<u>Items</u>	<u>Actual or Forecast Milestone Start Date</u>	<u>Actual or Forecast Milestone Completion Date</u>
Site Location	Load Center Study	Preliminary Identification 2000	Confirmation 2003
Site Acquisition	Land Purchase	Investigations Sept. 2000	Settlement Oct. 2003
Professional Services	Architect/Engineer Selection Station & Subtransmission	Request for Proposals Station: Aug. 2004 Subtransmission : Dec. 2004	Award Station: Dec. 2004 Subtransmission: Aug. 2005
Licensing	District of Columbia Large Track Review	Submission Oct 2004	Approval June 2005
Substation & Equipment	Station Construction	Mobilization Dec. 2005	Completion June 2007
	Major Equipment Procurement	Purchase Orders Aug. – Oct. 2005	Last Delivery Dec. 2006
69kV Subtransmission Supply	Underground Duct Bank & Conduit	Mobilization Feb. 2006	Completion April 2007
	Electric Conductor	Delivery & Mobilization February 2007	Completion June 2007
Network Feeder Installation and Load Transfers	13 kV Distribution Network	First Feeder Group Cutover June 2007	Last Feeder Group Cutover June 2008

2 The project scope and milestones define an
3 overall eight year duration beginning with the site
4 location investigations and concluding with the load
5 transfers to the first two transformers in the
6 Northeast Substation System.

7 The scope of work accomplished from site
8 acquisition through load transfers requires four
9 years. PEPCO (E)-2 is a project summary schedule that
10 shows the durations and logic of the major activity
11 groups in the project and shows the overall project
12 timeline.

1 Q. PLEASE IDENTIFY THE MAJOR ELECTRIC SYSTEM PLANT AND
 2 EQUIPMENT COMPONENTS THAT WILL BE USED IN THE
 3 NORTHEAST SUBSTATION SYSTEM

4 A. The major substation system plant and equipment
 5 are described below in Table 3.

6 **Table 3**

<u>Electric System Plant and Equipment</u>	<u>Scope</u>	<u>Quantity</u>
Substation Equipment	Transformers 50 MVA 69/13 kV	Two Transformers
	Switch Gear Six Bus Sections, 1,000 MVA	Six Bus Sections
Subtransmission System	Conductor 69kV 1,250 KCM EPR	Two (3 phase) Circuits of Conductor 124,000 Linear Feet, about 23 miles
	Conduit, Duct Bank and Manholes	Sixteen Way Duct Bank: Consisting of Concrete Encased Fiberglass Conduit. About 60 miles of Conduit within 3.8 miles of Duct Bank. Manholes: 22 Concrete Manholes
Network Feeder	Conductor, Conduit and Duct Bank	Initial Phase 3 each (2007) Second & Third Phases 7 each (2008) Final Installations 4 each (2009)

7 Q. PLEASE DESCRIBE THE NORTHEAST SUBSTATION BUILDING AND
 8 GENERAL SITE AND EQUIPMENT PLACEMENT.

9 A. The station is constructed of poured in place
 10 concrete with architectural design, finishes and
 11 landscaping appropriate to harmonize with the
 12 community. The substation is completely enclosed in
 13 order to eliminate industrial appearance of the
 14 installation, enhance the use and increase the value
 15 of the general area. The building and improvements

1 are sited on 2.2 acres. The station building is
2 nominally 210 feet wide, 50 feet high and 161 feet
3 deep. The interior of the building contains
4 approximately 27,000 square feet on the main floor
5 with two additional floors designed for station
6 equipment and facilities.

7 PEPCO (E)-3 provides the following drawings and
8 illustrations:

- 9 • Architectural rendering of the Northeast
10 Substation
- 11 • Equipment Plan
- 12 • Equipment Elevations

13 Q. PLEASE DISCUSS THE SUBTRANSMISSION SYSTEM THAT WILL
14 SUPPLY 69KV ELECTRICITY TO THE NORTHEAST SUBSTATION.

15 A. The Subtransmission System is designed to supply
16 a separate, three phase, 69kV feeder circuit to each
17 of the transformers to be installed in the substation.
18 As with the substation, where the first two, of a
19 total of four, transformers are to be installed, two
20 of a total of four subtransmission feeder circuits
21 will initially be installed. Each feeder circuit will
22 occupy three conduit cells, one for each electric
23 phase of the 69kV circuit. In total, the duct bank
24 contains sixteen conduit cells. Twelve cells will

1 supply the eventual four transformers of the Northeast
2 Substation. The remaining cells are for communication
3 lines between the substations at each end of the
4 circuits.

5 The duct bank is constructed of poured in place
6 concrete encasing sixteen separate five inch diameter
7 fiberglass conduits. The duct bank runs from the
8 Benning Substation to the Northeast Substation, a
9 distance of approximately 3.8 miles. This duct bank,
10 nominally four feet by four feet, is constructed
11 underground at depths varying from approximately
12 fifteen feet to three and one half feet. In total,
13 the duct bank contains over 1.25 million cubic feet of
14 concrete and 60 miles of conduit.

15 The subtransmission system requires the
16 construction of 22 concrete manholes that are
17 approximately 6 feet wide by 15 feet long with a
18 minimum 6.5 feet up to a maximum of about 8 feet in
19 height.

20 PEPCO (E)-4 provides the following drawings and
21 illustrations:

- 22 • Section View at Typical Duct Bank
- 23 • Section Diagram of Conductor Cable
- 24 • Manhole Details, Typical General Arrangement.

1 The Subtransmission System originates at the
2 Pepco Benning Substation, which is the closest point
3 on the electric system with 230kV transmission
4 voltage. The use of 230kV assures the highest level
5 of supply reliability within the Pepco system for a
6 distribution substation. The 230kV is transformed into
7 69kV at the Benning Substation and is then used to
8 supply the Northeast Substation.

9 Q. PLEASE DESCRIBE THE NETWORK FEEDER SYSTEM THAT
10 CONNECTS THE NORTHEAST SUBSTATION TO THE CUSTOMERS.

11 A. The Network Feeder System operates at 13kV,
12 receiving electricity from the substation transformers
13 and distributing it to customers and, through high
14 tension connections, to other 13kV feeders in the
15 underground network. The initial phase of the network
16 feeder system will be in service by June 2007 and will
17 transfer existing load from substation 133 to the
18 Northeast Substation using the existing East High
19 Tension Group Feeders 14012, 14013 and 14024. This
20 work will entail the construction of approximately 163
21 feet of eight way duct bank and the installation of
22 approximately 1,400 feet of three conductor cable.

23 The second and third phases of the Network Feeder
24 System will be completed by June 2008. This larger

1 system will include the installation of one
2 distribution and 6 network feeders and require the
3 construction of approximately 8,750 feet of eight way
4 duct bank and the installation of approximately 63,000
5 feet of three conductor cable. This work includes the
6 installation of new feeder groups originating at the
7 Northeast Substation and transferring load from
8 Substations 52 and 161. This installation is
9 estimated to cost approximately \$21.3 million. This
10 cost is not included in the test year rate making
11 adjustment proposed by Mr. VonSteuben in this
12 proceeding. Additional network feeder work will be
13 undertaken as new load develops and the third and
14 fourth transformers are added to the Northeast
15 Substation.

16 Q. PLEASE IDENTIFY THE ESTIMATED COST OF THE NORTHEAST
17 SUBSTATION SYSTEM, ITS CURRENT STATE OF COMPLETION AND
18 ITS PLANNED IN-SERVICE DATES. ALSO PLEASE PROVIDE THE
19 PROJECT COSTS FOR COMPLETING THE NORTHEAST SUBSTATION
20 SYSTEM.

21 A. The cost, percent complete and actual cost to
22 date at August 2006 are shown below on Table 4.

1 **Table 4**

<u>Substation Component And In-service Dates</u>	<u>Estimated Cost at Completion 2007 Construction Budget</u>	<u>Status / Percent Complete September 2006</u>	<u>Actual Cost October 2006</u>
Substation & Equipment In Service June 2007	\$30,867,000	Substation Building 57% Substation Equipment 41%	\$16,253,000
Subtransmission System In Service June 2007	\$36,807,000	Total System 17%	\$7,176,000
Network Feeder System In Service Initial Phase June 2007 2 nd & 3 rd Phases June 2008	\$21,801,000	Total System 5%	\$107,000
Land	\$4,400,000	Complete	\$4,400,000
Totals	\$93,875,000	Overall Assessment 38%	\$27,936,000

2 The construction costs by year for the Northeast Substation
3 System are shown in Table 5.

Table 5

<u>Year</u>	<u>Substation & Equipment</u>	<u>Subtransmission System</u>	<u>Network Feeder System</u>	<u>Substation Land</u>	<u>Total Cost per year</u>
2003	0	0	0	\$4,400,000	\$4,400,000
2004	\$459,000	0	0	0	\$459,000
2005	\$5,638,000	\$1,007,000	0	0	\$6,645,000
2006	\$18,500,000	\$14,100,000	\$850,000	0	\$33,450,000
2007	\$6,270,000	\$21,700,000	\$13,591,000	0	\$41,561,000
2008	0	0	\$7,360,000	0	\$7,360,000
Total	\$30,867,000	\$36,807,000	\$21,801,000	\$4,400,000	\$93,875,000

1 Q. HAS PEPCO MET OR EXCEEDED ALL DESIGN AND CONSTRUCTION
2 REQUIREMENTS AND OBTAINED ALL REQUIRED PERMITS FOR THE
3 NORTHEAST SUBSTATION SYSTEM?

4 A. Pepco has met or exceeded all the design and
5 construction requirements for the project and has
6 received all permits to construct the Northeast
7 Substation System. In addition to meeting all
8 requirements the installation of the substation will
9 support community and economic development of the area
10 by assuring that there is adequate and reliable
11 electric power to the District of Columbia and its
12 residents.

13 Q. WILL THE NORTHEAST SUBSTATION COSTS BE OFFSET IN ANY
14 WAY BY INCREASED REVENUES RESULTING FROM SALES IN THIS
15 AREA OF THE DISTRICT?

16 A. No. The initial phase of the project will serve
17 the load which existed in the test year proposed in
18 this proceeding. This project will not serve new load
19 nor produce new sales. In the long run there is
20 little question that the load will grow in this area
21 of the District. That growth will occur over time and
22 the additional electric demand will require that the
23 third and fourth station transformers and supply
24 circuits be installed.

1 Q. PLEASE SUMMARIZE YOUR TESTIMONY CONCERNING THE
2 NORTHEAST SUBSTATION SYSTEM.

3 A. Our first responsibility is to provide safe and
4 reliable electric service to the District of Columbia
5 in an economic fashion to coincide with the needs of
6 our customers. As noted earlier in my testimony, we
7 have exhausted all other measures to maintain electric
8 system reliability and postponed the installation of
9 the Northeast Substation System until it is needed.
10 No further supply measures are available and the
11 project is proceeding as planned. The in-service date
12 of the Northeast Substation System will occur shortly
13 before the beginning of the rate effective period in
14 2007. The costs of the project are today reasonably
15 known and measurable. The progress to date has
16 identified and eliminated the vast majority of project
17 risks that could materially change the total cost.

18 Q. HAS THE COMMISSION EVER PROVIDED RATE BASE TREATMENT
19 FOR MAJOR PROJECTS SUCH AS THE NORTHEAST SUBSTATION
20 SYSTEM?

21 A. Yes, as discussed by Mr. VonSteuben in his
22 testimony at PEPCO (C), the Commission has
23 historically allowed rate base treatment for major
24 construction projects that would be in service by the

1 time rates set in the proceeding were in effect. As
2 noted by Mr. VonSteuben, the Commission's rationale in
3 allowing these adjustments was that since the plant
4 additions would be benefiting customers for the entire
5 rate effective period, it is appropriate for the
6 Company to earn a full return on its investment.

7 Q. DO THE FINANCIAL RECORDS OF THE COMPANY SHOW THE
8 EXPENDITURES FOR THE NORTHEAST SUBSTATION SYSTEM AS
9 ELECTRIC PLANT IN SERVICE OR AS CONSTRUCTION WORK IN
10 PROGRESS?

11 A. During the proposed test year, costs for the
12 Northeast Substation System are shown as CWIP. Mr.
13 VonSteuben's testimony includes the rate making
14 adjustments necessary to provide the revenue
15 requirement effect resulting from including these
16 costs in rate base.

17 Q. PLEASE ADDRESS THE ISSUE OF ELECTRIC DISTRIBUTION
18 ASSETS THAT ARE COMPLETE AND IN SERVICE FOR ALL OR A
19 PORTION OF THE TEST YEAR BUT ARE CONCURRENTLY RECORDED
20 AS CONSTRUCTION WORK IN PROGRESS DURING ALL OR A
21 PORTION OF THE TEST YEAR.

22 A. The Company is requesting rate base treatment
23 for distribution assets that are physically complete
24 and servicing customers during all or a portion of the

1 test year but that are shown on the books of the
2 company as CWIP during the same periods of the test
3 year. The costs of these assets, which are complete
4 and providing service to customers, are known and
5 measurable and are contained within the work
6 management records and the accounting records of the
7 Company.

8 Q. IS THE COMPANY REQUESTING TO INCLUDE CWIP IN RATE
9 BASE?

10 A. No. The Company is not requesting that the
11 Commission change its policy concerning including
12 assets that are under construction in rate base. The
13 Company in this instance is requesting that assets
14 that are complete and serving customers, but for
15 accounting purposes have not been reflected in EPIS,
16 be included in rate base.

17 Q. PLEASE DESCRIBE THESE ELECTRIC DISTRIBUTION ASSETS.

18 A. This group of assets consists of customer service
19 connections and the installation and replacement of
20 standard distribution electric equipment.

21 These assets are characterized as having short
22 construction durations ranging, literally, from a few
23 hours in the case of failed equipment replacements to
24 a few weeks or months for longer term additions,

1 relocations and reconstruction projects. These assets,
2 which have been in service during the test year of
3 these proceedings, remain for accounting purposes in
4 CWIP until the following accounting processes have
5 been completed:

- 6 • Asset closing and unitization into Pepco Units of
7 Property.
- 8 • A preset duration of ninety (90) days has expired
9 during which time these in service assets are
10 held open from closing to EPIS in order to
11 accumulate any final or delayed direct charge
12 that is a part of the cost of these assets. This
13 90 day period is referred to as "Buffer Days".

14 Q. PLEASE IDENTIFY THE ELECTRIC DISTRIBUTION ASSETS WHICH
15 SHOULD BE INCLUDED IN RATE BASE FOR THE MONTH OF
16 SEPTEMBER 2006.

17 A. PEPCO (E)-5 provides a listing of these assets by
18 their Work Breakdown Structure (WBS) elements for the
19 month of September 30, 2006. This exhibit separates
20 these assets into the two categories noted above,
21 Asset Closing & Unitization and Buffer Days. These two
22 groupings for September 2006 are summarized in Table
23 6.

Table 6.

<u>Category</u>	<u>Number of WBS Elements</u>	<u>Number of Work Requests Within the WBS Elements</u>	<u>Balance in CWIP at September 30, 2006</u>
Closing/Unitization	24	371	\$8,297,203
Buffer Days	21	424	\$11,295,343
Total			\$19,592,546

1 As discussed in Mr. VonSteuben's testimony the rate
 2 base treatment requested for these assets is the
 3 balance of \$16.9 million of the Work Requests in these
 4 two categories. The balance is based on a detailed
 5 study of jobs in these two categories over the nine
 6 month period from January through September of 2006.
 7 The costs of these two categories of assets are known
 8 and measurable and these type assets have been in
 9 service during the test year proposed for this
 10 proceeding.

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12 A. Yes.

William M. Gausman
Vice President – Asset Management PHI Power Delivery
Potomac Electric Power Company

Mr. Gausman is Vice President – Asset Management for Pepco Holdings, Inc. (PHI).

Mr. Gausman holds a Bachelor of Science Degree in Electrical Engineering Technology from Temple University (1974). As Vice President – Asset Management, Mr. Gausman is responsible for the engineering and design of all assets that support the transmission and distribution of electric service across the entire PHI service territory. He also oversees the development of the reliability program and the short and long-term electric system planning process for PHI.

Mr. Gausman joined Pepco in 1974 as a Project Engineer overseeing the construction of high voltage transmission facilities. He has served in various management positions with increasing responsibility for the operation, maintenance and construction of both the transmission and distribution systems. He served as Superintendent of Underground Lines from 1977 until 1988 and then as Manager of Electric System Operation and Construction. In 1998 he was promoted to General Manager Power Delivery, and in 2001 he was made General Manager – Asset Management. In August 2002, he was promoted to Vice President – Asset Management Pepco. After Pepco's merger with Conectiv he became Vice President Asset Management over the combined Pepco and Conectiv organization.

AFFIDAVIT

City of Washington)
District of Columbia) ss:

Before me, the undersigned Notary Public in and for the City of Washington, District of Columbia, this day personally appeared WILLIAM M. GAUSMAN, Vice President, Asset Management for Pepco Holdings, Inc., to me personally known, who stated under oath that the foregoing direct testimony and exhibits were prepared by him or under his direct supervision and control; that he has knowledge of the matters set forth in said direct testimony and exhibits; and that such matters are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 12th day of December, 2006 in the City of Washington, District of Columbia.


Notary Public

My Commission expires July 31, 2007

W.M. GAUSMAN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (E)-1

PEPCO (E)-1 Pg 2 of 4 Substation Capacity Utilization
 Northeast Substation - Forecast 2007



Substation Utilization Levels

- >100% of Capacity
- 90-100% of Capacity
- 80-89% of Capacity
- 70-79% of Capacity
- 60-69% of Capacity
- ≤ 59% of Capacity

Existing Load, Test Year









Northeast Substation 2007



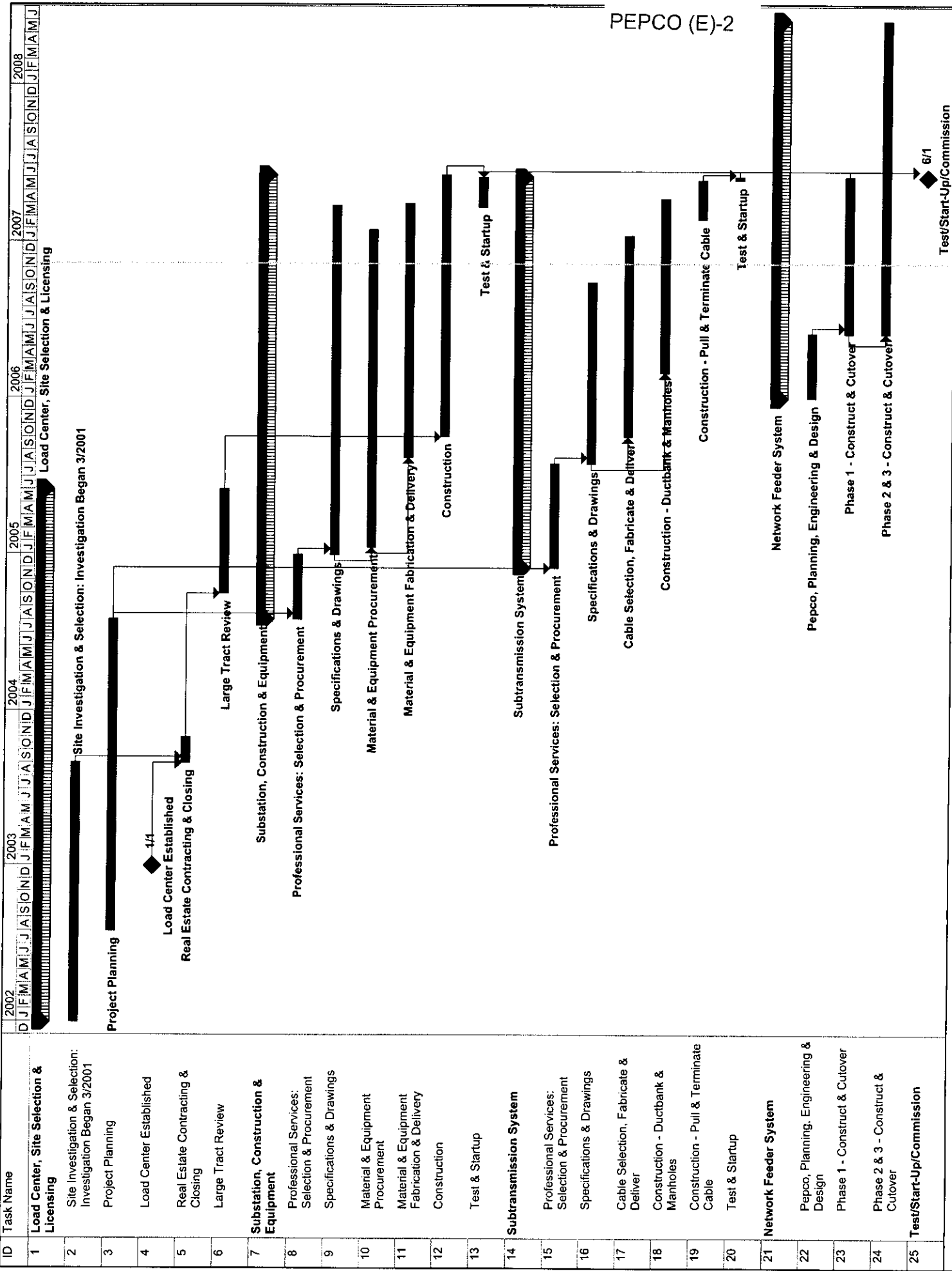
Northeast Substation 2008

Substation Utilization Levels

-  > 100% of Capacity
-  90-100% of Capacity
-  80-89% of Capacity
-  70-79% of Capacity
-  60-69% of Capacity
-  ≤ 59% of Capacity

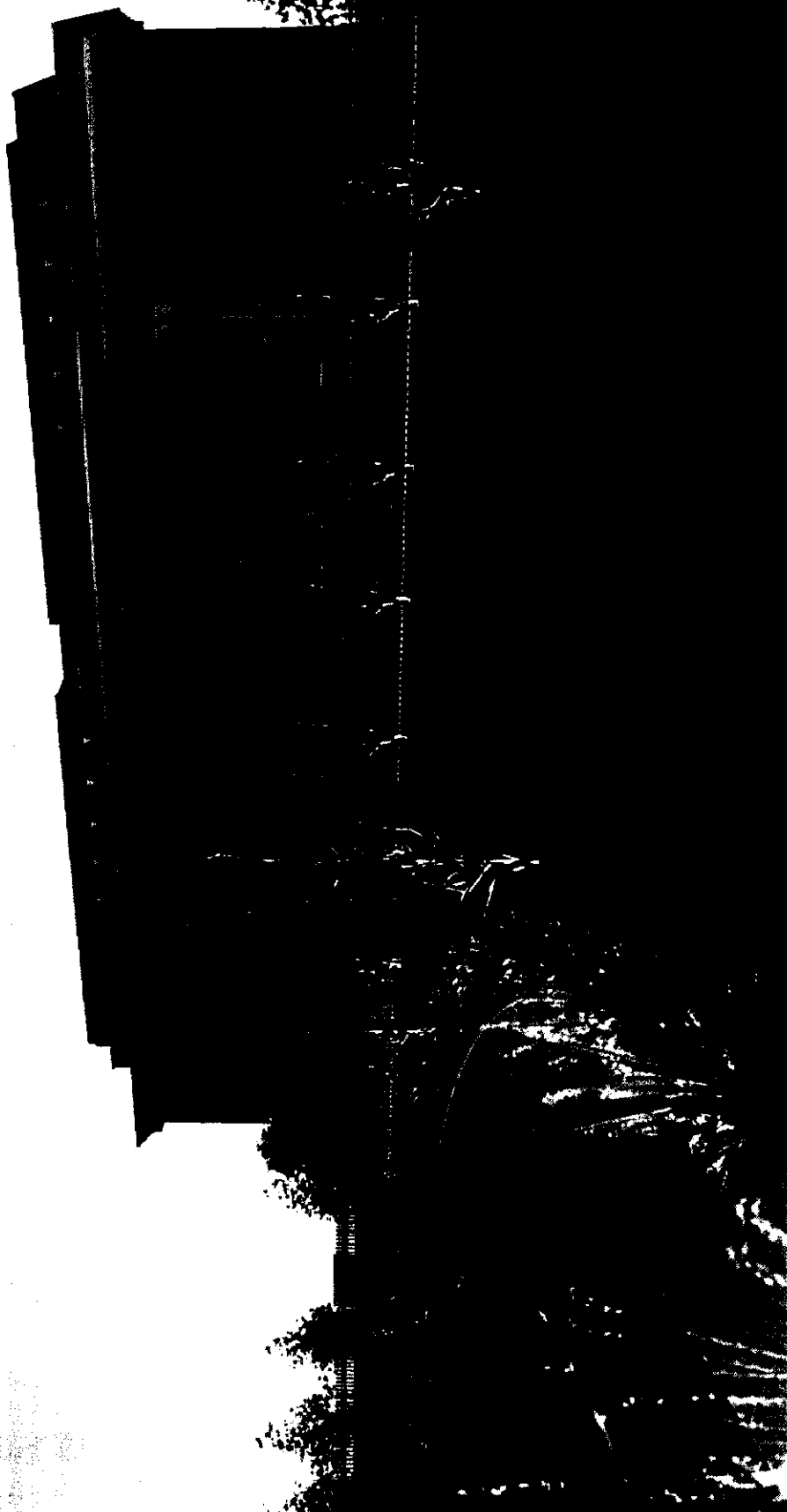
W.M. GAUSMAN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (E)-2

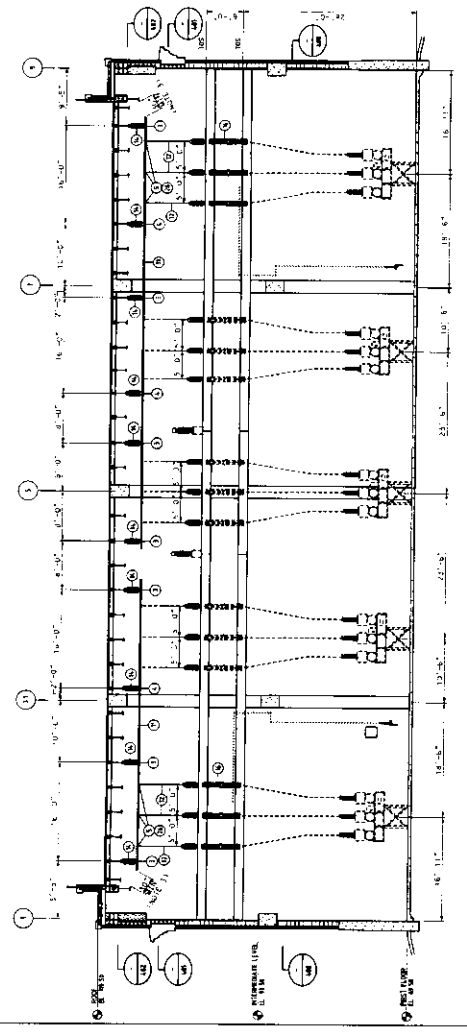


W.M. GAUSMAN
Direct Exhibit
D.C. P.S.C. - December, 2006

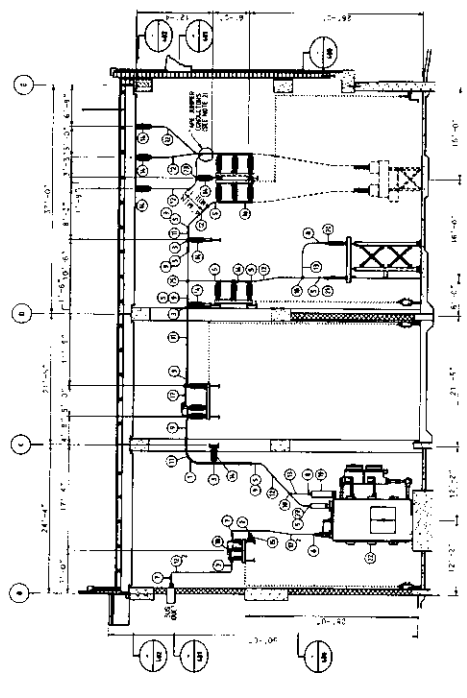
Introduced as:
PEPCO _____ (E)-3



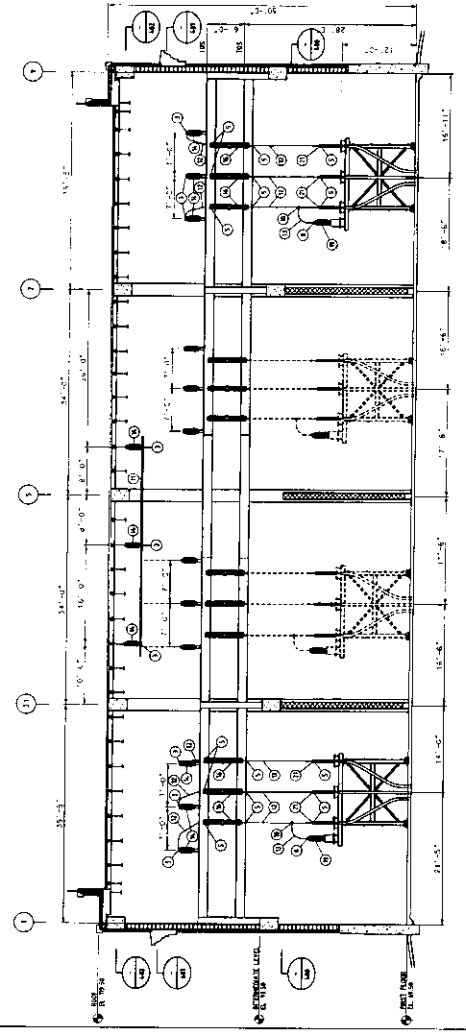
7E-212-403 0



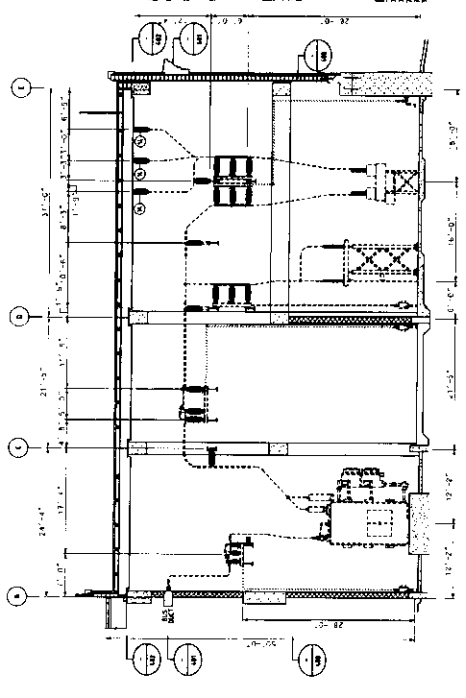
SECTION A-A



SECTION C-C



SECTION B-B



SECTION D-D

NOTES
 1. DIMENSIONS SHALL BE METRIC UNLESS OTHERWISE SPECIFIED.
 2. ALL DIMENSIONS SHALL BE TO THE CENTERLINE OF THE EQUIPMENT UNLESS OTHERWISE SPECIFIED.
 3. DIMENSIONS SHALL BE TO THE CENTERLINE OF THE EQUIPMENT UNLESS OTHERWISE SPECIFIED.

LEGEND
 1. SEE SHEET 7E-212-401 FOR THE LOCATION OF THE EQUIPMENT.
 2. SEE SHEET 7E-212-402 FOR THE LOCATION OF THE EQUIPMENT.
 3. SEE SHEET 7E-212-403 FOR THE LOCATION OF THE EQUIPMENT.

REFERENCE DRAWINGS
 1. SEE SHEET 7E-212-401 FOR THE LOCATION OF THE EQUIPMENT.
 2. SEE SHEET 7E-212-402 FOR THE LOCATION OF THE EQUIPMENT.
 3. SEE SHEET 7E-212-403 FOR THE LOCATION OF THE EQUIPMENT.

WORK REQ. NO.	DATE
NORTHEAST SUBSTATION #212	
89713 8KV GASEL SUBSTATION	
EQUIPMENT SECTIONS	

PEPCO (E)-3
 Page 3 of 3

POTOMAC ELECTRIC POWER CO.
 (CHECKED) (DESIGNED) (DRAWN) (DATE)

RELEASED FOR CONSTRUCTION

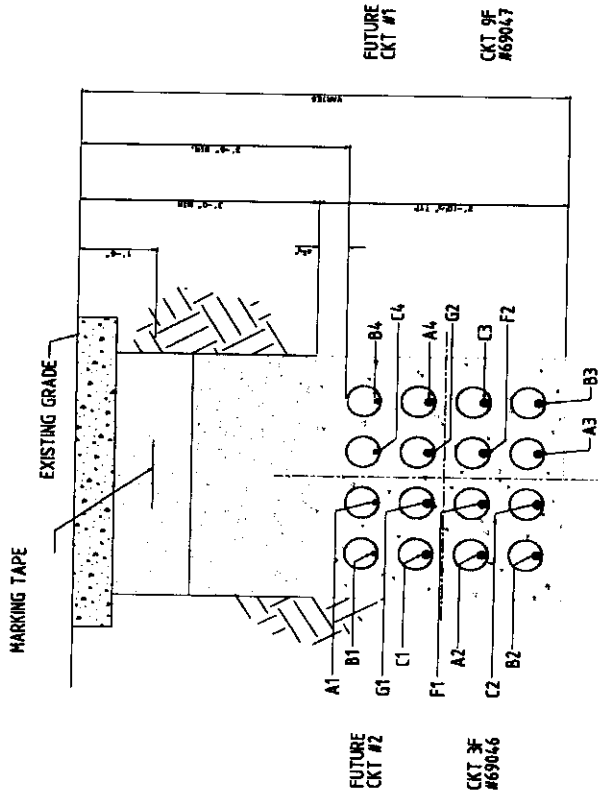
THIS DRAWING IS COMPUTER GENERATED. - DO NOT

NO.	DESCRIPTION	DATE	BY	CHECKED BY

OVERLAND CONTRACTING
 INC.
 PROJECT NO. 212-403
 DRAWN BY: [Name]
 CHECKED BY: [Name]
 DATE: [Date]

W.M. GAUSMAN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (E)-4



LOCATION OF CABLES
IN DUCT BANK
LOOKING TOWARDS BENNING STATION

NTS

TYPICAL DUCT BANK

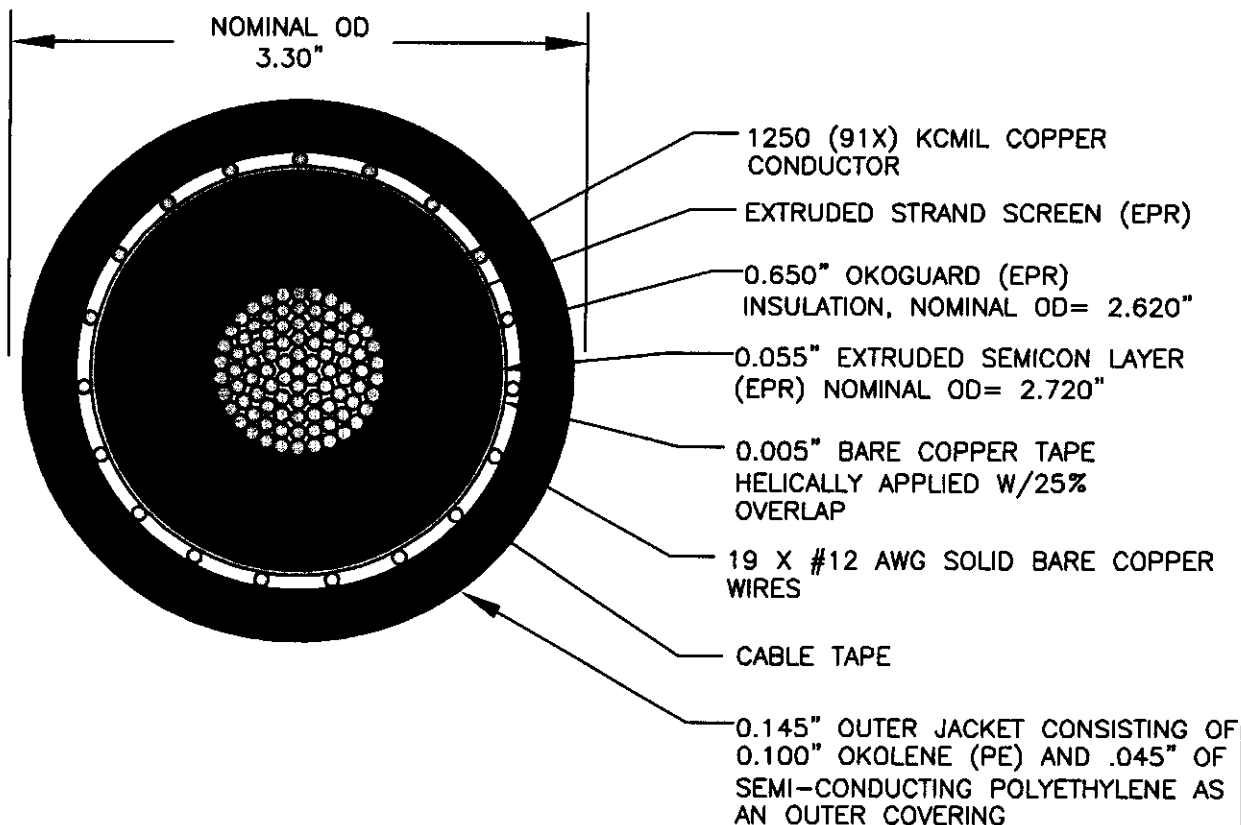
NOT FOR CONSTRUCTION

THIS DRAWING GENERATED USING MICROSTATION. DO NOT REVISE MANUALLY.

DATE: 04/11/00
DRAWN BY: J. J. [unreadable]
CHECKED BY: [unreadable]
APPROVED BY: [unreadable]

NO.	DATE	BY	REVISIONS
1	04/11/00	J. J. [unreadable]	ISSUED FOR CONSTRUCTION
2			
3			
4			
5			

DATE PLOTTED: 04/11/00
PLOT SCALE: 1"=10'



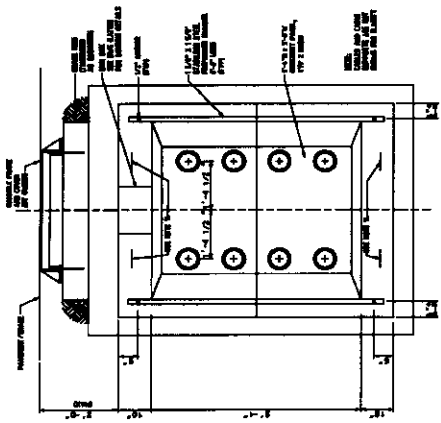
CABLE WEIGHT = 8.0 LBS./FT.

POTOMAC ELECTRIC POWER CO.
OKONITE INQUIRY KC 33-50035-A

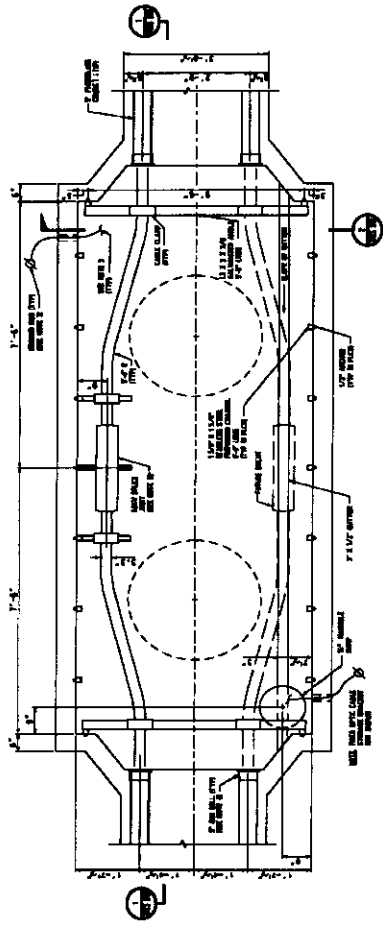
1/C 1250 KCMIL COPPER, OKOGUARD, COPPER TAPE & WIRES, OKOLENE 69 kV CABLE

THE OKONITE COMPANY
RAMSEY, N.J. U.S.A.

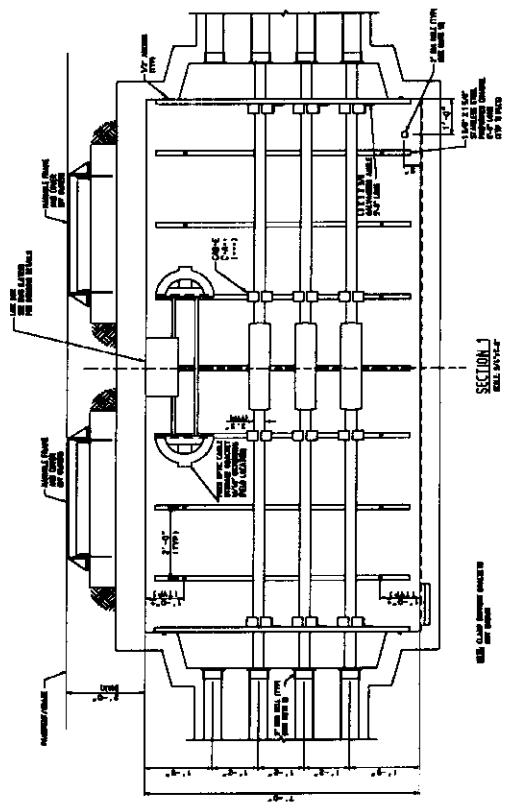
DATE 5/3/05	SCALE NTS	REVISIONS
DR. JVF/gc	APP. JVF	DRAWING NUMBER
DIR OLA	EST. NUMBER 36298	CS-11085



SECTION 2
MANHOLE - PLAN VIEW



SECTION 1
MANHOLE - PLAN VIEW



SECTION 3
MANHOLE - ELEVATION VIEW

MANHOLE DETAILS

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

NO.	DATE	DESCRIPTION	BY	CHKD.
1	01/10/06	ISSUED FOR CONSTRUCTION	...	...

THIS DRAWING GENERATED USING MICROSTATION. DO NOT REVISE MANUALLY.

W.M. GAUSMAN
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (E)-5

Asset Closing & Unitization
30-Sep-06

YEAR	MO	COMPANY	WBS ELEMENT	WBS DESCRIPTION	CWIP BALANCE of WBS	No. of WR's
2006	9	7000	RDLPCM05.01.01	ST. & HIGHWAY IMPROV.	\$1,587,065.63	4
2006	9	7000	RDLPCS01.01.01	OH RESID. INSTALL & HEAVY-UP - DC	\$99,773.84	57
2006	9	7000	RDLPCS01.02.01	UG RESID. INSTALL - DC	\$169,209.53	14
2006	9	7000	RDLPCS01.03.01	UG RESID. HEAVY-UP - DC	\$430,934.11	45
2006	9	7000	RDLPCS01.04.01	NEW COMMER. SERVICES - DC	\$282,472.61	30
2006	9	7000	RDLPCS01.05.01	HU COMMER. SERVICES - DC	\$343,706.96	14
2006	9	7000	RDLPCS01.12	REPLACE SERVICE CABLE - PLAN	\$1,358.61	1
2006	9	7000	RDLPCS01.12.01	REPLACE SERVICE CABLE	\$1,800.22	1
2006	9	7000	RDLPCS02.01.01	URD RESID. SERVICES - DC	\$63,323.40	122
2006	9	7000	RDLPCS03.01.01	CUSTOMER REQUESTED RELOCATION	\$11,666.92	4
2006	9	7000	RDLPCS06.01.01	NTWK RESID. SERVICES - DC	\$37,942.84	2
2006	9	7000	RDLPCS06.02.01	NTWK COMMER. SERVICES - DC	\$2,482,276.01	21
2006	9	7000	RDLPLM07.01.01	DIST. SYS IMPRVMNTS & ADDS	\$358,976.73	2
2006	9	7000	RDLPLM07.20.01	FDR LOAD RELIEF - DC - LINES	\$1,408,116.06	6
2006	9	7000	RDLPRM03.01.01	CABLE FAILURES IN DUCTS	\$203,994.37	10
2006	9	7000	RDLPRM03.02.01	HEAVY-UP MAINLINE	\$34,263.84	1
2006	9	7000	RDLPRM03.05.01	POLE REPLMNT OR TRUSS	\$22,625.06	4
2006	9	7000	RDLPRM03.06.01	RELIABILITY IMPRVMNTS	\$49,733.87	2
2006	9	7000	RDLPRM03.07.01	REPL. EQUIP.	\$165,926.59	10
2006	9	7000	RDLPRM03.07.02	REPL. EQUIP. - UG EQUIP	\$115,776.44	8
2006	9	7000	RDLPRM03.07.04	REPL. EQUIP. - OH EQUIP (FSC)	\$69,952.29	6
2006	9	7000	RDLPRM03.08.01	DIST. SYS - CHANGES	\$129,702.15	4
2006	9	7000	RDLPRM03.09.01	URD SPOT REPLMNT	\$59,751.00	1
2006	9	7000	RDSPRD08.09.01	BATTERY AND CHARGER REPLMNT	\$166,853.76	2
TOTAL					\$8,297,202.84	371

Buffer Days
30-Sep-06

YEAR	MO	COMPANY	WBS ELEMENT	WBS DESCRIPTION	CWIP BALANCE of WBS	No. of WR's
2006	9	7000	RDLPCM05.01.01	ST. & HIGHWAY IMPROV.	\$1,439,574.94	2
2006	9	7000	RDLPCS01.01.01	OH RESID. INSTALL & HEAVY-UP - DC	\$103,545.80	33
2006	9	7000	RDLPCS01.02.01	UG RESID. INSTALL - DC	\$518,627.38	36
2006	9	7000	RDLPCS01.03.01	UG RESID. HEAVY-UP - DC	\$520,721.00	91
2006	9	7000	RDLPCS01.04.01	NEW COMMER. SERVICES - DC	\$491,132.00	42
2006	9	7000	RDLPCS01.05.01	HU COMMER. SERVICES - DC	\$115,723.93	9
2006	9	7000	RDLPCS02.01.01	URD RESID. SERVICES - DC	\$105,738.58	6
2006	9	7000	RDLPCS03.01.01	CUSTOMER REQUESTED RELOCATION	\$20,484.82	1
2006	9	7000	RDLPCS06.01.01	NTWK RESID. SERVICES - DC	\$11,983.63	1
2006	9	7000	RDLPCS06.02.01	NTWK COMMER. SERVICES - DC	\$3,729,505.82	23
2006	9	7000	RDLPLM07.20.01	FDR LOAD RELIEF - DC - LINES	\$26,256.57	1
2006	9	7000	RDLPPM07.02.01	PJM REACTIVE IMPRMNT (CAPS) DC - LINE:	\$213,548.85	6
2006	9	7000	RDLPRM03.01.01	CABLE FAILURES IN DUCTS	\$2,252,264.89	85
2006	9	7000	RDLPRM03.04.01	NETWORK IMPRVMT	\$16,578.13	1
2006	9	7000	RDLPRM03.05.01	POLE REPLMNT OR TRUSS	\$11,188.67	1
2006	9	7000	RDLPRM03.06.01	RELIABILITY IMPRVMTS	\$62,882.21	3
2006	9	7000	RDLPRM03.07.02	REPL. EQUIP. - UG EQUIP	\$1,209,067.95	42
2006	9	7000	RDLPRM03.07.04	REPL. EQUIP. - OH EQUIP (FSC)	\$202,538.42	34
2006	9	7000	RDLPRM03.08.01	DIST. SYS - CHANGES	\$95,332.02	5
2006	9	7000	RDSPRD08.02.01	4 KV SUB. AUTOMATION	\$138,436.12	1
2006	9	7000	RDSPRD08.35.01	SUB. ROOF REPLMNTS	\$10,211.46	1
TOTAL					\$11,295,343.19	424

M. E. BROWNING
Direct Testimony
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____ (F)

POTOMAC ELECTRIC POWER COMPANY

BEFORE THE
PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA
DIRECT TESTIMONY OF MARK E. BROWNING
FORMAL CASE NO. _____

1 Q. PLEASE STATE YOUR NAME AND POSITION.

2 A. My name is Mark E. Browning. I am Director -
3 Rates and Technical Services for Pepco Holdings, Inc.
4 (PHI).

5 Q. FOR WHOM ARE YOU TESTIFYING?

6 A. I am testifying in this case on behalf of Potomac
7 Electric Power Company ("Pepco", the "Company").

8 Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND
9 AND EXPERIENCE?

10 A. I received a Bachelor of Science Degree in
11 Economics from the Massachusetts Institute of
12 Technology in 1974 and a Doctor of Philosophy in
13 Economics in 1982 from the University of Michigan. From
14 1978-1982, I was a Lecturer/Assistant Professor at the
15 University of Illinois.

16 In July 1982, I joined the Potomac Electric Power
17 Company as a Senior Analyst in the Load Forecast
18 Department. In this position, I worked on the
19 Company's analyses of the local economy. In March
20 1983, I was promoted to Load Forecast Supervisor and
21 was responsible for developing the Company's long term
22 sales and peak demand forecasts, as well as the

1 Company's long term economic forecasts.

2 In September 1984, I was promoted to Manager of
3 the Load Forecast Department. In this position I
4 supervised the development of the Company's forecasts
5 of sales, peak demand, and the local economy.

6 In May of 1995, I was promoted to Manager, Rates
7 and Regulatory Practices. In this position, I was
8 responsible for the Company's Load Forecast Department,
9 Cost Allocation Department, Rate Design Department and
10 Revenue Analysis Department. In January 1999, I was
11 promoted to General Manager - Rates and Regulatory
12 Practices. In January, 2004 I was named Director -
13 Rates and Technical Services.

14 I was a member of the PJM Load Analysis
15 Subcommittee from 1984 through 1995 and was chairman of
16 the committee from 1985 through 1987. I was also a
17 member of the North American Electric Reliability
18 Council's Load Forecasting Working Group from 1985-
19 1987. In the fall of 1992, I served as a member of the
20 Maryland Governor's Revenue Advisory Council.

21 I am a member of the Edison Electric Institute's
22 Rates and Regulatory Affairs Committee. I have
23 previously testified before the District of Columbia
24 Public Service Commission and the Maryland Public
25 Service Commission concerning the Company's load

1 forecasts, cost of service studies and rate proposals.
2 I have also filed testimony at the Federal Energy
3 Regulatory Commission and at the Surface Transportation
4 Board of the United States Department of
5 Transportation.

6 Q. WHAT IS THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?

7 A. I present a jurisdictional cost allocation for
8 distribution service which assigns system costs to the
9 District of Columbia jurisdiction for the proposed test
10 period consisting of the 12 months ending September 30,
11 2006. This allocation, along with the revenue
12 requirements study contained in Mr. VonSteuben's
13 testimony and the rate of return analysis contained in
14 Dr. Morin's testimony, serves as the basis for the
15 determination that the Company's distribution service
16 requires an increase in base rates of \$50.5 million in
17 order to have an opportunity to earn an adequate rate
18 of return.

19 In addition to the jurisdictional cost allocation
20 study, I present the results of the class of business
21 embedded cost allocation study for distribution service
22 for the period consisting of the 12 months ending
23 September 30, 2006 which assigns jurisdictional costs
24 among the various classes of business in the District
25 of Columbia.

1 Further, consistent with the Commission's ruling
2 in Order No. 10646 in Formal Case No. 939, I provide
3 the weather corrected sales and revenues used in the
4 Company's cost of service study. I also present a
5 proposed sales adjustment to test year revenues to
6 reflect the effect of higher supply prices on
7 distribution sales. Finally, I discuss the Company's
8 proposal for a Bill Stabilization Adjustment ("BSA").

9 This testimony and accompanying exhibits were
10 prepared by me or under my direct supervision and
11 control. The source documents for my testimony are
12 Company records, public documents, and my personal
13 knowledge and experience.

14 Q. PLEASE SUMMARIZE THE JURISDICTIONAL COST ALLOCATION FOR
15 DISTRIBUTION SERVICE YOU HAVE PREPARED FOR THIS CASE.

16 A. I present the District of Columbia jurisdictional
17 allocation study contained in PEPCO (F)-1 for the
18 proposed test period in this case, the 12 months ending
19 September 30, 2006. This test period contains six
20 months of actual data and six months of projected data.
21 This allocation shows the assignment of distribution
22 costs between the District of Columbia and the
23 remainder of Pepco's retail and wholesale customers
24 (Other). As part of this study, subtransmission costs
25 are allocated based on the Average and Excess Non-

1 Coincident Peak Demand method (AED(NCP)). The summary
2 results, which show an unadjusted test year rate of
3 return of 6.79%, are shown on page 23 of PEPCO (F)-1.
4 I provide these unadjusted results to Mr. VonSteuben
5 for his cost of service analysis.

6 Q. HOW ARE SYSTEM DISTRIBUTION COSTS DEVELOPED?

7 A. Pepco's overall costs consist of both
8 transmission costs and distribution costs. The
9 majority of these costs are contained in Federal Energy
10 Regulatory Commission (FERC) Accounts specific to
11 distribution and transmission. Distribution plant
12 costs are those costs contained in the FERC
13 distribution accounts, numbers 360 to 373. Distribution
14 expense costs are those costs contained in the FERC
15 distribution accounts (inclusive of Customer Accounts
16 Expenses, Customer Service and Informational Expenses,
17 and Sales Expenses), numbers 580 through 916. The
18 exception to this is Account 904, Uncollectible
19 Accounts, which has to be functionalized. Transmission
20 plant costs are from the FERC's transmission accounts,
21 numbered 350 to 359. Transmission expense costs are
22 those costs contained in the FERC transmission
23 accounts, numbers 560 through 573.

24 Other costs, such as General Plant and
25 Administrative and General Expenses, are not contained

1 in FERC accounts that are specific to transmission and
2 distribution functions and thus have to be
3 functionalized to produce the distribution related
4 portion of these costs. PEPCO (F)-2 contains a listing
5 of the rate base and expense items in the cost study
6 and provides a short description of the method used to
7 identify the distribution related portion of these
8 costs.

9 Q. WHAT IS THE OBJECTIVE OF THE JURISDICTIONAL COST
10 ALLOCATION STUDY?

11 A. The objective is to develop the distribution cost
12 of service for the District of Columbia jurisdiction
13 for the test period. The procedure is to assign or
14 allocate to the District of Columbia the amounts of
15 distribution rate base, revenues, operation and
16 maintenance expenses, depreciation, amortization, and
17 taxes to determine the return on rate base for the
18 District of Columbia. These costs are then adjusted
19 for ratemaking purposes by Mr. VonSteuben.

20 Q. PLEASE DESCRIBE THE METHODS USED IN THE COST ALLOCATION
21 STUDY.

22 A. The Company's cost allocation methods recognize
23 that facilities which serve customers or groups of
24 customers in a local area are directly assigned to that
25 jurisdiction. The methods also recognize that

1 facilities which serve all customers in all
2 jurisdictions are allocated to jurisdictions on the
3 basis of the most relevant and appropriate allocation
4 factor.

5 The majority of Pepco's distribution related plant
6 costs are primary and secondary facilities, and include
7 lines, substations, transformers, and meters. These
8 facilities serve customers or groups of customers in a
9 local area and are directly assigned to the
10 jurisdiction which uses them. This is a well
11 established practice and has been used in District of
12 Columbia cost allocation filings and rate cases in the
13 past.

14 A smaller portion of Pepco's distribution plant
15 facilities are subtransmission facilities. The
16 subtransmission facilities carry electricity through
17 both jurisdictions in the Pepco service territory and
18 serve customers in both jurisdictions. As such, these
19 facilities are allocated to jurisdictions using the
20 (AED) NCP method. The (AED) NCP method has been used
21 to allocate subtransmission facilities in previous
22 District of Columbia rate cases.

23 Q. PLEASE DESCRIBE THE COMPONENTS OF THE JURISDICTIONAL
24 COST ALLOCATION STUDY PROVIDED AS PEPSCO (F)-1.

1 A. The jurisdictional cost allocation study is
2 divided into six sections. Section One contains the
3 grouping of rate base items to functions for allocation
4 purposes. Section Two contains the allocation or
5 direct assignment of the rate base items to District of
6 Columbia and to the other jurisdictions. Section Three
7 contains the grouping of operating expenses to
8 functions for allocation purposes. Section Four
9 contains the allocation or direct assignment of these
10 expenses to the District of Columbia and the other
11 jurisdictions. Section Five contains the summary of
12 the cost allocation to jurisdictions. Section Six
13 contains the derivation of the AED(NCP) subtransmission
14 allocation ratio used in allocating subtransmission
15 costs to the District of Columbia.

16 Q. PLEASE DESCRIBE THE FIRST STEP IN THE ALLOCATION
17 PROCESS.

18 A. The various elements of both rate base and
19 operating expenses are grouped into functional
20 categories depending on their use, or function, in
21 providing electric service. This step is shown in
22 Sections One and Three of the cost allocation exhibit
23 PEPCO (F)-1.

1 The functional categories used in the analysis of
2 plant investment and other rate base components are the
3 following:

4 (1) Subtransmission (consisting of specific
5 customer facilities and class facilities);

6 (2) General Distribution (consisting of
7 distribution substations, primary and
8 secondary lines, transformers, services,
9 meters, and equipment on customers' premises);

10 (3) Street Light and Traffic Signal Systems; and

11 (4) Common Use Facilities (consisting of
12 intangible items such as software licenses and
13 distribution related general plant items).

14 For operating expenses, additional categories are
15 necessary for functional analysis, namely:

16 (1) Customer Accounts Expenses,

17 (2) Sales Expenses, and

18 (3) Distribution Administrative and General
19 Expenses.

20 The costs in the test period (12 months ending
21 September 30, 2006) are grouped into these functional
22 categories on the basis of the most recent detailed
23 District of Columbia distribution service
24 jurisdictional allocation. The development of this
25 functional analysis for both rate base and operating

1 expenses facilitates the allocation of costs to
2 jurisdictions and the direct assignment of costs to
3 individual customers or groups of customers.

4 Q. WHAT IS THE NEXT STEP IN THE PROCEDURE?

5 A. The next step in the procedure is the allocation or
6 direct assignment of functional cost components to the
7 District of Columbia and the Other category. These
8 allocations are shown in Sections Two and Four of PEPCO
9 (F)-1.

10 Q. PLEASE EXPLAIN THE ALLOCATION OF SUBTRANSMISSION COSTS
11 TO JURISDICTIONS.

12 A. The subtransmission functional amounts are
13 allocated based on the (AED) NCP method using the non-
14 coincident peak of 2005. This allocation method has
15 been used by Pepco for decades, and its use was
16 affirmed by the Commission in Formal Case No. 905,
17 Order No. 9868, in Formal Case No. 929, Order No.
18 10387, and in Formal Case No. 939, Order No. 10646.

19 Q. WHAT ITEMS ARE DIRECTLY ASSIGNED TO JURISDICTIONS?

20 A. Distribution plant (exclusive of the
21 subtransmission facilities) is assigned directly to
22 jurisdictions.

23 Allowance for Funds Used During Construction, which
24 is included in Plant in Service and Accumulated
25 Depreciation, is directly assigned from accounting

1 records to the District of Columbia and Other as
2 applicable.

3 Q. HOW WAS CASH WORKING CAPITAL DETERMINED?

4 A. Cash Working Capital was calculated by jurisdiction
5 using a lead-lag method as discussed by Ms. Hook.

6 Q. HOW WERE ACCUMULATED DEFERRED INCOME TAXES ASSIGNED OR
7 ALLOCATED?

8 A. Accumulated Deferred Income Taxes were directly
9 assigned or allocated on plant ratios, with adjustments
10 to incorporate the effect of state income taxes on the
11 allocation of federal deferred taxes, and, for
12 depreciation related deferred taxes, with adjustments
13 to account for the differences in depreciation rates
14 across jurisdictions.

15 Q. HOW WAS THE ALLOCATION OF FEDERAL DEFERRED TAXES
16 ADJUSTED FOR THE EFFECT OF STATE TAXES?

17 A. The amount of federal deferred income taxes is
18 affected by state income taxes, due to the
19 deductibility of the state taxes in the calculation of
20 the federal income tax. In the Company's
21 jurisdictional cost study, deferred state income taxes
22 are directly assigned to the taxing jurisdiction,
23 consistent with the assignment of the state income tax
24 expense. To allocate federal deferred taxes
25 appropriately, the effect of the state income tax on

1 the federal deferred tax is taken into account, by
2 reversing this state tax effect in the allocation
3 process, while maintaining the total balance of
4 deferred taxes. The results of this allocation are
5 shown on page 10 of PEPCO (F)-1.

6 Q. HOW HAVE YOU ACCOUNTED FOR THE EFFECTS OF DIFFERENT
7 JURISDICTIONAL DEPRECIATION RATES ON THE ALLOCATION OF
8 DEPRECIATION RELATED FEDERAL DEFERRED TAXES?

9 A. Depreciation related deferred taxes result from the
10 difference between the depreciation rates used for
11 booking the cost of service depreciation expense, and
12 the depreciation rate used for calculating depreciation
13 expense for the federal tax return - the tax-book
14 timing difference. The tax effect of this tax-book
15 timing difference in expense is a deferred tax, which
16 is accumulated over time. These accumulated deferred
17 taxes are a deduction from rate base. If depreciation
18 rates are different across jurisdictions, this results
19 in a variance in the tax timing difference across
20 jurisdictions, and thus a difference in the
21 accumulation of deferred taxes across jurisdictions.
22 To account for this, depreciation related deferred
23 taxes are first allocated on plant ratios, since it is
24 the depreciation of plant that generates the deferred
25 taxes. I then determine an adjustment to the

1 jurisdictional amounts that I develop in two steps.
2 First, I calculate the difference between the system
3 average accumulated depreciation rate (depreciation
4 reserve divided by plant in service) and the
5 jurisdictional average accumulated depreciation rate.
6 Second, I multiply the calculated jurisdictional
7 difference amounts by the federal tax rate, and that
8 amount is the jurisdictional adjustment to the deferred
9 tax balance.

10 Q. HOW WERE REVENUES BY JURISDICTIONS OBTAINED FOR THE
11 JURISDICTIONAL COST ALLOCATION?

12 A. Distribution Service Billing Month Revenues from
13 the sale of electricity were taken from Company
14 records. Other operating revenues were assigned
15 directly to jurisdictions, except rent and forfeited
16 discounts, which were directly assigned based on
17 detailed analyses.

18 Q. WERE TEST PERIOD REVENUES WEATHER CORRECTED FOR THE
19 JURISDICTIONAL COST ALLOCATION?

20 A. Yes, the test period base revenues were weather
21 corrected based on the Commission's ruling in Order No.
22 10646. Revenues were decreased by \$315,000 as a result
23 of the weather adjustment. I address the weather
24 correction method later in my testimony.

25 Q. HOW WERE OPERATION AND MAINTENANCE EXPENSES ALLOCATED?

1 A. Operation and maintenance expenses were also
2 functionalized based on the most recent detailed
3 distribution service expense assignment and allocated
4 to the District of Columbia based on plant ratios.
5 Customer accounts and sales expenses were assigned to
6 classes based on the 2004 detailed assignments and
7 allocated to jurisdictions based on the number of
8 customers in the test period.

9 Q. HOW WERE DEPRECIATION AND AMORTIZATION EXPENSES
10 ALLOCATED TO JURISDICTIONS?

11 A. Depreciation expenses were assigned to functions
12 based on test period depreciable plant and allocated to
13 jurisdictions using the appropriate allocation ratios
14 for each function. The Allowance for Funds Used During
15 Construction included in depreciation expense was
16 directly assigned. Amortization expense was
17 functionalized and allocated based on Plant in Service.

18 Q. HOW WERE TAXES ALLOCATED TO JURISDICTIONS?

19 A. District of Columbia Delivery Tax, District of
20 Columbia Reliable Energy Trust Fund, District of
21 Columbia Public Space Occupancy Surcharge, District of
22 Columbia Franchise Taxes on Income, District of
23 Columbia Business Improvement Tax, District of Columbia
24 Annual Report Filing Fee, District of Columbia Sales
25 and Use Tax, Maryland Income Taxes, Maryland Gross

1 Receipts Taxes, Maryland Delivery Tax, Maryland
2 Universal Service Charge, Maryland Filing Fee, Maryland
3 Environmental Trust, Montgomery County Fuel and Energy
4 Tax, and Maryland Use Tax were directly assigned to
5 jurisdictions. Property taxes were allocated to
6 jurisdictions using plant in service allocation
7 factors. Payroll taxes were allocated to jurisdictions
8 using the Operation and Maintenance less Administrative
9 and General allocation factor.

10 Q. HAVE YOU PREPARED A DISTRIBUTION CLASS OF BUSINESS COST
11 ALLOCATION STUDY.

12 A. Yes, I have prepared a class of business cost
13 allocation study for distribution service for the year
14 ending September 30, 2006, comprising six months actual
15 data and six months forecasted data. The results of
16 the class of business study are summarized in PEPCO
17 (F)-3.

18 Q. PLEASE DESCRIBE THE CLASS OF BUSINESS COST ALLOCATION
19 STUDY.

20 A. The class of business cost allocation study
21 determines the amount of rate base, revenues, expenses,
22 depreciation, amortization, taxes, and return for each
23 of the major classes of business. The study provides a
24 basis for comparing rates of return among classes and
25 comparing class rates of return to the overall

1 jurisdictional rate of return. In addition, the demand
2 and customer components of cost are developed for each
3 class.

4 The net income calculations include revenues,
5 operation and maintenance expense, depreciation
6 expense, amortization expense, taxes other than
7 federal, and federal income taxes.

8 The rate base calculations include plant in
9 service, plant held for future use, materials and
10 supplies, cash working capital, accumulated provision
11 for depreciation, accumulated provision for
12 amortization, accumulated deferred income taxes,
13 customer deposits and contributions in aid of
14 construction.

15 The allocation factor data consist of demand,
16 customer, and revenue ratios. In addition, composite
17 allocation factors based on previously allocated plant
18 in service, operation and maintenance expense,
19 depreciation expense, and taxable income are used to
20 allocate other elements of rate base and expense.
21 Also, some items of plant and expense are directly
22 assigned, and ratios developed from these items are
23 used to allocate other elements of rate base and
24 expense.

1 Q. PLEASE DESCRIBE THE DEMAND ALLOCATORS USED IN THE CLASS
2 OF BUSINESS STUDY.

3 A. In order to appropriately recognize that various
4 facilities are sized to meet various loads, three types
5 of demand allocators are used to allocate three types
6 of demand costs in the class of business study. The
7 first type of costs involves subtransmission demand
8 facilities. They are allocated using the average and
9 excess (NCP) subtransmission class ratios. The excess
10 portion of the AED(NCP) allocator is based on the non-
11 coincident class demands at the subtransmission level
12 for 2005.

13 The second type of demand costs, associated with
14 primary distribution facilities, is allocated using the
15 maximum annual non-coincident class demands. Secondary
16 distribution facilities, the third type of demand
17 costs, are allocated using the summation of customer
18 maximum annual demands. Line transformers are allocated
19 on the average of these two demands to recognize that
20 line transformers actually serve some combination of
21 these functions. The allocation ratio based on the
22 summation of customer maximum annual demands is used to
23 allocate overhead and underground distribution
24 services.

1 Q. PLEASE DESCRIBE THE CUSTOMER ALLOCATORS USED IN THE
2 CLASS OF BUSINESS ALLOCATION STUDY.

3 A. Class customer ratios based on the average number
4 of customers are used to allocate customer accounts and
5 sales expenses.

6 Q. PLEASE DESCRIBE THE WEATHER CORRECTION OF SALES AND
7 REVENUES USED IN THE COST OF SERVICE STUDY.

8 A. Consistent with the Commission's ruling in Order
9 No. 10646, in Formal Case No. 939, I have developed the
10 weather corrected sales and revenues used in the
11 Company's cost of service study. Over the six months of
12 actual data in the test year, from October 2005 to
13 March 2006, the District of Columbia experienced a
14 hotter than average summer billing month of October,
15 and a slightly milder than average winter. I have used
16 the 30 year average weather standard for the weather
17 correction of sales and revenue. For the six months of
18 actual data in the test year, October 2005 to March
19 2006, I have used the heating and cooling seasons as
20 defined by the Commission in Order No. 10646 of Formal
21 Case No. 939. A table of Heating Degree Days and
22 Cooling Degree Days and the variance from the 30 year
23 average is presented in PEPCO (F)-4.

24 Q. PLEASE DESCRIBE THE METHOD USED TO WEATHER CORRECT THE
25 SALES AND REVENUES USED IN THE COST OF SERVICE STUDY.

1 A. Regression analyses were run on daily degree day
2 weather and daily sales for the major classes of
3 business in the District of Columbia and Maryland. Load
4 survey data were used to develop summer and winter
5 regressions for the major classes of business in the
6 District of Columbia. These regressions developed
7 coefficients which estimate the weather sensitivity of
8 each class in terms of kilowatt hours per degree day.
9 These weather coefficients are provided in PEPCO (F)-5.

10 For the heating and cooling seasons, the class
11 weather sensitivities were applied to the degree day
12 differences from the 30 year average to develop the
13 amount of weather adjustment to sales. The amount of
14 kwh weather adjustment for the six months of actual
15 data in the test year, October 2005 through March 2006,
16 along with the actual and weather corrected monthly
17 sales are shown in PEPCO (F)-6.

18 The amount of the weather adjustment was priced
19 using average monthly cents per kwh for each class of
20 business. The total District of Columbia weather
21 correction for the test period is \$315,149. This
22 amount was subtracted from test year base revenues as a
23 rate making adjustment in the cost of service.

1 Q. PLEASE DESCRIBE YOUR PROPOSED SALES ADJUSTMENT TO
2 REFLECT THE EFFECT ON TEST YEAR SALES OF THE RECENT
3 SHARP SUPPLY PRICE INCREASES.

4 A. On June 1, 2006 Standard Offer Service ("SOS")
5 supply prices increased, reflecting the increase in
6 purchased power expenses which were caused by increases
7 in fuel prices. These increases in SOS prices are not
8 reflected in the projected sales volumes in the test
9 year, since they occurred during the forecast portion
10 of the test year and the forecast, completed last fall,
11 did not incorporate any price effects from supply price
12 changes. However, in the rate effective period these
13 price increases will be in effect and customers will
14 react to these higher prices by reducing usage. These
15 reductions in usage will lower the Company's revenues
16 below the level incorporated in the test year, with no
17 compensating reduction in the costs of providing safe
18 and reliable service. To allow the Company an
19 opportunity to earn a reasonable rate of return, I am
20 proposing to set rates based on an adjustment to test
21 year revenues to reflect customers' reactions to these
22 higher prices.

23 Q. HOW HAVE YOU ESTIMATED THE CHANGE IN SALES THAT WILL
24 RESULT FROM THE SUPPLY PRICE INCREASES?

1 A. I have made a conservative estimate of the sales
2 effects of the price changes based on previous studies
3 of the demand for electricity.

4 In his book Analyzing Demand Behavior - A Study of
5 Energy Elasticities, Douglas Bohi surveyed a large
6 number of studies that had derived estimates of the
7 responsiveness of customers' usage of electricity to
8 price changes. In his summary of the studies for
9 residential customers he reaches a conclusion that the
10 price elasticity is -0.2 in the short run (one year).
11 Price elasticity is the ratio of the percentage change
12 in usage to the percentage change in price. An
13 elasticity of -0.2 means that for a 10% price increase,
14 usage will decline by 2%. For commercial customers,
15 Mr. Bohi cited a range of estimates, from -0.17 to -
16 0.25, for the short run price elasticity.

17 The Energy Information Administration's (EIA)
18 National Energy Modeling System (NEMS) in the 2003
19 Annual Energy outlook contain short run price
20 elasticity demand estimates for the residential and
21 commercial sectors of -0.2 and -0.1 respectively, which
22 are decreases from the previous estimates used in NEMS
23 in the 1999 Annual Energy Outlook.

24 Based on the estimates cited above and other
25 estimates that I have reviewed, I have used -0.05 as a

1 conservative estimate of the price elasticity of
2 demand. This means that for a 10% change in prices,
3 electricity sales will decrease by 0.5%.

4 I develop my estimated change in base distribution
5 revenues using the 0.5% price elasticity in PEPCO (F)-
6 7. Overall, I estimate that by reflecting the effects
7 of the supply price increases, base distribution
8 revenues decline by \$2.3 million.

9 Q. WHAT HISTORICAL EVIDENCE DO YOU HAVE THAT PEPCO'S
10 DISTRICT OF COLUMBIA CUSTOMERS WILL REDUCE USAGE IN
11 REACTION TO A SHARP PRICE INCREASE?

12 A. In 1974, average prices for Pepco's District of
13 Columbia customers increased by 46% (32% adjusted for
14 overall inflation). Sales in 1974 decreased by 6.4%.
15 This was in sharp contrast to the sales growth in the
16 preceding four years, which had averaged 7.9% per year.
17 While there are many differences between 1974 and the
18 present, this clearly demonstrates that customers will
19 reduce usage in response to the high supply prices that
20 they have experienced.

21 Q. PLEASE DESCRIBE THE COMPANY'S PROPOSED BILL
22 STABILIZATION ADJUSTMENT MECHANISM.

23 A. The Company is proposing a bill stabilization
24 mechanism, the Bill Stabilization Adjustment (BSA),

1 which provides that the Company will recover no more or
2 less than the Commission approved test year revenue per
3 customer in the rate effective period. In essence, the
4 BSA provides for decreases in delivery rates if actual
5 revenues per customer are above the Commission approved
6 level, and it provides for increases in delivery rates
7 if actual revenues per customer are below the
8 Commission approved level. The BSA provides benefits
9 to both the Company and the customer. Mr. Bumgarner
10 provides the details of the mechanism in his testimony.

11 Q. PLEASE DISCUSS WHY THIS MECHANISM IS BENEFICIAL.

12 A. In severe weather in which customers face sharply
13 higher bills, the BSA will reduce the payments that
14 would otherwise be due. Conversely under the BSA,
15 customers will pay more for delivery in mild weather
16 than they would otherwise, but their overall bills will
17 still be less than what they would be with normal
18 weather. In short, the BSA provides a much higher
19 degree of stability to the customer's distribution
20 service bill. In addition, as described by Dr. Morin,
21 the BSA reduces somewhat the Company's financial risk,
22 resulting in a 0.25% lower required return on equity.
23 The lower required return on equity reduces the
24 requested revenue increase by approximately \$2.0

1 million. Further, the sales adjustment to base
2 revenues of \$2.3 million that I describe above is no
3 longer necessary if the BSA is adopted.

4 The BSA provides the Company with a stream of
5 revenues consistent with the costs of providing safe
6 and reliable service. The Company's costs for
7 providing distribution service are generally fixed
8 regardless of the amount of electricity that the
9 Company delivers to its customers. This proposal
10 provides for a matching of revenues in the rate
11 effective period with the amounts that the Commission
12 has approved as adequate compensation for providing
13 service. A significant portion of the sales is weather
14 driven. This has the implication that if a cooling
15 season has weather hotter than test year weather, the
16 Company collects more than the test year revenues
17 approved by the Commission. Conversely, if a
18 particular cooling season has milder weather than in
19 the test year, the opposite is true. The BSA as
20 proposed by the Company creates an adjustment to
21 customers' bills that is designed to reflect
22 differences between Commission-approved delivery
23 revenue levels and actual delivery revenues. This is
24 good for the customer because the Company's customers
25 will pay only the amount determined by the Commission

1 as required to provide safe and reliable service and it
2 reduces the overall costs of providing service due to
3 the reduced required return on equity. This is a
4 benefit to the Company because the Company can maintain
5 a stable revenue stream year to year.

6 Thus, both customers and the Company benefit from
7 the BSA.

8 Q. HAVE OTHER UTILITIES IMPLEMENTED THIS TYPE OF REVENUE
9 STABILIZATION MECHANISM?

10 A. Yes. In our region, both Baltimore Gas & Electric
11 and Washington Gas Light Company in Maryland have
12 implemented a mechanism similar to the proposed BSA in
13 their gas distribution rates. Dr. Chamberlin discusses
14 in more detail how widespread this type of mechanism
15 has become throughout the country.

16 Q. ARE THERE OTHER REASONS TO IMPLEMENT THE BSA?

17 A. Yes. The BSA removes the incentive for the
18 Company to maximize its sales in order to benefit
19 shareholders. Without the BSA, the Company's
20 shareholders benefit with each additional KWH
21 delivered. With the BSA, the link between increased
22 sales and profits is broken. The Company's interest in
23 helping its customers use energy wisely and efficiently
24 is no longer at seeming odds with the interests of

1 shareholders. In a pending Maryland Commission
2 proceeding, Pepco has stated that it intends to
3 undertake a significant Demand Side Response program to
4 help our customers to more efficiently use energy and
5 to reduce peak electricity demand. As stated by Mr.
6 Rigby, it is also the Company's intention to propose
7 the implementation of a similar program for our
8 District of Columbia customers. Under traditional
9 ratemaking, the Company's interests in helping its
10 customers use electricity efficiently would appear at
11 odds with the interests of the Company's shareholders,
12 since reductions in sales would reduce profits. The
13 BSA, which decouples the Company's revenues from
14 changes in the volume of electricity delivered to
15 customers, aligns the Company's interests with the
16 interests of the customer. If the Commission or the
17 District of Columbia Government were to institute
18 conservation programs to help customers lower their
19 costs of energy, the Company's support of those efforts
20 would not conflict with the interests of shareholders.

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

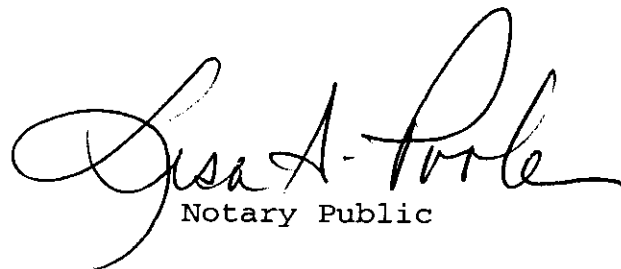
22 A. Yes.

AFFIDAVIT

City of Washington)
District of Columbia) ss:

Before me, the undersigned Notary Public in and for the City of Washington, District of Columbia, this day personally appeared MARK E. BROWNING, Director, Rates and Technical Services for Pepco Holdings, Inc., to me personally known, who stated under oath that the foregoing direct testimony and exhibits were prepared by him or under his direct supervision and control; that he has knowledge of the matters set forth in said direct testimony and exhibits; and that such matters are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 12th day of December, 2006 in the City of Washington, District of Columbia.


Notary Public

My Commission expires July 31, 2007

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(F)-1

Potomac Electric Power Company

DISTRICT OF COLUMBIA

Cost Allocation

**12 Months Ended September 30, 2006
(6 Months Actual and 6 Months Forecast)**

Based on Average and Excess (NCP) WC



A PHI Company

TABLE OF CONTENTS

SECTION ONE - RATE BASE BY FUNCTIONS

Electric Plant In Service	1
Materials and Supplies	2
Accumulated Depreciation	3
Accumulated Amortization	4

SECTION TWO - RATE BASE BY JURISDICTIONS

Electric Plant In Service	5
Materials and Supplies	6
Cash Working Capital	7
Accumulated Depreciation	8
Accumulated Amortization	9
Accumulated Deferred Income Taxes	10
Other Rate Base Items	11

SECTION THREE - OPERATING EXPENSES BY FUNCTIONS

Operation and Maintenance Expense	12
Depreciation Expense	13
Amortization Expense	14
Property Taxes	15

SECTION FOUR - OPERATING EXPENSES BY JURISDICTIONS

Operation and Maintenance Expense	16
Depreciation Expense	17
Amortization Expense	18
Property Taxes	19
Taxes Other Than Federal	20
Federal Income Taxes	21 - 22

SECTION FIVE - RATE OF RETURN

Cost of Service Summary	23
Other Operating Revenues	24

SECTION SIX - LOAD CHARACTERISTICS AND OTHER SUPPORTING DATA

Average and Excess (NCP) WC Demand Ratio	25
Average (NCP) WC Demands by Jurisdiction	26
KWH Sales to Generation Level	27

SECTION ONE
RATE BASE BY FUNCTIONS



A PHI Company

Pepco

Average - Plant In Service
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

Distribution	Total \$	Subtransmission		General Distribution		Common Use \$
		Class \$	Resale \$	DC \$	MD \$		Resale $
Demand - Primary						
Ratio *				0.4872 *	0.5572 *	
Amount	2,017,411,665	305,998,956	4,920,355 *	780,671,408	925,820,946	
-Secondary						
Ratio *				0.3676 *	0.2813 *	
Amount	1,056,425,440			589,028,756	467,396,684	
Customer						
Ratio *				0.1452 *	0.1615 *	
Amount	501,470,154			232,663,154	268,341,857	
Total Distribution	3,575,307,259	305,998,956	4,920,355	1,602,363,318	1,661,559,487	465,143 *
General	235,363,405					235,363,405
AFUDC	66,785,873					66,785,873
Intangible	38,201,037					38,201,037
C.I.A.C.	275,437,065					275,437,065
Total	4,191,094,639	305,998,956	4,920,355	1,602,363,318	1,661,559,487	615,787,380

30-Sep-06	Distribution \$	Resale * \$	Distribution Less Resale \$	Subtransmission		Calculation of General Distribution	
				Subtransmission \$	DC \$	Subtransmission Additions \$	General Distribution \$
Dist. of Columbia	1,694,421,060		1,694,421,060	92,057,742 *	0	92,057,742	1,602,363,318
Maryland	1,845,432,858	4,920,355	1,840,512,503	178,876,064 *	76,952 **	178,953,016	1,661,559,487
Virginia	34,988,198		34,988,198	34,988,198	0	34,988,198	0
Resale	465,143	465,143	0	0	0	0	0
Total	3,575,307,259	5,385,498	3,569,921,761	305,922,004	76,952 **	305,998,956	3,263,922,805

* From 2004 Functional Analysis. (Primary and secondary ratios updated based on 2003 Inventory.)

** Held Constant from March 2006.

Pepco

Average
Materials and Supplies
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	<u>Materials and Supplies December 2004</u>	<u>Materials and Supplies September 2006</u>
	\$	\$
Subtransmission	1,852,934	1,809,959
General Distribution		
Demand - Primary	11,092,817	10,835,539
- Secondary	16,060,630	15,688,133
Customer	2,663,960	2,602,174
Total	<u>31,670,341</u>	<u>30,935,805</u> ^{1/}

^{1/} Pro Rata.

Pepco

Average - Accumulated Depreciation
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	Distribution		General		Total Accumulated Depreciation \$
	Depreciable Plant \$	Accumulated Depreciation \$ (Pro Rata)	Depreciable Plant \$	Accumulated Depreciation \$ (Pro Rata)	
Subtransmission Class Specific	304,182,047 4,870,246 *	116,055,869 1,858,166			116,055,869 1,858,166
Distribution					
DC Demand - Primary	773,850,307	295,250,395			295,250,395
- Secondary	589,028,756	224,734,644			224,734,644
Customer	232,663,154	88,768,961			88,768,961
MD Demand - Primary	918,299,678	350,362,778			350,362,778
- Secondary	467,396,684	178,327,843			178,327,843
Customer	268,341,857	102,381,609			102,381,609
Resale - Customer	465,143 *	177,468			177,468
General			221,606,734	92,573,820	
Subtotal	3,559,097,872	1,357,917,733	221,606,734	92,573,820	1,450,491,553
Direct Assignments					
District of Columbia					(63,928,936)
Maryland					298,957,341
Total Direct Assignments					235,028,405
AFUDC					
District of Columbia					8,962,997
Maryland					11,323,067
Resale					57
Total AFUDC					20,286,121
Total					1,705,806,079

* Held Constant from 2004 Detail.

Pepco

Average - Accumulated Amortization
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	A.F.U.D.C. (Direct) \$	Plant		General		Total \$
		In Service	2/ (Pro Rata) \$	General (Pro Rata) \$	Software (Pro Rata) \$	
Subtransmission		310,919,311	203,989	1,938,377		2,142,366
Distribution						
Demand - Primary		1,706,492,354	1,119,601	10,638,854		11,758,455
- Secondary		1,056,425,440	693,103	6,586,116		7,279,219
Customer		501,470,154	329,006	3,126,335		3,455,341
Total Distribution		<u>3,264,387,948</u>	<u>2,141,710</u>	<u>20,351,305</u>		<u>22,493,015</u>
A.F.U.D.C.						
District of Columbia	1,060,352					1,060,352
Maryland	2,835,654					2,835,654
Resale	340,380					340,380
	<u>4,236,386</u>					<u>4,236,386</u>
Total	<u>4,236,386</u>	<u>3,575,307,259</u>	<u>2,345,699 1/</u>	<u>22,289,682</u>		<u>28,871,767</u>

1/ Company's General Office Building.

2/ Excludes A.F.U.D.C.

SECTION TWO
RATE BASE BY JURISDICTIONS



Pepco

Jurisdictional Allocation of
Average - Plant in Service
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Subtransmission						
Class	305,998,956	Avg and Excess-(NCP) WC				
Specific	4,920,355	Subtransmission	0.5921	181,181,982	0.4079	124,816,974
Total Subtransmission	310,919,311	Direct	1.0000	4,920,355	0.0000	0
Distribution			0.5986	186,102,337	0.4014	124,816,974
Demand - Primary	1,706,492,354	Direct	0.5425	925,820,946	0.4575	780,671,408
- Secondary	1,056,425,440	Direct	0.4424	467,396,684	0.5576	589,028,756
Customer	501,470,154	Direct	0.5360	268,807,000	0.4640	232,663,154
Total Distribution	3,264,387,948		0.5091	1,662,024,630	0.4909	1,602,363,318
Subtotal Plant	3,575,307,259		0.5169	1,848,126,967	0.4831	1,727,180,292
Common Use						
General	235,363,405	Plant In Service Subtotal	0.5169	121,659,344	0.4831	113,704,061
Intangible						
Miscellaneous	38,200,787	Plant In Service Subtotal	0.5169	19,745,987	0.4831	18,454,800
Franchise Fee	250	Direct	1.0000	250	0.0000	0
Total Intangible	38,201,037		0.5169	19,746,237	0.4831	18,454,800
C.I.A.C.	275,437,065	Direct	0.7239	199,389,164	0.2761	76,047,901
AFUDC	66,785,873	Direct	0.5046	33,701,199	0.4954	33,084,674
Total	4,191,094,639		0.5303	2,222,622,911	0.4697	1,968,471,728
Subtotal ST & D.	3,575,307,259		0.5169	1,848,126,967	0.4831	1,727,180,292

Pepco

Jurisdictional Allocation of
Average - Materials and Supplies
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	<u>System</u> \$	<u>Allocation Basis</u>	<u>Ratio</u>	<u>Other</u> Amount \$	<u>Ratio</u>	<u>District of Columbia</u> Amount \$
Subtransmission	1,809,959	Subtransmission Plant	0.5986	1,083,441	0.4014	726,518
Distribution						
Demand - Primary	10,835,539	Distribution Plant	0.5425	5,878,280	0.4575	4,957,259
- Secondary	15,688,133	Distribution Plant	0.4424	6,940,430	0.5576	8,747,703
Customer	2,602,174	Distribution Plant	0.5360	1,394,765	0.4640	1,207,409
Total	<u>30,935,805</u>		0.4945	<u>15,296,916</u>	0.5055	<u>15,638,889</u>

Pepco

Jurisdictional Allocation of
Cash Working Capital
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	<u>System</u>	<u>Allocation Basis</u>	<u>Ratio</u>	<u>Other</u>	<u>Ratio</u>	<u>District Of Columbia</u>
	\$			\$		\$
Lag Portion	20,796,865	Direct	0.4786	9,952,642	0.5214	10,844,223
Imprest Funds	<u>476,725</u>	Plant less AFUDC	0.5169	<u>246,419</u>	0.4831	<u>230,306</u>
Total	<u>21,273,590</u>		0.4794	<u>10,199,061</u>	0.5206	<u>11,074,529</u>

Pepco

Jurisdictional Allocation of
Average - Accumulated Depreciation
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Subtransmission Class Specific	116,055,869	Avg and Excess-(NCP) WC				
	1,858,166	Subtransmission	0.5921	68,716,680	0.4079	47,339,189
		Direct	1.0000	1,858,166	0.0000	0
Distribution						
Demand - Primary	645,613,173	Direct	0.5427	350,362,778	0.4573	295,250,395
- Secondary	403,062,487	Direct	0.4424	178,327,843	0.5576	224,734,644
Customer	191,328,038	Direct	0.5360	102,559,077	0.4640	88,768,961
Subtotal	<u>1,357,917,733</u>		0.5168	<u>701,824,544</u>	0.4832	<u>656,093,189</u>
Common Use	92,573,820	ST. & D.	0.5168	47,842,150	0.4832	44,731,670
Direct Assignment	235,028,405	Direct	1.2720	298,957,341	-0.2720	(63,928,936)
AFUDC	20,286,121	Direct	0.5582	11,323,124	0.4418	8,962,997
Total	<u>1,705,806,079</u>		0.6214	<u>1,059,947,159</u>	0.3786	<u>645,858,920</u>

Pepco

Jurisdictional Allocation of
Average - Accumulated Amortization
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Subtransmission General	2,142,366	Subtrans. Plant	0.5986	1,282,420	0.4014	859,946
Distribution						
Demand - Primary	11,758,455	Distribution Plant	0.5425	6,378,962	0.4575	5,379,493
- Secondary	7,279,219	Distribution Plant	0.4424	3,220,326	0.5576	4,058,893
Customer	3,455,341	Distribution Plant	0.5360	1,852,063	0.4640	1,603,278
AFUDC	4,236,386	Direct	0.7497	3,176,034	0.2503	1,060,352
Total	28,871,767		0.5511	15,909,805	0.4489	12,961,962

Pepco

Jurisdictional Allocation of
Average - Accumulated Deferred Income Taxes
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Ratio	Other Amount \$	District of Columbia Ratio	District of Columbia Amount \$
Plant Related						
Federal Income Tax	236,668,708	Detailed Analysis	0.5336	126,274,780	0.4664	110,393,928
State Income Tax	43,227,502	Direct	0.2564	11,085,081	0.7436	32,142,421
Total	279,896,210		0.4908	137,359,861	0.5092	142,536,349
Depreciation Related						
Federal Income Tax	310,420,368	Detailed Analysis	0.5359	166,356,704	0.4641	144,063,664
State Income Tax	31,044,429	Direct	-0.0474	(1,471,540)	1.0474	32,515,969
Juris Tax Timing Difference	0		0.0000	(62,492,950)	0.0000	62,492,950
Total	341,464,797		0.2999	102,392,214	0.7001	239,072,583
Control Center Lease						
Federal Income Tax	(48,079,657)	Detailed Analysis	0.6292	(30,253,963)	0.3708	(17,825,694)
State Income Tax	(9,461,660)	Direct	0.5261	(4,977,777)	0.4739	(4,483,883)
Total	(57,541,317)		0.6123	(35,231,740)	0.3877	(22,309,577)
Labor Related						
Federal Income Tax	(4,640,865)	Detailed Analysis	0.6566	(3,046,990)	0.3434	(1,593,875)
State Income Tax	(635,888)	Direct	-0.0855	54,345	1.0855	(690,233)
Total	(5,276,753)		0.5671	(2,992,645)	0.4329	(2,284,108)
Customer Deposits						
Federal Income Tax	152,399	Detailed Analysis	0.5230	79,707	0.4770	72,692
State Income Tax	21,873	Direct	0.0000	0	1.0000	21,873
Total	174,272		0.4574	79,707	0.5426	94,565
Bad Debt Expense						
Federal Income Tax	(1,052,292)	Detailed Analysis	0.6043	(635,878)	0.3957	(416,414)
State Income Tax	(101,910)	Direct	0.3091	(31,496)	0.6909	(70,414)
Total	(1,154,202)		0.5782	(667,374)	0.4218	(486,828)
Deferred Tax Amortization Adj.						
Tax Reform Adj.-Protected	(443,761)	Direct	0.7347	(326,013)	0.2653	(117,748)
Tax Reform Adj. - Other	(11,325,246)	Direct	0.3351	(3,794,581)	0.6649	(7,530,665)
Plant Removal Costs	(7,947,015)	Direct	0.3098	(2,461,751)	0.6902	(5,485,264)
Norm. - MD Case 8162	19,835,724	Direct	0.0000	0	1.0000	19,835,724
Total	(5,985,807)	Direct	1.0000	(5,985,807)	0.0000	0
	551,696,902		0.3414	188,371,871	0.6586	363,325,031

Pepco

Jurisdictional Allocation of
Other Rate Base

12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis		Other		District of Columbia	
				Ratio	Amount \$	Ratio	Amount \$
Customer Deposits	31,134,036	Direct	15,504,203	0.4980	0.5020	15,629,833	
Net Tax Prepaid Pension/OPEB Liability	61,722,412	1/ O & M less A & G	38,428,374	0.6226	0.3774	23,294,038	
1/ Prepaid Pension Asset	81,811,087						
OPEB Liability	(20,088,675)						
Total	<u>61,722,412</u>						

SECTION THREE
OPERATING EXPENSES BY FUNCTIONS



A PHI Company

Pepco

Other Operation and Maintenance Expenses
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual and 6 Months Forecasted

	Subtransmission		General Distribution			Customer Accounts and Sales Expense			Administrative	
	Total	Class	Resale	Total	Other	DC	Total	Other	DC	& General
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Distribution										
- Ratio		0.0778 *	0.0015 *	0.9207 *						
- Amount	73,117,222	5,688,520	109,676	67,319,026						
Subtotal	73,117,222	5,688,520	109,676	67,319,026						
Demand - Primary										
- Ratio				0.3566 *	0.5546 *	0.4454 *				
- Amount				24,004,392	13,312,836	10,691,556				
Demand - Secondary										
- Ratio				0.2238 *	0.4049 *	0.5951 *				
- Amount				15,065,005	6,099,821	8,965,184				
Customer										
- Ratio				0.4196 *	0.6837	0.3163				
- Amount				28,249,629	19,312,982	8,936,647				
Total Distribution				67,319,026	38,725,639	28,593,387				
Sales Expenses										
- Ratio								0.6876	0.3124	
- Amount	358,161						358,161	246,284	111,877	
Customer Acct. Exp.										
- Ratio								0.6857	0.3143	
- Amount	52,294,568						52,294,568	35,855,785	16,438,783	
Administrative & General										
Total	217,659,135	5,688,520	109,676	67,319,026	38,725,639	28,593,387	52,652,729	36,102,069	16,550,660	91,889,184

* From 2004 Functional Analysis. (Primary and secondary ratios updated based on 2003 Inventory.)

Pepco
 Depreciation Expense
 Assignment to Functions
 12 Months Ended September 30, 2006
 6 Months Actual & 6 Months Forecasted

	Distribution		General		Total
	Depreciable Plant	Depreciation Expense	Depreciable Plant	Depreciation Expense	
	\$	\$	\$	\$	\$
Subtransmission Class		(Pro Rate)		(Pro Rate)	
Specific	304,182,047	8,474,377			8,474,377
Distribution	4,870,246 *	135,683			135,683
DC Demand - Primary	773,850,307	21,559,125			21,559,125
- Secondary	589,028,756	16,410,079			16,410,079
Customer	232,663,154	6,481,892			6,481,892
MD Demand - Primary	918,299,678	25,583,421			25,583,421
- Secondary	467,396,684	13,021,464			13,021,464
Customer	268,341,857	7,475,885			7,475,885
Resale - Customer	465,143 *	12,959			12,959
General					
Subtotal	3,559,097,872	99,154,885	221,606,734	9,788,163	9,788,163
Direct Assignments			221,606,734	9,788,163	9,788,163
District of Columbia					
Maryland					
Total Direct Assignments					
AFUDC					(4,158,339)
District of Columbia					32,476,591
Maryland					28,318,252
Resale					847,745
Total AFUDC					1,062,642
Total					108
					1,910,495
					139,171,795

* Held Constant from 2004 Detail.

Pepco

Amortization Expense
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	A.F.U.D.C. (Direct) \$	Plant In Service \$	General		Total \$
			2/ (Pro Rata) \$	Software (Pro Rata) \$	
Subtransmission		310,919,311	30,116	599,819	629,935
Distribution					
Demand - Primary		1,706,492,354	165,291	3,292,130	3,457,421
- Secondary		1,056,425,440	102,325	2,038,035	2,140,360
Customer		501,470,154	48,572	967,426	1,015,998
Total Distribution		<u>3,264,387,948</u>	<u>316,188</u>	<u>6,297,591</u>	<u>6,613,779</u>
A.F.U.D.C.					
District of Columbia	249,079				249,079
Maryland	636,171				636,171
Resale	73,157				73,157
	<u>958,407</u>				<u>958,407</u>
Total	<u>958,407</u>	<u>3,575,307,259</u>	<u>346,304</u> 1/	<u>6,897,410</u>	<u>8,202,121</u>

1/ Company's General Office Building.

2/ Excludes A.F.U.D.C.

Pepco

Property Taxes
Assignment to Functions
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

Distribution Plant 2/ Subtransmission Class	District of Columbia		Maryland		Virginia		Total	
	September-2006 Assbl. Plant	Property Tax	September-2006 Assbl. Plant	Property Tax	September-2006 Assbl. Plant	Property Tax	September-2006 Assbl. Plant	Property Tax
Class	830,600 *	42,578						
Specific			178,953,016	2,556,167	34,988,198	272,398	214,771,814	2,871,143
General Distribution Class			4,920,355 *	70,283			4,920,355	70,283
Demand - Primary	49,375,927	2,531,084						
- Secondary								
Customer			925,820,946	13,224,439	0	0	975,196,873	15,755,523
Total	49,375,927	2,531,084	467,396,684	6,676,301	0	0	467,396,684	6,676,301
Specific Customer			268,341,857	3,832,999	0	0	268,341,857	3,832,999
Total	50,206,527	2,573,662	1,661,559,487	23,733,739	0	0	1,710,935,414	26,264,823
			465,143 *	6,644			465,143	6,644
			1,845,898,001	26,366,833	34,988,198	272,398	1,931,092,726	29,212,893

* Held Constant from 2004 Detail.
1/ Includes Land and Structures only.
2/ Distribution includes General Distribution.

SECTION FOUR

OPERATING EXPENSES BY JURISDICTIONS



A PHI Company

Pepco

Jurisdictional Allocation of
 Operation and Maintenance Expenses
12 Months Ended September 30, 2006
6 Months Actual and 6 Months Forecasted

	System	Allocation Basis	Other		District of Columbia	
			Ratio	Amount	Ratio	Amount
	\$			\$		\$
Subtransmission Class Specific	5,688,520	Avg and Excess-(NCP) WC Subtransmission Direct	0.5921	3,368,173	0.4079	2,320,347
	109,676		1.0000	109,676	0.0000	0
Distribution	67,319,026	Detailed Analysis	0.5753	38,725,639	0.4247	28,593,387
Customer Accts. Expense	52,294,568	Detailed Analysis	0.6857	35,855,785	0.3143	16,438,783
Sales Expense	358,161	Detailed Analysis	0.6876	246,284	0.3124	111,877
Subtotal	<u>125,769,951</u>		0.6226	<u>78,305,557</u>	0.3774	<u>47,464,394</u>
Administrative and General Regulatory Expense Total	90,103,244	O & M less A & G Detailed Analysis	0.6226	56,098,280	0.3774	34,004,964
	1,785,940		0.2852	509,371	0.7148	1,276,569
	<u>217,659,135</u>		0.6198	<u>134,913,208</u>	0.3802	<u>82,745,927</u>
Subtotal	125,769,951	O & M less A & G	0.6226	78,305,557	0.3774	47,464,394

Pepco

Jurisdictional Allocation of
 Depreciation Expense
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System	Allocation Basis	Other		District of Columbia	
			Ratio	Amount	Ratio	Amount
	\$			\$		\$
Subtransmission Class Specific	8,474,377 135,683	Avg and Excess-(NCP) WC Subtransmission Direct	0.5921 1.0000	5,017,679 135,683	0.4079 0.0000	3,456,698 0
Distribution						
Demand - Primary	47,142,546	Direct	0.5427	25,583,421	0.4573	21,559,125
- Secondary	29,431,543	Direct	0.4424	13,021,464	0.5576	16,410,079
Customer	13,970,736	Direct	0.5360	7,488,844	0.4640	6,481,892
Subtotal	<u>99,154,885</u>		0.5168	<u>51,247,091</u>	0.4832	<u>47,907,794</u>
Common Use	9,788,163	ST. & D.	0.5168	5,058,523	0.4832	4,729,640
Direct Assignment	28,318,252	Direct	1.1468	32,476,591	-0.1468	(4,158,339)
AFUDC	<u>1,910,495</u>	Direct	0.5563	<u>1,062,750</u>	0.4437	<u>847,745</u>
Total	<u>139,171,795</u>		0.6456	<u>89,844,955</u>	0.3544	<u>49,326,840</u>
Depre. Exp. less AFUDC	137,261,300		0.6468	88,782,205	0.3532	48,479,095

Pepco

Jurisdictional Allocation of
Property Taxes
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Subtransmission Class Specific	2,871,143	Avg and Excess-(NCP) WC Subtransmission	0.5921	1,700,003	0.4079	1,171,140
	70,283	Direct	1.0000	70,283	0.0000	0
Distribution						
Demand - Primary	15,755,523	Direct	0.8394	13,224,439	0.1606	2,531,084
- Secondary	6,676,301	Direct	1.0000	6,676,301	0.0000	0
Customer	3,839,643	Direct	1.0000	3,839,643	0.0000	0
Total	<u>29,212,893</u>		0.8733	<u>25,510,669</u>	0.1267	<u>3,702,224</u>

Pepco

Jurisdictional Allocation of
Taxes Other Than Federal
Excluding Revenue and Income Taxes
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

Taxes Other Than FIT	System		Allocation Basis	Other		District of Columbia	
	Ratio	Amount		Ratio	Amount	Ratio	Amount
	\$			\$		\$	
MD Environmental Trust							
Property Tax		2,059,081	Direct	1.0000	2,059,081	0.0000	0
DC Sales and Use		29,212,893	Property Tax	0.8733	25,510,669	0.1267	3,702,224
DC Annual Rpt Filing		31,094	Direct	0.0000	0	1.0000	31,094
DC Business Improve Tax		5,330,070	Direct	0.0000	0	1.0000	5,330,070
DC RETF		55,359	Direct	0.0000	0	1.0000	55,359
DC PSOS		7,499,651	Direct	0.0000	0	1.0000	7,499,651
MD Use Tax		18,592,569	Direct	0.0000	0	1.0000	18,592,569
MD Universal Service Chrg		1,238,272	Direct	1.0000	1,238,272	0.0000	0
MD Filing Fee		7,695,551	Direct	1.0000	7,695,551	0.0000	0
Payroll Tax		1,572,648	Direct	1.0000	1,572,648	0.0000	0
Distribution/Delivery		11,554,492	O&M less A & G	0.6226	7,193,827	0.3774	4,360,665
Mont Co Fuel Tax		97,702,444	Direct	0.0993	9,698,952	0.9007	88,003,492
Total excludes Revenue & Inc. Taxes		87,201,353	Direct	1.0000	87,201,353	0.0000	0
		269,745,477		0.5271	142,170,353	0.4729	127,575,124

Pepco

Jurisdictional Allocation of
Federal Income Taxes

12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Operating Revenues	789,777,800	Direct	0.5580	440,689,369	0.4420	349,088,431
Operating Expenses						
Operation & Maintenance	217,659,135	Operation & Maintenance	0.6198	134,913,208	0.3802	82,745,927
Depreciation Expense	139,171,795	Depreciation Expense	0.6456	89,844,955	0.3544	49,326,840
Amortization Expense	8,202,121	Amortization Expense	0.5430	4,453,528	0.4570	3,748,593
Other Taxes (Excl Revenue & Inc Taxes)	269,745,477		0.5271	142,170,353	0.4729	127,575,124
Gross Receipts Tax	8,681,996	Direct	1.0000	8,681,996	0.0000	0
DC Franchise Tax	4,167,135	Direct	0.0000	0	1.0000	4,167,135
Maryland Income Tax	3,523,192	Direct	1.0000	3,523,192	0.0000	0
Total Taxes Other Than FIT	286,117,800	Detailed Analysis	0.5396	154,375,541	0.4604	131,742,259
Total Operating Expense Excluding FIT	651,150,851		0.5891	383,587,232	0.4109	267,563,619
Operating Inc before Federal Income Tax	138,626,949		0.4119	57,102,137	0.5881	81,524,812
Interest	65,006,407		0.5166	33,582,725	0.4834	31,423,682
Net Operating Income after Interest	73,620,542	Detailed Analysis	0.3195	23,519,412	0.6805	50,101,130
Adj. to Booked Amounts for FIT Purposes						
Bond Interest	(473,530)	Plant less AFUDC	0.5169	(244,768)	0.4831	(228,762)
Software	(12,903,196)	Plant less AFUDC	0.5169	(6,669,662)	0.4831	(6,233,534)
Maryland Property Tax	(1,165,656)	Maryland Property Tax	0.9598	(1,118,797)	0.0402	(46,859)
Depreciation Adj.	(15,802,546)	Detailed Analysis	0.6478	(10,236,912)	0.3522	(5,565,634)
Removal Cost-DC Case 912	(4,752,140)	Direct	0.0000	0	1.0000	(4,752,140)
Removal Cost	13,373,210	Depre. Exp. less AFUDC	0.6468	8,649,792	0.3532	4,723,418
Normal Adj - Protected	3,189,270	Detailed Analysis	0.3351	1,068,581	0.6649	2,120,689
Non-Deductible Meal Expense	(126,187)	O & M less A & G	0.6226	(78,564)	0.3774	(47,623)
Control Center	(562,312)	Direct	0.6680	(368,942)	0.3320	(183,370)
OPEB Medicare Subsidy	2,304,456	O & M less A & G	0.6226	1,434,754	0.3774	869,702
Tax Allocation From Service Co.	(299,953)	Plant less AFUDC	0.5169	(155,046)	0.4831	(144,907)
Total Adjustments for F.I.T.	(17,208,584)		0.4486	(7,719,564)	0.5514	(9,489,020)

Pepco

Jurisdictional Allocation of
Federal Income Taxes
12 Months Ended September 30, 2006
6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Total Adj. for FIT	<u>(17,208,584)</u>		0.4486	<u>(7,719,564)</u>	0.5514	<u>(9,489,020)</u>
Net Taxable Income for Normal Income Tax	<u>90,829,126</u>		0.3439	<u>31,238,976</u>	0.6561	<u>59,590,150</u>
Federal Income Tax	<u>31,790,193</u>	Taxable Income	0.3439	<u>10,933,641</u>	0.6561	<u>20,856,552</u>
Total Federal Income Tax before Credits	<u>31,790,193</u>		0.3439	<u>10,933,641</u>	0.6561	<u>20,856,552</u>
<u>Credits</u>						
ITC 4% Amortization	666,144	Detailed Analysis	0.7287	485,410	0.2713	180,734
6% ITC Restoration	1,043,520	Plant less AFUDC	0.5169	539,395	0.4831	504,125
DC Empowerment Zone Credit	66,729	Direct	0.0000	0	1.0000	66,729
Total Credits	<u>1,776,393</u>		0.5769	<u>1,024,805</u>	0.4231	<u>751,588</u>
Total Federal Income Taxes	<u>30,013,800</u>		0.3301	<u>9,908,836</u>	0.6699	<u>20,104,964</u>

SECTION FIVE
DISTRICT OF COLUMBIA
RATE OF RETURN



A PHI Company

Pepco

Cost of Service Summary

12 Months Ended September 30, 2006

6 Months Actual & 6 Months Forecasted

	System		Other		District of Columbia	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>Average Rate Base:</u>						
Electric Plant In Service	\$ 4,191,094,639	0.5303	\$ 2,222,622,911		\$ 1,968,471,728	0.4697
Materials and Supplies	30,935,805	0.4945	15,296,916		15,638,889	0.5055
Cash Working Capital	21,273,590	0.4794	10,199,061		11,074,529	0.5206
Accumulated Depreciation	(1,705,806,079)	0.6214	(1,059,947,159)		(645,858,920)	0.3786
Accumulated Amortization	(28,871,767)	0.5511	(15,909,805)		(12,961,962)	0.4489
Accumulated Deferred Income Taxes	(551,696,902)	0.3414	(188,371,871)		(363,325,031)	0.6586
Customer Deposits Exclusions	(31,134,036)	0.4980	(15,504,203)		(15,629,833)	0.5020
Contributions In Aid of Construction	(275,437,065)	0.7239	(199,389,164)		(76,047,901)	0.2761
Net of Tax Prepaid Pension/OPEB Liability	61,722,412	0.6226	38,428,374		23,294,038	0.3774
<u>Total</u>	<u>\$ 1,712,080,597</u>	<u>0.4716</u>	<u>\$ 807,425,060</u>		<u>\$ 904,655,537</u>	<u>0.5284</u>
<u>Revenue:</u>						
Sale of Electricity	\$ 782,256,295	0.5587	\$ 437,082,290		\$ 345,174,005	0.4413
Other Operating Revenues	7,521,505	0.4796	3,607,079		3,914,426	0.5204
<u>Total Revenues</u>	<u>\$ 789,777,800</u>	<u>0.5580</u>	<u>\$ 440,689,369</u>		<u>\$ 349,088,431</u>	<u>0.4420</u>
<u>Expenses:</u>						
Operation and Maintenance Expense	\$ 217,659,135	0.6198	\$ 134,913,208		\$ 82,745,927	0.3802
Depreciation Expense	139,171,795	0.6456	89,844,955		49,326,840	0.3544
Amortization Expense	8,202,121	0.5430	4,453,528		3,748,593	0.4570
Income Tax - Federal	30,013,800	0.3301	9,908,836		20,104,964	0.6699
Income Tax - DC	4,167,135	0.0000	0		4,167,135	1.0000
Other Taxes	281,950,665	0.5475	154,375,541		127,575,124	0.4525
<u>Total</u>	<u>\$ 681,164,651</u>	<u>0.5777</u>	<u>\$ 393,496,068</u>		<u>\$ 287,668,583</u>	<u>0.4223</u>
Operating Income	\$ 108,613,149	0.4345	\$ 47,193,301		\$ 61,419,848	0.5655
<u>Rate of Return</u>						
						6.79%

12 Months Ended September 30, 2006

Pepco

Sale of Electricity and Other Operating Revenues
12 Months Ended September 30, 2006
 6 Months Actual & 6 Months Forecasted

	System \$	Allocation Basis	Other		District of Columbia	
			Ratio	Amount \$	Ratio	Amount \$
Revenue						
Sale of Electricity	782,256,295	Direct	0.5587	437,082,290	0.4413	345,174,005
Other Operating Revenue	7,521,505	Direct	0.4796	3,607,079	0.5204	3,914,426
Total Revenue	<u>789,777,800</u>		0.5580	<u>440,689,369</u>	0.4420	<u>349,088,431</u>

SECTION SIX

**LOAD CHARACTERISTICS
AND
OTHER SUPPORTING DATA**



Pepco

Development of Relationships
For "Average and Excess - WC" Allocation of Costs
Excluding Smeeco
12 Months Ended September 30, 2006
6 Months Actual and 6 Months Forecasted

	Energy MWH	1/		Non - Coincident Peak Demands		Average Demands		Excess Demands		Weighted Components		Avg & Exc
		Ratio	Ratio	MW	Ratio	MW	Ratio	MW	Ratio	Average	Exc - NCP	Coef.
Other	16,378,053	0.5727	0.5930	3560.7	1869.6	0.5727	1691.1	0.6172	0.3229	0.2692	0.5921	
District of Columbia	12,220,855	0.4273	0.4070	2443.8	1395.1	0.4273	1048.7	0.3828	0.2410	0.1669	0.4079	
System Total (Excl. Co. Use)	28,598,908	1.0000	1.0000	6004.5	3264.7	1.0000	2739.8	1.0000	0.5639	0.4361	1.0000	

Subtransmission Allocation Coeff.:

1/	MWH Delivery Level	Effic. Factors (Delivery Level To Generation Level) =	Generation Level	Effic. Factors (Subtrans. Level To Gener. Level) =	Subtrans. Level
Other	15,603,823	0.9420078445	16,564,430	0.9887483499	16,378,053
District of Columbia	11,708,347	0.9472830489	12,359,925	0.9887483499	12,220,855
Total	27,312,170		28,924,355		28,598,908

System Net Generation Output (MWH) / (System Peak Demand(MW) * Number of Hours Per Year) = System Load Factor
29,011,268 MWH / (5873.0 MW * 8760 HRS.) = 0.5639

Pepco

NCP (WC) at Subtransmission Level
12 Months Ended September 30, 2006
6 Months Actual and 6 Months Forecasted

	Subtransmission	
	Demand	Ratio
District of Columbia	2,443.8	0.4070
Maryland	3,558.7	0.5927
Virginia Power	2.0	0.0003
Smeco		
Total	<u>6,004.5</u>	<u>1.0000</u>

NOTE: 2005 Demands Using 2005 losses.

Peppo

Development of Weather Corrected MWH Sales Level to Generation Level
 12 Months Ended September 30, 2006
 6 Months Actual and 6 Months Forecasted

	District of Columbia			Maryland			Virginia Power			System Generation Level (MWH)																
	Sales Level (MWH)	Efficiency Factor	Generation Level (MWH)	Sales Level (MWH)	Efficiency Factor	Generation Level (MWH)	Sales Level (MWH)	Efficiency Factor	Generation Level (MWH)																	
Total	11,708,347	0.9472830489	12,359,925	15,598,134	0.9419984792	16,558,555	5,689	0.9683920683	5,875	28,924,355																
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">MWH @ Gen</th> <th colspan="2">Ratios</th> </tr> </thead> <tbody> <tr> <td>Other District of Columbia</td> <td>16,564,430</td> <td></td> <td>0.5727</td> </tr> <tr> <td></td> <td>12,359,925</td> <td></td> <td>0.4273</td> </tr> <tr> <td>Total</td> <td>28,924,355</td> <td></td> <td>1.0000</td> </tr> </tbody> </table>											MWH @ Gen		Ratios		Other District of Columbia	16,564,430		0.5727		12,359,925		0.4273	Total	28,924,355		1.0000
MWH @ Gen		Ratios																								
Other District of Columbia	16,564,430		0.5727																							
	12,359,925		0.4273																							
Total	28,924,355		1.0000																							
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2">MWH @ Sales</th> <th colspan="2">Ratios</th> </tr> </thead> <tbody> <tr> <td>Other District of Columbia</td> <td>15,603,823</td> <td></td> <td>0.5713</td> </tr> <tr> <td></td> <td>11,708,347</td> <td></td> <td>0.4287</td> </tr> <tr> <td>Total</td> <td>27,312,170</td> <td></td> <td>1.0000</td> </tr> </tbody> </table>											MWH @ Sales		Ratios		Other District of Columbia	15,603,823		0.5713		11,708,347		0.4287	Total	27,312,170		1.0000
MWH @ Sales		Ratios																								
Other District of Columbia	15,603,823		0.5713																							
	11,708,347		0.4287																							
Total	27,312,170		1.0000																							

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(F)-2

POTOMAC ELECTRIC POWER COMPANY

Functionalized Cost of Service Elements
Twelve Months Ending September 30, 2006
(Six Months Actual; Six Months Projected)

Line No.	Item	Rate Base	Total System	Distribution Amount
1	Electric Plant in Service	\$ 4,621,149,748	\$ 4,621,149,748	3,915,657,574
2	Accumulated Depreciation	(2,014,673,335)	(2,014,673,335)	(1,705,806,079)
3	Accumulated Amortization	(54,450,666)	(54,450,666)	(28,871,767)
4	Plant Materials & Supplies	39,286,060	39,286,060	32,221,753
5	Net Prepaid Pension/OPEB Liability	68,207,581	68,207,581	60,923,011
6	Deferred Federal and State Tax Balance	(640,142,139)	(640,142,139)	(551,696,902)
7	<u>Operating Income</u>			
8	Sale of Electricity	1,945,387,331	1,945,387,331	782,256,295
9	Other Revenues	18,329,927	18,329,927	7,521,505
10	O & M Expense	1,286,558,983	1,286,558,983	217,659,134
11	Depreciation and Amortization Expense	162,663,484	162,663,484	147,373,916
12	Taxes Other than Income Taxes	291,019,717	291,019,717	278,427,473
13	Maryland income tax	6,282,881	6,282,881	3,523,192
14	D.C. Income Tax	7,995,639	7,995,639	4,167,135
	Federal Income Tax	52,136,227	52,136,227	30,013,800

Potomac Electric Power Company

Development of Distribution Cost of Service

Rate Base

1. **Electric Plant in Service** -- The distribution plant balance reflects historical data as recorded in the financial records of the Company. Included are all balances reflected in distribution accounts, plus general and intangible plant account balances allocated to distribution based on the distribution Labor ratio.
2. **Accumulated Depreciation** -- The distribution balance for Accumulated Depreciation reflects historical data as recorded in the financial records of the Company. Included are all balances reflected in distribution accounts, plus general accumulated depreciation balances allocated to distribution based on the distribution Labor ratio.
3. **Accumulated Amortization** -- The distribution balance for Accumulated Amortization reflects historical data as recorded in the financial records of the Company, allocated to distribution based on the distribution Labor ratio.
4. **Construction Work in Progress** -- The distribution balance reflects historical data as recorded in the financial records of the Company. Included are balances reflected in distribution accounts, plus general, intangible, and miscellaneous CWIP account balances allocated to distribution based on the distribution Labor ratio.
5. **Non-Fuel Stock Materials & Supplies** -- End-of-Period balances for Materials & Supplies are as recorded in the financial records of the Company, less amounts estimated to be related to transmission based on information available in the 2004 FERC Form 1.
6. **Plant Held for Future Use** -- The distribution balance reflects historical data as recorded in the financial records of the Company.
7. **Net Prepaid Pension/OPEB Liability** -- The net prepaid pension asset/OPEB liability is allocated to distribution based on the distribution Labor ratio.
8. **Pepco portion of Service Company Assets** -- The Pepco portion of the service company assets were allocated to distribution based on the distribution Plant less AFUDC ratio.
9. **Accumulated Deferred Income Taxes** -- The distribution balance for Accumulated Deferred Income Taxes reflects historical data recorded in the financial records of the Company. In general, the rate base deferred taxes were allocated to distribution based on Plant ratios; exceptions to this were the deferred taxes related to CIAC and connection fees, which are 100% distribution-related.

Potomac Electric Power Company

Development of Distribution Cost of Service

Operating Income

10. **Sale of Electricity** -- is comprised of billed District of Columbia jurisdictional distribution revenue, based on the District of Columbia unbundled distribution rates.
11. **Rent from electric property and forfeited discounts** were allocated to distribution based on detailed analyses.
12. **Operation & Maintenance Expense** -- Operation & Maintenance expense for the District of Columbia distribution business reflects 12 months of historical data as recorded in the financial records of the Company. It reflects all distribution and customer accounts, plus a portion of the A&G accounts determined as follows: after elimination of costs in A&G accounts specifically identifiable as pertaining to the Company's Standard Offer Service business, the remaining costs were allocated to distribution based on the distribution Labor ratio. Uncollectible accounts expense (account 904) was allocated to distribution based on detailed analysis. Distribution-related O&M was then allocated to the Company's retail jurisdictions based on the allocation methods historically in use in the District of Columbia.
13. **Depreciation and Amortization Expense** -- Depreciation and amortization expenses reflect 12 months of historical data as recorded in the financial records of the Company. The amounts include 100% of distribution accounts, plus an allocation of expenses in "general" functional accounts based on the distribution Labor ratio.
14. **Other Taxes** -- taxes other than income taxes reflect 12 months of historical data as recorded in the financial records of the Company. Other taxes not directly assignable to distribution were allocated as follows: property taxes were allocated to distribution based on assessable plant; payroll tax was allocated based on the distribution labor ratio; use tax was allocated based on the distribution-related O&M .
15. **Maryland state income tax** was determined by applying the Maryland apportioned income tax rate of 3.464 % (based on the Company's 2004 tax return) to distribution-related system taxable income.
16. **D.C. state income tax** was determined by applying the District of Columbia apportioned income tax rate of 3.76 % (based on the Company's 2004 tax return) to distribution-related system taxable income.
17. **Federal income tax** was determined by applying the statutory rate of 35% to distribution-related system taxable income.
18. **AFUDC accrued** reflects 6 months of historical data as recorded in the financial records of the Company plus six months of projected data.

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (F)-3

Pepco
 District of Columbia
 Unadjusted Proforma Class of Business
 12 Months Ending September 30, 2006
Based on Average & Excess - NCAP
 6 Months Actual and 6 Months Forecast

Cost of Service and Return Summary

Rate Base	Total	Residential	RAD	RTM	MMA	GS-LV	GS-HV	Total GS
Plant in Service	1,968,471,728	552,904,767	45,812,822	6,049,226	66,256,982	232,118,514	133,238	232,251,752
Materials and Supplies	15,638,889	5,000,871	413,775	51,107	529,878	1,904,833	676	1,905,509
Cash Working Capital	11,074,529	3,247,215	269,126	35,453	375,679	1,319,487	760	1,320,247
Accumulated Depreciation	(645,858,920)	(189,401,274)	(15,700,594)	(2,066,771)	(21,915,167)	(76,933,128)	(43,992)	(76,977,120)
Accumulated Amortization	(12,961,962)	(3,719,564)	(309,332)	(41,039)	(441,460)	(1,530,259)	(880)	(1,531,139)
Accumulated Deferred Income Taxes	(363,325,031)	(103,139,055)	(8,526,900)	(1,172,633)	(12,561,052)	(43,043,453)	(22,081)	(43,065,534)
Customer Deposits	(15,629,833)	(1,864,573)	(151,536)	(15,955)	(558,597)	(2,305,817)	(1,450)	(2,307,267)
Net Tax Prepaid Pension/OPEB Liability	23,294,038	10,031,660	851,813	66,718	575,081	2,997,944	4,274	3,002,218
Contributions In Aid of Construction	(76,047,901)	(551,007)	0	(5,502)	(2,008,430)	(7,082,376)	(4,405)	(7,086,781)
Total Rate Base	904,655,537	272,509,040	22,659,174	2,900,604	30,252,914	107,445,745	66,140	107,511,885
Operating Revenues								
Sale of Electricity	345,174,005	46,417,787	3,002,670	1,126,222	10,634,025	51,735,762	57,796	51,793,558
Other Operating Revenues	3,914,426	1,112,951	784,991	8,290	109,200	415,759	96	415,855
Total Operating Revenues	349,088,431	47,530,738	3,787,661	1,134,512	10,743,225	52,151,521	57,892	52,209,413
Expenses								
Operation and Maintenance	82,745,927	35,634,887	3,025,846	236,998	2,042,847	10,649,320	15,167	10,664,487
Depreciation Expense	49,326,840	14,447,670	1,197,846	157,759	1,674,062	5,872,859	3,361	5,876,220
Amortization Expense	3,748,593	1,080,098	89,767	11,892	127,574	443,317	256	443,573
Income Tax - Federal	20,104,964	(10,327,261)	(880,823)	124,571	638,143	6,541,495	5,654	6,547,149
Other Taxes	131,742,259	18,722,236	1,397,803	296,065	4,267,832	13,595,705	21,168	13,616,873
Total Expenses	287,668,583	59,557,630	4,830,439	827,285	8,750,458	37,102,696	45,606	37,148,302
Operating Income	61,419,848	(12,026,892)	(1,042,778)	307,227	1,992,767	15,048,825	12,286	15,061,111
Rate of Return	6.79%	-4.41%	-4.60%	10.59%	6.59%	14.01%	18.58%	14.01%

Peppco
 District of Columbia
 Unadjusted Proforma Class of Business
 12 Months Ending September 30, 2006
 Based on Average & Excess - NCAP
 6 Months Actual and 6 Months Forecast

Cost of Service and Return Summary

Rate Base	GT-LV	GT-HV-69KV	GT-HV	GT-HV	Total GT	Metro	St Lgt-E	St Lgt-S	Total St Lgt.
Plant in Service	747,542,975	2,160,204	231,805,006	233,965,210	981,508,185	55,657,491	17,388,693	10,641,810	28,030,503
Materials and Supplies	6,139,889	11,194	1,238,242	1,249,436	7,389,325	173,897	149,377	25,150	174,527
Cash Working Capital	4,236,599	12,408	1,266,716	1,279,124	5,515,723	178,601	101,411	31,074	132,485
Accumulated Depreciation	(247,198,520)	(719,501)	(73,768,875)	(74,488,376)	(321,686,896)	(10,398,060)	(5,925,539)	(1,787,499)	(7,713,038)
Accumulated Amortization	(4,959,456)	(15,774)	(1,569,638)	(1,585,412)	(6,544,868)	(220,625)	(120,539)	(33,396)	(153,935)
Accumulated Deferred Income Taxes	(141,289,650)	(415,177)	(42,643,555)	(43,058,732)	(184,348,382)	(5,999,238)	(3,429,530)	(1,082,707)	(4,512,237)
Customer Deposits	(7,089,474)	0	(3,642,431)	(3,642,431)	(10,731,905)	0	0	0	0
Net Tax Prepaid Pension/OPFB Liability	6,941,764	20,262	1,463,396	1,483,658	8,425,422	216,587	118,750	5,789	124,539
Contributions In Aid of Construction	(23,563,685)	0	(12,630,322)	(12,630,322)	(36,194,007)	(24,777,253)	0	(5,424,921)	(5,424,921)
Total Rate Base	340,760,442	1,053,616	101,518,539	102,572,155	443,332,597	14,831,400	8,282,623	2,375,300	10,657,923
Operating Revenues									
Sale of Electricity	150,607,550	2,971,660	68,511,470	71,483,130	222,090,680	8,522,065	1,073,114	513,884	1,586,998
Other Operating Revenues	1,059,799	5,816	354,743	360,559	1,420,358	40,177	22,477	127	22,604
Total Operating Revenues	151,667,349	2,977,476	68,866,213	71,843,689	223,511,038	8,562,242	1,095,591	514,011	1,609,602
Expenses									
Operation and Maintenance	24,658,662	72,045	5,198,346	5,270,391	29,929,053	769,413	421,830	20,566	442,396
Depreciation Expense	18,878,404	55,302	5,653,790	5,709,092	24,587,496	796,811	452,832	136,144	588,976
Amortization Expense	1,434,229	4,493	449,212	453,705	1,887,934	63,175	34,760	9,820	44,580
Income Tax - Federal	14,995,810	55,771	8,175,220	8,230,991	23,226,801	1,041,145	(352,286)	87,525	(264,761)
Other Taxes	54,688,499	2,661,350	31,487,003	34,148,353	88,836,852	3,590,436	981,849	32,313	1,014,162
Total Expenses	114,655,604	2,848,961	50,963,571	53,812,532	168,468,136	6,260,980	1,538,985	286,368	1,825,353
Operating Income	37,011,745	128,515	17,902,642	18,031,157	55,042,902	2,301,262	(443,394)	227,643	(215,751)
Rate of Return	10.86%	12.20%	17.63%	17.58%	12.42%	15.52%	-5.35%	9.58%	-2.02%

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (F)-4

**Potomac Electric Power Company
Cooling and Heating Degree Day Statistics
Six Months Weather October 2005 - March 2006**

	<u>Heating Degree Days (Base 65)</u>			<u>Heating Degree Days (Base 35)</u>		
	Actual HDD	30-Year Average	Difference	Actual HDD	30-Year Average	Difference
October '05	15	65	-50	0	0	0
November'05	236	270	-34	0	0	0
December'05	692	607	85	27	14	13
January '06	820	884	-64	30	82	-52
February '06	640	846	-206	9	100	-91
March '06	718	713	5	29	44	-15
Total	3,121	3,385	-264	95	240	-145

	<u>Cooling Degree Days (Base 65)</u>		
	Actual CDD	30-Year Average	Difference
October '05	249	138	111
November'05	-	-	-
December'05	-	-	-
January '06	-	-	-
February '06	-	-	-
March '06	-	-	-
Total	249	138	111

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(F)-5

Potomac Electric Power Company
District of Columbia Weather Coefficients

(Kwh per Degree Day)

District of Columbia Classes of Business	Summer	Winter	
	CDD65	HDD65	HDD35
Residential	208,121.90	71,828.32	513.57
Residential Time Metered	1,095.22	740.03	619.32
Master Metered Apts	11,951.56	4,319.86	
GS Non-Demand	9,256.14	4,396.96	1,572.70
GS Demand	27,132.73	7,385.21	
GTLV	114,939.20	40,784.54	23,227.53
GTHV3A	88,995.83		2,684.17
GTHV3B		1,207.86	258.64
WMATA	2,833.81	549.31	
DC Total	464,326.40	131,212.09	28,875.93

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO _____(F)-6

**Potomac Electric Power Company
District of Columbia
Weather Corrected KWH Sales
October 2005 through March 2006**

<u>Month</u>		<u>Weather Corrected Sales</u>	<u>Actual Sales</u>	<u>Weather Correction</u>
October	2005	994,350,358	1,039,329,982	-44,979,624
November	2005	853,156,845	848,695,634	4,461,211
December	2005	951,493,676	963,022,089	-11,528,413
January	2006	997,892,558	987,993,435	9,899,123
February	2006	878,551,680	848,894,281	29,657,399
March	2006	921,211,035	921,433,955	-222,920
Total		5,596,656,152	5,609,369,376	-12,713,224

M.E. BROWNING
Direct Exhibit
D.C. P.S.C. - December, 2006

Introduced as:
PEPCO ____ (F)-7

District of Columbia

	Short Term Price Elasticity	Price Change (%)	Sales Change (%)	Test Year Annualized Revenue	Revenue Adjustment
Base Distribution Revenue	0.05	20.00%	1.00%	\$ 226,283,125	\$ 2,262,831