

Maryland SOS Regulatory Background

The four Maryland investor-owned electric companies (“utility or utilities”) are Potomac Edison Company (“PE”), Baltimore Gas and Electric Company (“BGE”), Delmarva Power and Light Co. (“Delmarva”) and Potomac Electric Power Co. (“Pepco”). Electric supply service is currently available to the vast majority of Maryland (MD) customers through fixed price power supply tariffs offered by Maryland’s electric utilities pursuant to the Phase I and Phase II settlement agreements governing the procurement of full requirements wholesale power supply for Standard Offer Service (SOS) electric customers.

In May 2005, the Maryland Public Service Commission (“Commission”) established Case No. 9037 regarding the continued provision of Type II Non-Residential SOS once the Phase I and Phase II settlement provisions for Type II Non-Residential SOS expired on May 31, 2006. On June 24, 2005, a settlement (Type II settlement) was presented to the Commission proposing the terms and conditions for the continued provision of Type II Non-Residential SOS. On October 12, 2005, in Order No. 80342, the Maryland Public Service Commission approved a modified Type II settlement agreement in Case No. 9037. As set forth in the Order, the former Type II was replaced by Type II-A representing customers from 100kW to 600kW and Type II-B representing customers from 25kW to 100kW for Pepco.

On February 17, 2006, the Commission issued order 80608 and established Case No. 9056 for the purpose of determining what form of SOS or default service will be made available to Type II customers beginning on June 1, 2007. On August 28, 2006, the Commission issued Order No. 81019 and directed that Type II A and Type II B SOS customers be reunited into a single customer class and that electric supply be procured for all Type II SOS customers on a quarterly basis, for a one year period beginning with service provided June 1, 2007.

On May 10, 2006, the Commission issued an Order initiating Case No. 9063 to investigate the Optimal Structure of the Electric Industry in Maryland. This Case was subsequently closed in 2007 and Case No. 9117 was opened to examine various modifications, including a managed portfolio, to the competitive process through which investor-owned utilities obtain their electricity supply for residential and small commercial customers that choose Standard Offer Service.

On May 10, 2006, the Commission issued an additional Order initiating Case No. 9064, as a major policy review proceeding covering the provision of standard offer service to residential and

small commercial customers. On November 8, 2006, the Commission issued Order No. 81102 in Case No. 9064, and on December 6, 2006, the Commission approved the Utilities' Compliance Plans to implement Order 81102 in Case No. 9064. Among several other important changes, Order 81102 and the accompanying Compliance Plans provide that Residential SOS will be procured twice a year using two-year contracts effective June 1, 2007, and subject to a contract term transition period; and that Type I Non-Residential SOS will be procured twice a year using two-year contracts effective June 1, 2008. Also, effective June 1, 2008, Type I was defined as "small commercial" with a demand below 25kW and the Type II demand will range from 25kW up to 600kW.

On August 16, 2007, the Commission issued Order 81563 initiating Case No. 9117 to review the competitive process through which the Utilities obtain electricity supply for residential and small business customers participating in Standard Offer Service.

The settlement agreements and Commission Orders have been posted on PHI's RFP Web site. Any additional Orders in Case No. 9064 and Case No. 9063 will be posted as they become available.

The RFP reflects the wholesale bidding process set forth in the Case No. 8908 Phase II , Case No. 9037 settlement agreements, Case No. 9056, Case No. 9064 and Case No. 9063 to solicit proposals from suppliers interested in providing SOS to Pepco for the customer classes and terms indicated in Section 2-2 (Product Definition). The RFP is for full requirements wholesale supply service to meet the needs of Pepco's SOS retail load obligation as described in the settlements and further discussed in the RFP.

Should the Commission require any changes to the documents or other information provided under Case No. 8908 or any other applicable case currently under review at the Commission, Pepco will update such documents or information in accordance with the Commission's requirements and will post such changes herein.