
NEWS RELEASE

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PHI Proposes New Interstate Transmission Line 500-kV Line Will Improve Reliability, Help Keep Costs Down

Pepco Holdings, Inc. (NYSE: POM) today proposed construction of a new 500-kilovolt interstate transmission line that will increase the reliability of the electric grid and keep pace with the rapidly increasing demand for energy in the mid-Atlantic, one of the nation's largest population centers. The new 230-mile line, called the PHI Mid-Atlantic Power Pathway, will originate in northern Virginia, cross Maryland and travel up the Delmarva Peninsula to New Jersey.

"The need for this line has never been more apparent," said Dennis R. Wraase, PHI Chairman, President and Chief Executive Officer. "The higher price of power that we are seeing underscores the need for added capacity to ease transmission congestion that is now approaching record levels in our area. Without an expanded high-voltage system, reliability will fall below acceptable reliability standards."

PHI's proposal for the line was filed today with the PJM Interconnection for consideration in its regional transmission expansion planning process. The line is the only south-north line proposed and will significantly increase the reliability of electric supply to the eastern mid-Atlantic region. It would complement recent proposals from Allegheny Energy and American Electric Power to improve west-east power flows. PJM, which operates the regional transmission system that serves all or parts of states from New Jersey south to Tennessee and west to Illinois, must approve the proposed lines before the construction process can begin.

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The Federal Energy Regulatory Commission warned last month of potentially serious transmission capacity problems in the PJM system, particularly in the Baltimore-Washington corridor, on the Delmarva Peninsula and in New Jersey. Congestion on existing lines limits access to the most economic electricity during peak demand periods and forces reliance on much higher-cost generation sources located close to large population centers.

PJM estimates that congestion in its eastern transmission corridor last year alone cost customers more than \$1 billion. If approved, the PHI Mid-Atlantic Power Pathway is preliminarily estimated to cost \$1.2 billion as now proposed, and could be built in stages over eight years, beginning in 2008. In addition, PHI would add significant 230 kV support lines in Maryland and New Jersey to connect with the new 500 kV line.

Wraase said the new line will directly benefit PHI's customers and the PJM system at each stage of completion. It will:

- Improve reliability for the Washington-Baltimore metropolitan area, Delmarva Peninsula and New Jersey.
- Greatly reduce or eliminate congestion problems that have contributed to higher electricity prices for customers in the region.
- Enable more competition and greater access to affordable generation sources, offsetting the impact of expected future generation plant closings.
- Encourage new generation construction by providing a robust transmission infrastructure for interconnecting new power plants.
- Strengthen the system by complementing ongoing transmission upgrades to the west, especially in providing a south-north line that would for the first time establish the Delmarva Peninsula and southern New Jersey as a critical path for electricity within the PJM.

If approved, PHI anticipates building the PHI Mid-Atlantic Power Pathway either on, or parallel to, existing right-of-way for large portions of its route. A significant portion (about 52 miles) will utilize existing towers in the Pepco service area.

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About PHI: Pepco Holdings, Inc., headquartered in Washington, D.C., delivers electricity and natural gas to about 1.9 million customers in Delaware, the District of Columbia, Maryland, New Jersey and Virginia. Through its subsidiaries Pepco, Delmarva Power and Atlantic City Electric, PHI delivers regulated electricity and natural gas service. PHI provides competitive wholesale generation services through Conectiv Energy and retail energy products and services through Pepco Energy Services.

Forward-Looking Statements: Except for historical statements and discussions, the statements in this news release constitute "forward-looking statements" within the meaning of federal securities law. These statements contain management's beliefs based on information currently available to management and on various assumptions concerning future events. Forward-looking statements are not a guarantee of future performance or events. They are subject to a number of uncertainties and other factors, many of which are outside the company's control. Factors that could cause actual results to differ materially from those in the forward-looking statements herein include general economic, business and financing conditions; availability and cost of capital; changes in laws, regulations or regulatory policies; weather conditions; competition; governmental actions; and other presently unknown or unforeseen factors. These uncertainties and factors could cause actual results to differ materially from such statements. PHI disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. This information is presented solely to provide additional information to further understand the results and prospects of PHI.

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