PEPCO HOLDINGS INC
Form DEF 14A
March 29, 2007
Table of Contents

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, For Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

PEPCO HOLDINGS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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1. Amount previously paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

Table of Contents

Proxy Statement and

2006 Annual Report to Shareholders

Dear Fellow Shareholders,

I am pleased to report that in 2006 Pepco Holdings, Inc. (PHI) applied its extensive experience and leadership abilities to meet significant challenges successfully, while enhancing our focus on growth and the creation of shareholder value.

Despite higher energy costs, ever-increasing consumer expectations, unprecedented political involvement in utility affairs and adverse weather, our stock held its value and we finished the year stronger than we started it.

As examples of our progress in 2006 we

ü implemented balanced rate mitigation plans that helped transition customers to higher Standard Offer Service supply rates without unduly affecting shareholders,
ü filed four distribution rate cases to cover the increased costs of providing service and decouple earnings from kilowatt-hour usage,
ü proposed a major transmission line to boost reliability throughout our service area,
ü agreed to sell the last of our regulated generation assets,
ü negotiated a favorable settlement in the Mirant bankruptcy case,
ü achieved strong gross margins in our wholesale energy business despite mild weather, and
ü posted another record year in our retail energy company.

This progress was reflected in our financial performance, which included

a 4 percent annual increase in the dividend in January 2006,
a 52.6 percent total return to shareholders, measured over the past three years, and
paying down over $1 billion of debt since 2003.

Results of Operations

The achievements outlined above are especially noteworthy given the challenging environment in which they were accomplished. Especially mild weather throughout the year, combined with increased energy costs, resulted in reduced electricity sales per customer for the first time since the 1970s, even though we reached all-time summer peak demand in all jurisdictions in 2006.

PHI s consolidated earnings in 2006 were $248.3 million, or $1.30 per share, compared to $371.2 million, or $1.96 per share, in 2005. Excluding special items (which are items not indicative of ongoing performance), earnings for the full year 2006 would have been $254.1 million, or $1.33 per share, compared to $287.8 million, or $1.52 per share, in 2005. Milder weather resulted in a $.17 per share reduction in 2006 compared to 2005.

Despite lower earnings, shareholder value continued to grow as indicated by our growth in total return and stock performance. I believe this reflects continued market recognition of the solid foundation upon which PHI is built a core power delivery business, supported by earnings from complementary energy companies as well as opportunities for business growth that now are coming into focus.

Focus on Growth

Rate Case Filings

An important milestone was reached when rate caps on delivery service, which had been in place for a number of years, expired in Delaware and Maryland. Late last year, we filed electric distribution rate cases in Maryland and the District of Columbia as well as a gas distribution rate case in Delaware. These cases requested increases in delivery rates to cover the increased costs of providing reliable and safe service. The gas case was recently settled on reasonable terms and included a 10.25 percent return on equity. We expect to receive final orders in the electric cases in the third quarter. We also negotiated balanced mitigation plans in Maryland and Delaware that helped transition customers to higher Standard Offer Service supply rates, while maintaining the financial integrity of the company.

In all of our distribution filings, we are requesting approval of a mechanism that would establish approved revenue levels tied to the number of customers, rather than unit sales consumption. This approach would reduce fluctuations in revenue and customer bills due to weather and changes in customer usage. While bill stabilization, sometimes called revenue decoupling, is a relatively novel concept for electric utilities, it has been much discussed in regulatory circles throughout the country as an essential regulation, which will unleash the potential for distribution utilities to encourage energy conservation a crucial element in the nation s efforts to achieve energy security and respond to environmental concerns.

I am pleased that as part of our gas case settlement, the commission agreed to initiate a separate proceeding to consider implementing a decoupling mechanism for electric and gas utilities in Delaware.

Environmental Leadership

Adoption of the decoupling proposal would give us the green light to offer a wide range of energy management options to our customers to assist them in controlling their energy costs. Customers have told us in surveys that they want this, and these environmentally friendly programs have the potential of helping to reduce dependence on fossil fuels.

In anticipation of the approval of our filings, we have developed a comprehensive Blueprint for the Future, which includes advanced technologies to help customers manage energy costs, enhance reliability and protect the environment. I am enthusiastic about our plan, because it will place PHI at the forefront of helping to solve the nation s energy challenges associated with high energy costs and concerns over climate change.

Implementing PHI s Blueprint will be a long-term process, but we are already taking concrete steps. For example, in 2006, we launched a Web-based Energy Know How Solutions campaign, which provides online tools for customers to analyze and reduce their energy usage.

Investment in Transmission Facilities

At the 2006 Annual Meeting of Shareholders, I announced PHI s proposed Mid-Atlantic Power Pathway (MAPP) project, a new 230-mile high-voltage transmission line that would originate in Virginia, go into Maryland under the Chesapeake Bay and travel up the Delmarva Peninsula and across the Delaware River into southern New Jersey. The PJM Interconnection, which oversees planning and construction of transmission lines in our region, is currently evaluating the project along with other proposals. We expect PJM s decision in the first half of 2007.

In addition to MAPP, over the next five years we plan to continue investing in our infrastructure to meet customer reliability needs, including $450 million in transmission facilities. In 2006, we completed a new transmission line on the Delmarva Peninsula to meet southern peninsula import capability requirements. In 2007, we will complete two additional transmission projects to enhance reliability in the District of Columbia and southern New Jersey.

In 2006, the Federal Energy Regulatory Commission (FERC) approved our Transmission Formula Rates settlement, which is structured to provide stable and fair returns on transmission projects. Under Formula Rates, PHI companies will

Table of Contents

earn 10.8 percent on existing investments and 11.3 percent on new facilities put into service on or after January 1, 2006, which will provide a steady, predictable revenue stream.

Improved Wholesale Energy Market

PHI s competitive energy businesses also offer opportunities for growth. In December 2006, FERC approved PJM s proposed Reliability Pricing Model, which establishes a new process for determining the price of generating capacity. The process is designed to create more stable and uniform pricing and should enhance Conectiv Energy s returns as supply and demand for generation come into balance in our region. We also expect Conectiv Energy s favorable location in eastern PJM and flexible, mid-merit plants to help the business capture improved value. Because of our conservative hedge strategy at Conectiv Energy, these improvements will phase in over time.

Growth in Retail Energy Supply

Pepco Energy Services, our retail energy arm, had another record year in 2006 in renewing and acquiring customers for retail electric supply. The business has successfully expanded into Illinois, New York and Massachusetts, and at the end of the year had a contract backlog of 31 million megawatt-hours over the next five years, also a record high and up 105 percent over 2005. Although essentially a regional company, Pepco Energy Services now is the fifth largest commercial and industrial electric retail marketer in the nation. The business also is achieving strong earnings growth in its energy services segment, and we anticipate that Pepco Energy Services will continue to enhance its earnings contributions to PHI.

Dedicated and Talented Employees

I am proud of PHI s employees, whose dedication and talent are responsible for the many successes I have discussed in this letter. In 2006, we continued to focus on safety and business performance by launching a comprehensive employee cultural change effort focused on behavioral-based leadership development and field

safety programs. Results have led to greater safety awareness and a decline in serious accidents.

Our Investor Relations team continues its focus on communicating with investors openly and through multiple channels to explain PHI value drivers, business strategy and financial performance. I am pleased with their efforts, which have contributed to the steady appreciation of PHI s stock price throughout 2006.

All told, PHI is well managed with a versatile and diverse management team. The strength and breadth of our leadership enabled us to make several seamless executive changes in 2006 that further enhanced our diversity.

Outlook for 2007

As we look ahead to 2007, I would like to acknowledge your Board of Directors who continue to play a key role in guiding PHI to its current success and future direction. The Board closely monitors your company s progress, contributing expertise and experience to the corporation s overall benefit and enhancement of shareholder value.

I believe PHI is a very good investment, secured by our low-risk, stable power delivery business and supported by our growing, conservatively managed competitive energy businesses. We have made much financial progress, the dividend is secure and we now are positioned for a sustained period of growth driven by regulatory outcomes, infrastructure investments and improved energy market conditions.

I want to thank you for your continued confidence, and look forward to a new period of growth.

Sincerely,

Dennis R. Wraase

Chairman of the Board,

President and Chief Executive Officer

March 29, 2007

Table of Contents

YOUR VOTE IS IMPORTANT.

PLEASE VOTE YOUR SHARES PROMPTLY.

TO VOTE YOUR SHARES, USE THE INTERNET

OR CALL THE TOLL-FREE TELEPHONE NUMBER

AS DESCRIBED IN THE INSTRUCTIONS ATTACHED TO YOUR PROXY CARD,

OR COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD

IN THE ENVELOPE PROVIDED.

THANK YOU FOR ACTING PROMPTLY.

Table of Contents

701 Ninth Street, N.W.

Washington, D.C. 20068

Notice of Annual Meeting of Shareholders

March 29, 2007

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Pepco Holdings, Inc. will be held at 10:00 a.m. local time on Friday, May 18, 2007 (the doors will open at 9:00 a.m.), at the Company s offices located at 701 Ninth Street, N.W., Edison Place Conference Center (second floor), Washington, D.C. for the following purposes:

1. To elect ten directors to serve for a term of one year;
2. To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm of the Company for 2007;
3. To transact such other business as may properly be brought before the meeting.

All holders of record of the Company s common stock at the close of business on Monday, March 19, 2007, will be entitled to vote on each matter submitted to a vote of shareholders at the meeting.

By order of the Board of Directors,

ELLEN SHERIFF ROGERS
Vice President and Secretary

IMPORTANT

You are cordially invited to attend the meeting in person.

Even if you plan to be present, you are urged to vote your shares promptly. To vote your shares, use the Internet or call the toll-free telephone number as described in the instructions attached to your proxy card, or complete, sign, date and return your proxy card in the envelope provided.

If you attend the meeting, you may vote either in person or by proxy.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PROXY STATEMENT

Annual Meeting of Shareholders

Pepco Holdings, Inc.

March 29, 2007

This Proxy Statement is being furnished by the Board of Directors of Pepco Holdings, Inc. (the Company, Pepco Holdings or PHI) in connection with its solicitation of proxies to vote on the matters to be submitted to a vote of shareholders at the 2007 Annual Meeting. This Proxy Statement, together with the Company s 2006 Annual Report to Shareholders, which is attached as Annex B to the Proxy Statement, the Notice of Annual Meeting, and a proxy card, is being first mailed to shareholders of record on or about April 3, 2007.

The Company is a holding company formed in connection with the merger of Potomac Electric Power Company (Pepco) and Conectiv. As a result of the merger, which occurred on August 1, 2002, Pepco and Conectiv became wholly owned subsidiaries of the Company. The address of the Company s principal executive offices is 701 Ninth Street, N.W., Washington, D.C. 20068.

When and where will the Annual Meeting be held?

The Annual Meeting will be held at 10:00 a.m. local time on Friday, May 18, 2007 (the doors will open at 9:00 a.m.), at the Company s offices located at **701 Ninth Street, N.W., Edison Place Conference Center (second floor), Washington, D.C.** Admission to the meeting will be limited to Company shareholders or their authorized proxies. Admission tickets are not required.

Will the Annual Meeting be Webcast?

The live audio and slide presentation of the meeting can be accessed at the Company s Web site, www.pepcoholdings.com/investors. An audio-only version will also be available. The dial-in information will be announced in a news release at a later date. The Annual Meeting Webcast will be archived and can be found on the Company s Web site (www.pepcoholdings.com) by first clicking on the link: Investor Relations and then the link: Webcasts and Presentations.

What matters will be voted on at the Annual Meeting?

1. The election of ten directors, each for a one-year term.

The Board recommends a vote FOR each of the ten candidates nominated by the Board of Directors and identified in Item 1 in this Proxy Statement.

2. The ratification of the appointment by the Audit Committee of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2007.

The Board recommends a vote FOR this proposal.

How do I vote shares held in my own name?

If you own your shares in your own name, you can either attend the Annual Meeting and vote in person or you can vote by proxy without attending the meeting. You can vote by proxy in any of three ways:

Via Internet: Go to www.voteproxy.com. Have your proxy card in hand when you access the Web site. You will be given simple voting instructions to follow to obtain your records and to create an electronic voting instruction form. At this Web site, you also can elect to receive future proxy statements and annual reports electronically via the Internet, rather than by mail.

Table of Contents

By Telephone: Call toll-free 1-800-PROXIES (1-800-776-9437). Have your proxy card in hand when you call, and you will be given simple voting instructions to follow.

In Writing: Complete, sign, date and return the enclosed proxy card in the postage-paid envelope that has been provided.

The Internet and telephone voting facilities for shareholders of record will close at 5:00 p.m. Eastern time on May 17, 2007. Your signed proxy card or the proxy you grant via the Internet or by telephone will be voted in accordance with your instructions. If you return a signed proxy card or grant a proxy via the Internet or by telephone, but do not indicate how you wish your shares to be voted, your shares will be voted FOR the election of each of the Board of Directors director nominees and FOR the ratification of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2007.

How do I vote shares held through a brokerage firm, bank or other financial intermediary?

If you hold shares through a brokerage firm, bank or other financial intermediary, you will receive from that intermediary directions on how to direct the voting of your shares by the intermediary, which may include voting instructions given via the Internet or by telephone. If you hold your shares through a brokerage firm, bank or other financial intermediary, you may not vote in person at the Annual Meeting unless you obtain a proxy from the recordholder of the shares.

Who is eligible to vote?

All shareholders of record at the close of business on Monday, March 19, 2007 (the record date) are entitled to vote at the Annual Meeting. As of the close of business on the record date 192,831,641 shares of Pepco Holdings common stock, par value $.01 per share (the common stock), were outstanding. Each outstanding share of common stock entitles the holder of record to one vote on each matter submitted to the vote of shareholders at the Annual Meeting.

What is the quorum requirement?

In order to hold the Annual Meeting, the holders of a majority of the outstanding shares of common stock must be present at the meeting either in person or by proxy.

What shares are included on the enclosed proxy card?

The number of shares printed on the enclosed proxy card indicates the number of shares of common stock that, as of the record date, you held of record, plus (i) any shares held for your account under the Pepco Holdings Dividend Reinvestment Plan and (ii) if you are a participant in the Pepco Holdings, Inc. Retirement Savings Plan, the shares held for your account under that plan.

How is stock in the Pepco Holdings Dividend Reinvestment Plan voted?

Shares held by the Pepco Holdings Dividend Reinvestment Plan will be voted by the plan administrator in accordance with your instructions on the proxy card or given via the Internet or by telephone. Any shares held in the Dividend Reinvestment Plan for which no voting instructions are given will not be voted.

How is stock in the Company employee 401(k) plans voted?

If you are a current or former employee who is a participant in the Pepco Holdings, Inc. Retirement Savings Plan (which is the successor plan to the (i) Potomac Electric Power Company Savings Plan for Bargaining Unit Employees, (ii) Potomac Electric Power Company Retirement Savings Plan for Management Employees (which itself is the successor to the Potomac Electric Power Company Savings Plan for Non-Exempt, Non-Bargaining Unit Employees; the Potomac Electric Power Company Retirement Savings Plan for Management Employees was formerly known as the Potomac Electric Power Company Savings Plan for Exempt Employees), (iii) Conectiv Savings and Investment Plan and the Conectiv PAYSOP/ESOP and (iv) Atlantic Electric 401(k) Savings and Investment Plan-B), then the number of shares printed on the enclosed proxy card includes shares of common stock held through that plan. By completing, dating, signing and returning this proxy card or granting a proxy via the Internet or by telephone, you will be providing the plan trustee with instructions on how to vote the shares held in your account. If you do not provide voting instructions for your plan shares, the plan trustee will vote your shares on each matter in proportion to the voting instructions given by all of the other participants in the plan.

What does it mean if I receive more than one proxy card?

If you receive more than one proxy card, it is because your shares are registered in different names or with different addresses. You must sign, date and return each proxy card that you receive (or grant a proxy for the shares represented by each proxy card via the Internet or by telephone) in order for all of your shares to be voted at the Annual Meeting. To enable us to provide better shareholder service, we encourage shareholders to have all their shares registered in the same name with the same address.

Can I change my vote after I have returned my proxy card or granted a proxy via the Internet or by telephone?

If you own your shares in your own name or through the Dividend Reinvestment Plan or Retirement Savings Plan, you may revoke your proxy, regardless of the manner in which it was submitted, by:

- sending a written statement to that effect to the Secretary of the Company before your proxy is voted;
- submitting a properly signed proxy card dated a later date;
- submitting a later dated proxy via the Internet or by telephone; or
- voting in person at the Annual Meeting.

If you hold shares through a brokerage firm, bank or other financial intermediary, you should contact that intermediary for instructions on how to change your vote.

How can I obtain more information about the Company?

The Company s 2006 Annual Report to Shareholders is included as Annex B after page A-3 of this Proxy Statement. You may also visit the Company s Web site at www.pepcoholdings.com.

Table of Contents

1. ELECTION OF DIRECTORS

Thirteen directors currently constitute the entire Board of Directors of the Company. Immediately prior to the commencement of the 2007 Annual Meeting, the number of directors will be decreased to 12. In 2005, the Company s Restated Certificate of Incorporation was amended to reinstate the annual election of Board members except that any director who prior to the 2006 Annual Meeting was elected to a term that continues beyond the 2006 Annual Meeting will continue in office for the remainder of his or her elected term or until his or her earlier death, resignation or removal. Accordingly, at the Annual Meeting, ten directors are to be elected, each to hold office for a one-year term that expires at the 2008 Annual Meeting, and until his or her successor is elected and qualified.

The Board of Directors, on the recommendation of the Corporate Governance/Nominating Committee, has nominated for election at the 2007 Annual Meeting Jack B. Dunn, IV, Terence C. Golden, Frank O. Heintz, George F. MacCormack, Richard B. McGlynn, Lawrence C. Nussdorf, Frank K. Ross, Lester P. Silverman and William T. Torgerson, each of whom currently is a director, and Barbara J. Krumsiek, who currently does not serve on the Board of Directors. Ms. Krumsiek was identified for consideration as a nominee by one or more non-management directors. Mr. Wraase and Ms. Schneider were elected in 2005 for terms that will expire in 2008.

The Board of Directors unanimously recommends a vote FOR each of the nominees listed on pages 5 and 6.

What vote is required to elect the directors?

Each director shall be elected by a majority of the votes cast for his or her election.

In January 2006, the Company amended its Bylaws to provide that each director shall be elected by a majority of the votes cast for his or her election, except that in a contested election where the number of nominees exceeds the number of directors to be elected, directors shall be elected by a plurality of the votes cast. Accordingly, at the 2007 Annual Meeting, a nominee will be elected as a director only if a majority of the votes present and entitled to vote are cast for his or her election. In accordance with the Company s Bylaws any incumbent nominee who fails to receive a majority of votes cast for his or her election is required to resign from the Board no later than 90 days after the date of the certification of the election results.

What happens if a nominee is unable to serve as a director?

Each nominee identified in this Proxy Statement has confirmed that he or she is willing and able to serve as a director. However, should any of the nominees, prior to the Annual Meeting, become unavailable to serve as a director for any reason, the Board of Directors either may reduce the number of directors to be elected or, on the recommendation of the Corporate Governance/Nominating Committee, select another nominee. If another nominee is selected, all proxies will be voted for that nominee.

Table of Contents

NOMINEES FOR ELECTION AS DIRECTORS

For Terms Expiring in 2008

Jack B. Dunn, IV, age 56, since October 1995 has been Chief Executive Officer and since October 2004 has been President of FTI Consulting, Inc., a publicly held multi-disciplined consulting firm with practices in the areas of corporate finance/restructuring, forensic and litigation consulting, economic consulting, and strategic and financial communications, located in Baltimore, Maryland. He has served as a Director of FTI since 1992 and served as Chairman of the Board from December 1998 to October 2004. Mr. Dunn is a limited partner of the Baltimore Orioles and is a director of NexCen Brands, Inc. He has been a director of the Company since May 21, 2004.

Terence C. Golden, age 62, since 2000 has been Chairman of Bailey Capital Corporation in Washington, D.C. Bailey Capital Corporation is a private investment company. From 1995 until 2000, Mr. Golden was President, Chief Executive Officer and a director of Host Marriott Corporation. He serves as a director of Host Hotels and Resorts, Inc. and the Morris & Gwendolyn Cafritz Foundation. Mr. Golden also currently serves as Chairman of the Federal City Council. Mr. Golden was a director of Pepco from 1998 until August 1, 2002. He has been a director of the Company since August 1, 2002.

Frank O. Heintz, age 63, is retired President and Chief Executive Officer of Baltimore Gas and Electric Company, the gas and electric utility serving central Maryland, a position he held from 2000 through 2004. From 1982 to 1995, Mr. Heintz was Chairman of the Maryland Public Service Commission, the state agency regulating gas, electric, telephone and certain water and sewerage utilities. Previously he served as agency head of the Maryland Employment Security Administration and was an elected member of the Maryland legislature. He has been a director of the Company since May 19, 2006.

Barbara J. Krumsiek, age 54, since 1997 has been President and Chief Executive Officer and since 2006 Chair of Calvert Group, Ltd. Calvert is based in Bethesda, Maryland, and offers a range of fixed income, money market and equity mutual funds including a full family of socially responsible mutual funds. She serves as a trustee or director for 40 Calvert-sponsored mutual funds, including serving as Chair of the Calvert Variable Series of funds. Ms. Krumsiek currently does not serve as a director of the Company.

George F. MacCormack, age 63, is retired Group Vice President, DuPont, Wilmington, Delaware, a position he held from 1999 through 2003. He was previously Vice President and General Manager (1998), White Pigments & Mineral Products Strategic Business Unit and Vice President and General Manager (1995), Specialty Chemicals Strategic Business Unit for DuPont. Mr. MacCormack was a director of Conectiv from 2000 until August 1, 2002. He has been a director of the Company since August 1, 2002.

Richard B. McGlynn, age 68, is an attorney. From 1995-2000, he was Vice President and General Counsel of United Water Resources, Inc., Harrington Park, New Jersey and from 1992-1995, he was a partner in the law firm LeBoeuf, Lamb, Greene & MacRae. He was a director of Atlantic Energy, Inc. from 1986 to 1998. Mr. McGlynn was a director of Conectiv from 1998 until August 1, 2002. He has been a director of the Company since August 1, 2002.

Lawrence C. Nussdorf, age 60, since 1998 has been President and Chief Operating Officer of Clark Enterprises, Inc., a privately held investment and real estate company based in Bethesda, Maryland, whose interests include the Clark Construction Group, LLC, a general contracting company, of which Mr. Nussdorf has been Vice President and Treasurer since 1977. He serves as a director of CapitalSource Inc. Mr. Nussdorf was a director of Pepco from 2001 until August 1, 2002. He has been a director of the Company since August 1, 2002 and currently serves as Lead Independent Director.

Frank K. Ross, age 63, is retired managing partner for the mid-Atlantic Audit and Risk Advisory Services Practice and managing partner of the Washington, D.C. office of the accounting firm KPMG LLP, positions he held from July 1, 1996 to December 31, 2003. He is currently a Visiting Professor of Accounting at Howard University, Washington, D.C. and the Director of its Center for Accounting Education. He is a director of Cohen & Steers Mutual Funds and serves as a director of 20 of these Funds. Mr. Ross serves on The Greater Washington, D.C. Urban League, Gallaudet University and The Hoop Dreams Scholarship Fund boards. He has been a director of the Company since May 21, 2004.

Lester P. Silverman, age 60, is Director Emeritus of McKinsey & Company, Inc., having retired from the international management consulting firm in 2005. Mr. Silverman joined McKinsey in 1982 and was head of the firm s Electric Power and Natural Gas practice from 1991 to 1999. From 2000 to 2004, Mr. Silverman was the leader of McKinsey s Global Nonprofit Practice. Previous positions included Principal Deputy Assistant Secretary for Policy and Evaluation in the U.S. Department of Energy from 1980 to 1981 and Director of Policy Analysis in the U.S. Department of the Interior from 1978 to 1980. Mr. Silverman is currently an Adjunct Lecturer at Georgetown University, Washington, D.C., and a trustee of several national and Washington, D.C.-area nonprofit organizations. He has been a director of the Company since May 19, 2006.

William T. Torgerson, age 62, has been Vice Chairman of the Company since June 1, 2003 and has been General Counsel of the Company since August 1, 2002. From August 1, 2002 to June 2003, he was also Executive Vice President of the Company. From December 2000 to August 2002, he was Executive Vice President and General Counsel of Pepco. Mr. Torgerson has been a director of Pepco and Conectiv since August 1, 2002. He has been a director of the Company since May 21, 2004.

Table of Contents

DIRECTORS CONTINUING IN OFFICE

Terms Expiring in 2008

Pauline A. Schneider, age 63, joined the Washington office of the law firm of Orrick, Herrington & Sutcliffe LLP in September 2006. From 1985 to September 2006, she was with the law firm of Hunton & Williams. From October 2000 to October 2002, Ms. Schneider served as Chair of the Board of MedStar Health, Inc., a community-based healthcare organization that includes seven major hospitals in the Washington, D.C./Baltimore area. From 1998 to 2002, she chaired the Board of The Access Group, Inc., a not-for-profit student loan provider headquartered in Wilmington, Delaware. She continues her service on both boards. She is a director of Diamond Management and Technology Consultants. Ms. Schneider was a director of Pepco from 2001 until August 1, 2002. She has been a director of the Company since August 1, 2002.

Dennis R. Wraase, age 63, is Chairman, President and Chief Executive Officer of the Company. Since May 2004 he has been Chairman of Pepco, Atlantic City Electric Company and Delmarva Power & Light Company. He was Chief Executive Officer from August 2002 through October 2005 and President and Chief Operating Officer of Pepco from January 2001 through August 1, 2002. Mr. Wraase became President of the Company in August 2002. From August 2002 through May 2003, Mr. Wraase was Chief Operating Officer of the Company. Mr. Wraase became CEO of the Company in June 2003. He has been a director of the Company since 2001, and has been Chairman since May 2004.

Table of Contents

Which directors are independent ?

The listing standards of the New York Stock Exchange (NYSE) require that a majority of the Company s directors be independent as defined by the NYSE listing standards. Applying these standards, the Board has determined that ten of the Company s current 13 directors, consisting of Messrs. Dunn, Golden, Heintz, MacCormack, McGlynn, Nussdorf, O Malley, Ross and Silverman and Ms. Schneider qualify as independent. The Board also has determined that Ms. Krumsiek, if elected, will qualify as independent. Accordingly, if each of the nominees is elected at the Annual Meeting, ten of the Company s 12 directors will qualify as independent.

For a director to be considered independent under NYSE listing standards, a director cannot have any of the disqualifying relationships enumerated by the NYSE listing standards and the Board must determine that the director does not otherwise have any direct or indirect material relationship with the Company. In accordance with the NYSE listing standards, the Board of Directors has adopted, as part of the Company s Corporate Governance Guidelines, categorical standards to assist it in determining whether a relationship between a director and the Company is a relationship that would impair the director s independence. The Company s Corporate Governance Guidelines can be found on the Company s Web site (www.pepcoholdings.com) under the link: Corporate Governance. Under these standards, which incorporate the disqualifying relationships enumerated by the NYSE listing standards, a Company director is not independent if any of the conditions specified are met.

a. The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer of the Company. The executive officers of the Company consist of the president, principal financial officer, controller, any vice-president in charge of a principal business unit, division or function, any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. Officers of the Company s subsidiaries are deemed to be officers of the Company if they perform such policy-making functions for the Company.

b. The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $100,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service).

c. (A) The director or an immediate family member is a current partner of a firm that is the Company s internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who participates in the firm s audit, assurance or tax compliance (but not tax planning) practice; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company s audit within that time.

d. The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company s present executive officers at the same time serves or served on that company s compensation committee.

e. The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues. Contributions to tax exempt organizations shall not be considered payments for purposes of this categorical standard, provided, however, that the Company shall disclose in its annual proxy statement any such contributions made by the Company to any tax exempt organization in which any independent director serves as an executive officer if, within the preceding three years, contributions in any single fiscal year from the Company to the tax exempt organization exceed the greater of $1 million, or 2% of such tax exempt organization s consolidated gross revenues.

f. For purposes of considering the existence or materiality of a director s relationship with the Company or the relationship with the Company of an organization with which the director is associated, payments for electricity, gas or other products or services made in the normal course of business at prices generally applicable to similarly situated customers shall not be included.

g. Additional provisions applicable to members of the Audit Committee.

i. A director who is a member of the Audit Committee may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any subsidiary of the Company, provided that, unless the rules of the NYSE provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service (provided that such compensation is not contingent in any way on continued service). The term indirect acceptance by a member of the Audit Committee of any consulting, advisory, or other compensatory fee includes acceptance of such fee by a spouse, a minor child or stepchild or a child or stepchild sharing a home with the member or by an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Company or any subsidiary of the Company.

ii. A director who is an affiliated person of the Company or its subsidiaries (other than in his or her capacity as a member of the Board or a Board Committee) as defined by the Securities and Exchange Commission (SEC) shall not be considered independent for purposes of Audit Committee membership. A director who beneficially owns more than 3% of the Company s common stock will be considered to be an affiliated person.

In making independence determinations, the Board considered the following relationships in accordance with its procedures for evaluating related person transactions described under the heading Board Review of Transactions with Related Parties.

Pauline Schneider, a director of the Company, was a partner in the law firm of Hunton & Williams until October 2006. Hunton & Williams rendered legal services to the Company and certain Company subsidiaries in 2006 in the areas of environmental, regulatory, tax and administrative law. Ms. Schneider did not work on any of these matters, nor did she direct Hunton & Williams work on any of these matters and did not receive any additional compensation as a result of Hunton & Williams representation.

In October 2006, Ms. Schneider became a partner in the law firm of Orrick, Herrington & Sutcliffe LLP. Orrick, Herrington & Sutcliffe rendered legal services to certain Company subsidiaries in 2006 and is expected to render services to certain Company subsidiaries in 2007 with respect to certain contract and bankruptcy matters. Ms. Schneider did not work on any of these matters, nor did she direct Orrick, Herrington & Sutcliffe s work on any of these matters and did not receive any additional compensation as a result of Orrick s representation.

In determining that Ms. Schneider is an independent director, the Board examined the specific transactions that the Company and its subsidiaries had with each law firm. The Board determined that (1) the relationship between each law firm and the Company and its subsidiaries was solely a business relationship which did not afford Ms. Schneider any special benefits and (2) the amounts of the transactions with each firm in the last three years were below the numerical threshold set forth in the Corporate Governance Guidelines with respect to payments for property and services between the Company or its subsidiaries and an entity with which the director is affiliated.

Mr. Dunn is President and Chief Executive Officer of FTI Consulting, Inc. In 2005, the Company s subsidiaries, Pepco, Atlantic City Electric Company and Delmarva Power & Light Company retained Lexecon, a subsidiary of FTI Consulting, Inc., to supply an expert witness in a regulatory proceeding. The Board determined

Table of Contents

that (1) the relationship between the Company and Lexecon was solely a business relationship which did not afford Mr. Dunn any special benefits and (2) the amount paid to Lexecon in 2005 was below the numerical threshold set forth in the Corporate Governance Guidelines with respect to payments for property and services between the Company or its subsidiaries and an entity with which the director is affiliated. On this basis, the Board determined that this business relationship did not disqualify Mr. Dunn as an independent director.

BOARD MEETINGS

The Board held seven meetings during 2006 to review significant developments affecting the Company, engage in strategic planning, and act on matters requiring Board approval. In 2006, each director attended at least 75% of the Board meetings and the meetings of the Board committees on which he or she served. The Board has adopted an attendance policy, set forth in the Corporate Governance Guidelines, under which attendance in person is required at all regularly scheduled shareholder, Board and Committee meetings (except where scheduled as a conference call) and is the preferred method of attendance at specially called meetings. The Chairman has the authority to waive the requirement of this policy if, in the Chairman s opinion, it is in the Company s best interests to do so. Of the Company s 12 directors at the time, 11 attended the 2006 Annual Meeting.

At each Board meeting, the directors set aside time to meet in executive session without any management director or other management personnel present. The executive session of the Board is convened by the Lead Independent Director.

BOARD COMMITTEES

The Board has five separately designated standing committees:

- the Audit Committee;
- the Compensation/Human Resources Committee;
- the Corporate Governance/Nominating Committee;
- the Executive Committee; and
- the Finance Committee.

Each committee s charter can be found on the Company s Web site (www.pepcoholdings.com) under the link: Corporate Governance.

Each of the Committees (other than the Executive Committee) sets aside time to meet in executive session without management personnel present. The Compensation/Human Resources Committee meets separately with its compensation consultant. The Audit Committee meets separately with the Vice President, Internal Audit and the independent registered public accounting firm.

The ***Audit Committee*** held eight meetings in 2006. The Committee represents and assists the Board in discharging its responsibility of oversight with respect to the accounting and control functions and financial statement presentation (but the existence of the Committee does not alter the traditional roles and responsibilities of the Company s management and its independent registered public accounting firm). The Audit Committee is responsible for, among other things, representing and assisting the Board in oversight of (i) the integrity of the Company s financial statements, accounting and financial reporting processes and audits of the Company s consolidated financial statements, (ii) the Company s compliance with legal and regulatory requirements, (iii) the qualifications, independence and the retention, compensation and performance of the Company s independent

Table of Contents

registered public accounting firm, and (iv) the design and performance of the Company s internal audit function. The Audit Committee also reviews the Company s guidelines and policies with respect to risk assessment, and has full power and authority to obtain advice and assistance from independent legal, accounting or other advisors as it may deem appropriate to carry out its duties.

Committee members are Directors Golden, Heintz, McGlynn, Nussdorf (Chairman) and Ross. The Board has determined that directors Golden, Heintz, Nussdorf and Ross each is an audit committee financial expert as defined by the rules of the SEC. The Board has determined that each member of the Audit Committee is independent as defined by the Company s Corporate Governance Guidelines and the listing standards of the NYSE.

The ***Compensation/Human Resources Committee*** held five meetings in 2006. The Committee, together with the other independent members of the Board of Directors, sets the CEO s compensation level after taking into account the annual evaluation of the CEO s performance conducted by the Corporate Governance/Nominating Committee and such other factors as the Committee deems appropriate. The Committee reviews the performance of elected officers and other executives in the context of the administration of the Company s executive compensation programs. The Committee, on the recommendation of the CEO, (i) approves the salaries for the executive officers, the heads of the business units, and all PHI Vice Presidents and any salary that exceeds the approval level of the CEO, (ii) establishes performance guidelines under the Executive Incentive Compensation Plan, and (iii) exercises the powers of the Board with respect to the Company s annual salary increase for all management employees. The Committee sets target award levels and approves payments for the executive officers and the heads of the business units pursuant to the Executive Incentive Compensation Plan, establishes the structure of compensation and amounts of awards under the shareholder-approved Long-Term Incentive Plan, and reviews other elements of compensation and benefits for management employees and makes recommendations to the Board as appropriate. The Committee makes recommendations to the Board concerning the Company s retirement and other benefit plans and oversees corporate workforce diversity issues, and also receives input on compensation matters from the Chief Executive Officer and management, as it deems appropriate.

In order to assist it in carrying out these responsibilities, the Committee in 2006 employed Buck Consultants as its independent compensation consultant. Pursuant to this engagement, Buck Consultants provided the following services: reviewed the compensation philosophy; advised on construction of and determination of a peer group of companies; reviewed new salary ranges; reviewed the annual incentive plan; reviewed the long-term incentive plan; reviewed proposed compensation plans or amendments to existing plans; reviewed the total executive compensation structure for the coming year; attended the Compensation/Human Resources Committee meetings dealing with executive compensation, as requested; presented comparative information to assist the Compensation/Human Resources Committee in its deliberations and decision-making concerning executive compensation; advised senior management, as requested by the Compensation/Human Resources Committee; and provided various industry performance and other comparative information.

Committee members are Directors Dunn, Heintz, MacCormack, McGlynn (Chairman), O Malley and Ross. The Board has determined that each member of the Compensation/Human Resources Committee is independent as defined by the Company s Corporate Governance Guidelines and the listing standards of the NYSE.

The ***Corporate Governance/Nominating Committee*** held five meetings in 2006. The Committee s duties and responsibilities include making recommendations to the Board regarding the governance of the Company and the Board, and helping ensure that the Company is properly managed to protect and enhance shareholder value and to meet the Company s obligations to shareholders, customers, the industry and under the law. The Committee makes recommendations to the Board regarding Board structure, practices and policies, including Board committee chairmanships and assignments and the compensation of Board members, evaluates Board performance and effectiveness, and oversees the development of corporate strategy and structure, including management development, management succession, management performance criteria, business plans and

corporate and government affairs. The Committee evaluates annually the performance of the Company s Chief Executive Officer and reports its appraisal to the Compensation/Human Resources Committee. The Committee also ensures that the technology and systems used by the Company are adequate to properly run the business and for it to remain competitive. The Committee reviews and recommends to the Board candidates for nomination for election as directors.

Committee members are Directors Dunn, McGlynn, O Malley (Chairman), Schneider and Silverman. The Board has determined that each member of the Corporate Governance/Nominating Committee is independent as defined by the Company s Corporate Governance Guidelines and the listing standards of the NYSE.

The ***Executive Committee*** held one meeting in 2006. The Committee has, and may exercise when the Board is not in session, all the powers of the Board in the management of the property, business and affairs of the Company, except as otherwise provided by law. The Committee does not hold regularly scheduled meetings. Committee members are Directors Cronin, Golden, MacCormack (Chairman), Nussdorf, Torgerson and Wraase.

The ***Finance Committee*** held six meetings in 2006. The Committee oversees the financial objectives, policies, procedures and activities of the Company and considers the long- and short-term strategic plans of the Company. The Committee reviews with management the Company s risk mitigation profile and reviews the Company s insurance program. Committee members are Directors Cronin, Golden (Chairman), MacCormack, Nussdorf, Schneider and Silverman.

How do I send a communication to the Board of Directors or to a specific individual director?

The Company s directors encourage interested parties, including employees and shareholders, to contact them directly and, if desired, confidentially or anonymously regarding matters of concern or interest, including concerns regarding questionable accounting or auditing matters. The names of the Company s directors can be found on pages 5-7 of this Proxy Statement and on the Company s Web site (www.pepcoholdings.com) under the link: Corporate Governance. The Company s directors may be contacted by writing to them either individually or as a group or partial group (such as all non-management directors), c/o Corporate Secretary, Pepco Holdings, Inc., 701 Ninth Street, N.W., Room 1300, Washington, D.C. 20068. If you wish your communication to be treated confidentially, please write the word CONFIDENTIAL prominently on the envelope and address it to the director by name so that it can be forwarded without being opened. A communication addressed to multiple recipients (such as to directors, all directors, all non-management directors, independent directors) will necessarily have to be opened and copied by the Office of the Corporate Secretary in order to forward it to each director, and hence cannot be transmitted unopened, but will be treated as a confidential communication. If you wish to remain anonymous, do not sign your letter or include a return address on the envelope. Communications from Company employees regarding accounting, internal accounting controls, or auditing matters may be submitted in writing addressed to: Vice President, Internal Audit, Pepco Holdings, Inc., 701 Ninth Street, N.W., Room 8220, Washington, D.C. 20068 or by telephone to 202-872-3524. Such communications will be handled initially by the Internal Audit Group, which reports to the Audit Committee, and will be reported by the Internal Audit Group to the Audit Committee. If for any reason the employee does not wish to submit a communication to the Vice President, Internal Audit, it may be addressed to the Chairman of the Audit Committee using the procedure set forth above, or can be sent via mail, telephone, facsimile or e-mail to the Company s Ethics Officer. Employees may also leave messages on the Company s Ethics Officer s hotline.

What are the directors paid for their services?

Each of the Company s non-management directors is paid an annual retainer of $45,000, plus a fee of $2,000 for each Board and Committee meeting attended. The Chairman of the Audit Committee receives an additional retainer of $7,500 and a non-management director who chairs any one of the other standing Committees of the Board receives an additional retainer of $5,000. A director who does not otherwise serve as chairman of a Committee but who serves as Lead Independent Director receives a retainer of $2,500 for service in that capacity.

Table of Contents

Each non-management director is required to own at least 7,500 shares of Company common stock or common stock equivalents (phantom stock). Non-management directors serving as of January 1, 2005, have until December 31, 2007, to meet this requirement. Newly elected or appointed non-management directors are required to reach this ownership level within three years after the date of their election or appointment.

Under the Non-Management Director Compensation Plan, each non-management director is entitled to elect to receive his or her annual retainer, retainer for service as a Committee chairman, if any, retainer for services as the Lead Independent Director, if any, and meeting fees exclusively in or a combination of: (i) cash, (ii) shares of Company common stock, or (iii) a credit to an account for the director established under the PHI Executive and Director Deferred Compensation Plan as described under the heading Deferred Compensation Plans PHI Executive and Director Deferred Compensation Plan below.

The following table sets forth, as of March 19, 2007, for each non-management director who has elected to receive all or a portion of his or her annual retainer and meeting fees in phantom stock under the Deferred Compensation Plan, the number of credited phantom stock units (each corresponding to one share of common stock).

Name of Director	Pepco Holdings Phantom Stock Units
Edmund B. Cronin, Jr.	29,010
Terence C. Golden	18,726
George F. MacCormack	4,420
Richard B. McGlynn	2,222
Lawrence C. Nussdorf	3,186
Peter F. O Malley	5,297
Pauline A. Schneider	442
Lester P. Silverman	2,834

Although under the terms of the Company s Long-Term Incentive Plan, each non-management director is entitled to a grant, on May 1 of each year, of an option to purchase 1,000 shares of common stock, in 2003, the Board of Directors discontinued these grants.

Table of Contents

The following table sets forth the compensation paid by the Company to its non-management directors for the year ended December 31, 2006.

2006 DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (1)	Stock Awards	Option Awards (2)	Non-Equity Incentive Plan Compensation	Changes in Pension Value and Nonqualified Deferred Compensation Earnings (3)	All Other Compensation	Total
Edmund B. Cronin, Jr.	$ 79,000	$ 0	$ 0	$ 0	$ 0	$ 0	$ 79,000
Jack B. Dunn, IV	77,000	0	0	0	0	0	77,000
Terence C. Golden	98,000	0	0	0	0	0	98,000
Frank O. Heintz (first elected May 19, 2006)	47,816	0	0	0	0	0	47,816
George F. MacCormack	90,091	0	0	0	0	0	90,091
Richard B. McGlynn	108,000	0	0	0	0	0	108,000
Lawrence C. Nussdorf	104,045	0	0	0	0	0	104,045
Peter F. O Malley	84,955	0	0	0	71,576	0	156,531
Frank K. Ross	89,000	0	0	0	0	0	89,000
Pauline A. Schneider	85,000	0	0	0	0	0	85,000
Lester P. Silverman (first elected May 19, 2006)	45,816	0	0	0	0	0	45,816
Floretta D. McKenzie (retired May 19, 2006)	31,231	0	0	0	15,344	0	46,575

(1) Consists of retainer and meeting fees, which the director may elect to receive in cash or Company common stock or to defer under the terms of the PHI Executive and Director Deferred Compensation Plan. The following directors have elected to receive all or a portion of their 2006 retainer and meeting fees in the form of either (i) shares of PHI common stock or (ii) as a credit to the director s account under the PHI Executive and Director Deferred Compensation Plan.

Name	Shares of Common Stock	Amount of Deferred Compensation Plan Credit: Phantom Stock	Amount of Deferred Compensation Plan Credit: Non-Stock Plan Accounts
Edmund B. Cronin, Jr.	0	$ 79,000	$ 0
Jack B. Dunn, IV	0	0	77,000
George F. MacCormack	0	0	45,045
Lawrence C. Nussdorf	0	0	104,045
Frank K. Ross	965	0	0
Pauline A. Schneider	0	0	45,000
Lester P. Silverman	0	45,816	0

(2) At December 31, 2006, the following directors held options to purchase the indicated number of shares of Company common stock: Mr. Cronin 5,000 shares; Mr. Golden 4,000 shares; Dr. McKenzie 5,000 shares; Mr. Nussdorf 2,000 shares; Mr. O Malley 5,000 shares; and Ms. Schneider 2,000 shares. The Company discontinued the use of stock options as a form of director compensation starting January 1, 2003.

(3) Represents above-market earnings (as defined by SEC regulations) on director compensation deferred under the Pepco Director and Executive Deferred Compensation Plan. For a description of the terms of this plan, see Deferred Compensation Plans Pepco Director and Executive Deferred Compensation Plan below.

Table of Contents

The Company provides directors with travel accident insurance for Company-related travel and directors and officers liability insurance coverage and reimburses directors for travel, hotel and other out-of-pocket expenses incurred in connection with their performance of their duties as directors.

The Company also provides the directors with free parking in the Company s headquarters building, which is also available for use by the directors other than in connection with the performance of their duties as directors. In addition, in 2006, Company-leased entertainment venues and Company-purchased tickets to sporting and cultural events were made available to one or more directors for personal use when not being used by the Company for business purposes. There was no incremental cost to the Company of providing these benefits.

The compensation of the non-management members of the Board of Directors is reviewed periodically by the Corporate Governance/Nominating Committee which makes recommendations for changes, if any, to the Board for its approval. In September 2004, the Company, at the direction of the Corporate Governance/Nominating Committee, retained Towers Perrin to (i) advise the Committee on current trends in director compensation, including stock ownership guidelines, (ii) determine if the Company s compensation program is competitive, and (iii) evaluate the structure of the compensation program and the relative mix of compensation elements.

In December 2004, Towers Perrin delivered its report to the Corporate Governance/Nominating Committee in which it outlined trends in Board of Directors compensation, and included a review of director compensation arrangements in the utility industry generally and among companies located in the metropolitan Washington, D.C. area.

The report concluded that the Company s compensation for non-management directors fell below the 25th percentile of the utility group and at the lower end of companies located in the metropolitan Washington, D.C. area.

Towers Perrin recommended that the Company align director compensation more closely to those of Washington, D.C companies, place more weight on equity compensation, increase compensation for the members of the Audit Committee and implement stock ownership guidelines. Following a review of the report, the Board of Directors, on the recommendation of the Corporate Governance/Nominating Committee, adopted, effective January 1, 2005, the director compensation arrangements described above.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 19, 2007, for each director, director nominee, each executive officer named in the Summary Compensation Table below and all directors and executive officers as a group (i) the number of shares of common stock beneficially owned, (ii) the number of shares of common stock that could be purchased through the exercise of stock options then-currently exercisable or scheduled to become exercisable within 60 days thereafter, and (iii) total beneficial ownership. Each of the individuals listed, and all directors and executive officers as a group, beneficially owned less than 1% of the outstanding shares of common stock.

Name of Beneficial Owner	Shares of Common Stock Owned(4)	Common Stock Acquirable Within 60 Days	Total Beneficial Ownership(5)
Edmund B. Cronin, Jr.	1,425	5,000	6,425
Jack B. Dunn, IV	10,495	0	10,495
Terence C. Golden (6)	52,132	4,000	56,132
Frank O. Heintz (7)	1,500	0	1,500
Barbara J. Krumsiek	1,000	0	1,000
George F. MacCormack	11,282	0	11,282
Ed R. Mayberry	33,486	44,834	78,320
Richard B. McGlynn	5,765	0	5,765
Lawrence C. Nussdorf	5,000	2,000	7,000
Peter F. O Malley (8)	10,000	5,000	15,000
Joseph M. Rigby	37,116	0	37,116
Frank K. Ross	6,693	0	6,693
Pauline A. Schneider	3,671	2,000	5,671
Thomas S. Shaw	104,374	68,333	172,707
Lester P. Silverman	1,000	0	1,000
William J. Sim	39,603	43,934	83,537
William T. Torgerson	63,457	51,843	115,300
Dennis R. Wraase	154,825	69,843	224,668
All Directors and Executive Officers as a Group (21 Individuals)	577,406	296,787	874,193

(4) Includes shares held under the Company s Dividend Reinvestment Plan and Retirement Savings Plan. Also includes shares awarded under the Company s Long-Term Incentive Plan that vest over time if the executive officer has the right to vote the shares. Unless otherwise noted, each beneficial holder has sole voting power and sole dispositive power with respect to the shares shown as beneficially owned.

(5) Consists of the sum of the two adjacent columns.

(6) Includes 11,600 shares owned by Mr. Golden s spouse. Mr. Golden disclaims beneficial ownership of these shares.

(7) Shares are owned in the Frank O. Heintz Trust of which Mr. Heintz is Trustee.

(8) Includes 4,086 shares owned by Aberdeen Creek Corporation, of which Mr. O Malley is the sole owner.

Table of Contents

The following table also sets forth, as of March 19, 2007, the number and percentage of shares of common stock reported as beneficially owned by all persons known by the Company to own beneficially 5% or more of the common stock.

Name and Address of Beneficial Owner	Shares of Common Stock Owned	Percent of Common Stock Outstanding
Barclays Global Investors, NA	9,924,944(9)	5.18%
45 Fremont Street, 17th Floor		
San Francisco, CA 94105		
UBS AG	15,415,862(10)	8%
Bahnhofstrasse 45		
P.O. Box CH-8021		
Zurich, Switzerland		

(9) This disclosure is based on information furnished in Schedule 13G, filed with the SEC on January 23, 2007, jointly by Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Trust and Banking Company Limited, and Barclays Global Investors Japan Limited in which Barclays Global Investors, NA reports that it is the beneficial owner with sole dispositive power of 6,597,762 shares of common stock, Barclays Global Fund Advisors reports that it is the beneficial owner with sole dispositive power of 2,665,620 shares of common stock, Barclays Global Investors, Ltd. Reports that it is the beneficial owner with sole dispositive power of 426,855 shares of common stock, Barclays Global Investors Japan Trust and Banking Company Limited reports that it is the beneficial owner with sole dispositive power of 189,246 shares of common stock, and Barclays Global Investors Japan Limited reports that it is the beneficial owner with sole dispositive power of 45,461 shares of common stock.

(10) This disclosure is based on information furnished in Schedule 13G/A filed with the SEC on February 20, 2007, by UBS AG (for the benefit and on behalf of the UBS Global Asset Management business group of UBS AG), in which UBS AG reports that it is the beneficial owner of 15,415,862 shares of common stock (consisting of 15,415,862 shares as to which it has shared dispositive power and 13,344,112 shares as to which it has sole voting power).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires the directors and executive officers of a company with a class of equity securities registered under Section 12 of the Exchange Act and any beneficial owner of more than 10% of any class of the company s equity securities to file with the SEC certain reports of holdings and transactions in the company s equity securities. Based on a review of the reports filed for 2006 and on written confirmations provided by its directors and executive officers, the Company believes that during 2006 all of its directors and executive officers filed on a timely basis the reports required by Section 16(a), except that Dennis R. Wraase, Chairman, President, Chief Executive Officer and a Director of the Company, and William T. Torgerson, Vice Chairman, General Counsel and a Director of the Company, each filed one day late a report on Form 4 disclosing option exercises that had been inadvertently omitted from a Form 4 filed the previous day to report the acquisition and disposition of common stock received and sold in connection with the exercise of stock options.

Table of Contents

COMPENSATION/HUMAN RESOURCES COMMITTEE REPORT

Among its duties, the Compensation/Human Resources Committee is responsible for reviewing and discussing with the Company s management the Compensation Disclosure and Analysis (the CD&A) section of the Proxy Statement. Based on its review and discussion with management of the CD&A that follows this Report, the Committee has recommended to the Board of Directors that it be included in this Proxy Statement.

Richard B. McGlynn, Chairman

Jack B. Dunn, IV

Frank O. Heintz

George F. MacCormack

Peter F. O Malley

Frank K. Ross

COMPENSATION DISCLOSURE AND ANALYSIS

The following is a discussion and analysis of the compensation provided by the Company to its executive officers named in the Summary Compensation Table (the NEOs) as detailed in the executive compensation tables that follow. The purpose of this discussion and analysis is to explain the principles underlying the Company s executive compensation practices and to identify the factors and reasoning on which decisions regarding the compensation of the NEOs in 2006 were based.

Compensation Philosophy

The objectives of the Company s executive compensation program are to attract, motivate and retain talented executives and to promote the interests of the Company and its shareholders. To achieve these objectives, the Company s executive compensation program is designed to:

- provide executives with salaries, incentive compensation opportunities and other benefits that are competitive with comparable companies in the industry;
- reward executives for both the achievement by the Company and its business segments of targeted levels of operational excellence and financial performance and the achievement by the executives of individual performance goals; and
- align the financial interests of the executives with those of the shareholders through equity-based incentive awards and stock ownership requirements.

Responsibilities and Resources of the Compensation/Human Resources Committee

The Compensation/Human Resources Committee, the composition and responsibilities of which are described more fully above under the heading Compensation/Human Resources Committee, is responsible for all executive compensation decisions with respect to each of the NEOs, except that the annual salary of the Chief Executive Officer is set by all of the independent directors. When structuring compensation arrangements for the Company s NEOs and other executives, the Committee typically receives advice from its independent consultant on the financial costs and the tax consequences to the Company, as well as the accounting treatment, associated with the various elements of compensation.

To assist it in carrying out its responsibilities, the Committee requests and receives recommendations from the Chief Executive Officer with respect to the compensation packages of the other NEOs, including the selection and weighting of the specific performance objectives applicable to short-term and long-term incentive awards. The Committee also uses the following resources:

Compensation Consultants. In 2005, the Committee engaged Buck Consultants (the Consultant) as an independent compensation consultant to advise the Committee on executive compensation matters. The Consultant continued to serve in this capacity in 2006. Among other matters, the Consultant advises the

Table of Contents

Committee on compensation practices generally and on plan and award design matters. The Consultant also provides the Committee with survey data and other comparative information to assist it in its executive compensation decisions. The services provided by the Consultant are described in greater detail above under the heading Compensation/Human Resources Committee. While serving as the compensation consultant to the Committee, the Consultant has not had any other relationships with the Company.

Peer Group. In 2005, the Committee, with the assistance of data provided by the Consultant, conducted a review of the composition of the group of companies used by the Committee as a basis to evaluate, relative to other companies, the various elements of the Company s executive compensation program and individual compensation levels. As a result of this review, the Committee identified a group of 25 U.S. publicly traded electric or gas utilities that have total assets and a market capitalization comparable to those of the Company (the Peer Group).* Based on data for the preceding fiscal year, the Company, at that time, ranked relative to the Peer Group at the 58th percentile in total assets and at the 59th percentile in market capitalization. The composition of the Peer Group did not change in 2006.

Tally Sheets. As part of its compensation review process, the Committee reviews annually a tally sheet for each NEO prepared by the Company that identifies the material elements of the executive s compensation, including salary, short-term and long-term incentive compensation opportunity, pension accruals and other benefits. These sheets also show the severance and other payouts to which the executive would be entitled under various employment termination scenarios.

2005 Review of Executive Compensation

In 2005, the Committee, with the assistance of the Consultant, undertook an overall review of the Company s executive compensation practices. The review covered base salary and total cash compensation levels, short-term and long-term incentive program design, employment and severance agreements, retirement benefit plans, deferred compensation plans, and perquisites. The major elements of this review are discussed in this section. Additional findings are noted in the detailed discussion below of the components of the Company s executive compensation program.

Assessment of Salary and Incentive Compensation Levels. To assess the salary levels and the short-term and long-term incentive compensation opportunities provided by the Company relative to other companies, the Consultant, at the direction of the Committee, prepared an analysis (the Executive Market Pricing Review) comparing the Company s compensation arrangements to those of (a) the companies composing the Peer Group and (b) a broader survey group of companies within the energy industry generally (the Industry Survey Group). This analysis compared, for each of the Company s senior executive positions, the Company s compensation level to the respective comparison groups using the following measures: (i) salary, (ii) total cash compensation (consisting of salary combined with target annual incentive compensation), and (iii) total direct compensation (consisting of total cash compensation and long-term incentive compensation).

This analysis showed that for each of the three measures, the compensation of the executive officers in most cases fell below the median of the competitive ranges as reflected in both the Peer Group data and the Industry Survey Group data. Based on these findings, the Consultant recommended, and the Committee, after a thorough review of the Consultant s methodology and conclusions, approved, for each executive officer position, including each of the NEOs, (i) a target salary range and a framework for adjusting the salary range in future years, (ii) a target short-term incentive opportunity as a percentage of salary, and (iii) a target long-term incentive opportunity as a percentage of salary, each as more fully described in the discussion below of the components

*The companies composing the Peer Group are: Allegheny Energy Inc., Alliant Energy Corp., Ameren Corp., Centerpoint Energy Inc., Cinergy Corp., CMS Energy Corp., Consolidated Edison, DQE Inc., DTE Energy Co., Energy East Corp., Hawaiian Electric Co., Keyspan Corp., NiSource Inc., Northeast Utilities, NSTAR, OGE Energy Corp., Pinnacle West Capital Corp., PPL Corp., Puget Energy Inc., SCANA Corp., Sempra Energy, Sierra Pacific Resources, Teco Energy Inc., Wisconsin Energy Corp., and Xcel Energy Corp.

of the Company s executive compensation program. In each case, the levels were designed to approximate the 50th percentile level within the competitive range.

Long-Term Incentive Plan Design. In 2003, the Company discontinued the use of stock options as a form of long-term incentive compensation for executives. For 2004 and 2005, the Company s long-term incentive awards for executives consisted solely of performance-based shares of restricted stock that were subject to vesting at the end of a three-year performance period depending on the extent to which pre-established performance objectives were satisfied (Performance Stock). To assess the Company s long-term compensation arrangements relative to other companies, the Committee, as part of the 2005 review of executive compensation, directed the Consultant to review the long-term compensation arrangements of the Peer Group companies.

The Consultant found that 79% of the Peer Group companies had multiple long-term incentive plan instruments. The Consultant, in its report to the Committee, recommended use of a combination of Performance Stock and shares of Company common stock that vest solely on the basis of the continued employment of the executive (Restricted Stock). The Consultant noted that, whereas Performance Stock is designed to focus the executive on the achievement by the Company or a business segment of specific financial or other performance goals or on the achievement of individual performance goals, the primary objective of the Restricted Stock is executive retention and the alignment of the financial interests of the executives with the interests of the shareholders.

On the recommendation of the Consultant, the Committee approved a long-term incentive award program consisting of both (i) Performance Stock, representing two-thirds of the targeted long-term incentive award opportunity (the Performance Stock Program), and (ii) Restricted Stock, that vested after three years of service (which the Committee chose rather than pro-rata vesting over the three-year period to maximize the retention value of the award), representing one-third of the targeted long-term incentive award opportunity (the Restricted Stock Program). This allocation was selected by the Committee based on its view that the predominant portion of an executive s long-term incentive award opportunity should be tied to performance. In structuring the Company s long-term incentive compensation arrangements, the Committee noted that a number of companies in the Peer Group used stock options as a form of long-term incentive compensation in addition to, or in lieu of, Restricted Stock. The Committee concluded, however, that stock options, the value of which is contingent solely on the appreciation of a company s stock price, are of limited value in measuring the performance of a company that is primarily a public utility where the company s stock price is significantly affected by the company s dividend yield relative to prevailing interest rates.

With regard to the selection of performance measures for the vesting of shares of Performance Stock, the Committee sought to identify measures that would further the Committee s goal of ensuring that executives are rewarded only if they deliver results that enhance shareholder value. The Committee determined that this goal could be achieved by selecting performance measures that were closely tied to the achievement of important objectives under the Company s financial plan. To identify specific measures, a subcommittee of the Committee met with senior management of the Company. Based on these discussions, the subcommittee identified and recommended to the Committee, and the Committee approved, the use of (i) earnings per share or, in the case of business unit performance, earnings (excluding in each instance extraordinary items and other gains and losses relating to matters that are not reflective of the Company s ongoing business), which serve as a measure of improvements in the Company s operating results, and (ii) free cash flow, which reflects the generation of the cash available for dividends and debt reduction.

The Committee also determined that, to take into account an executive s specific responsibilities, the selected performance measures would, depending on the executive s position within the Company, apply in whole or in part to the performance of the Company as a whole or to one or more regulated (consisting of Power Delivery) or unregulated (consisting of Conectiv Energy and Pepco Energy Services) business units and could be weighted differently as between the two performance measures. The Committee further determined that the extent to which Performance Stock awards would be earned would depend on actual performance relative to the target level, with no award or a reduced award to the extent performance fell below the target and an increased

Table of Contents

award if the target is exceeded (with awards earned pro-rata for performance between the threshold and maximum levels). The table below shows the relationship between (i) performance relative to the targeted performance level and (ii) the amount of the award earned as a percentage of the target award:

Percentage Performance Relative to Target Level (Company and Power Delivery)	Percentage Performance Relative to Target Level (unregulated business units)	Amount of Award (as a Percentage of Target Award)
below 90%	below 80%	0%
90%	80%	50%
100%	100%	100%
115%	120%	200%

The narrower performance range for the Company and Power Delivery performance targets reflects the historically lower volatility of the results from regulated operations as compared to the Company s unregulated businesses.

The Components of the Executive Compensation Program

The compensation program for the Company s executives, including the NEOs, consists of the following components:

- base salary;
- cash incentive awards under the Executive Incentive Compensation Plan;
- equity incentive awards under the Long-Term Incentive Plan;
- retirement programs;
- health and welfare benefits; and
- other perquisites and personal benefits.

The following is a discussion of each of these components of executive compensation.

Base Salary. Each of the NEOs has an employment agreement with the Company, which provides that the executive is entitled to an annual base salary that is not less than his salary on the date he entered into the agreement, and which if increased may not be subsequently decreased during the term of the agreement. The Committee considers salary adjustments annually and also may consider salary adjustments in connection with promotions and in other special circumstances.

As part of the 2005 review of executive compensation, the Committee, in order to provide consistency within the Company, developed salary levels for the executives and senior management and assigned a level to each position based primarily on the decision-making responsibility associated with the position. The Committee then assigned to each salary level a salary range, with the midpoint of the range fixed at approximately the median of the competitive range as determined by the Executive Market Pricing Review. Within the range, the salary of the executive is determined based on a combination of factors, including the executive s level of experience, tenure with the Company and in the position, and performance.

The Committee also adopted a framework for the annual consideration by the Committee of adjustments to the salary range for each salary level and to the salaries of the executives at that level. To evaluate the salary ranges, the Committee obtains from the Consultant published data showing projected salary structure adjustments of other companies compiled on the basis of compensation surveys conducted by several executive compensation consultants, including the Consultant, and other compensation information resources. Upon consideration of this data, the Committee determines whether to adjust the Company s salary range for each level by a percentage selected by the Committee based on the survey data. The first such adjustment to the salary ranges occurred at the beginning of 2007 and is discussed below.

To consider adjustments to executive salaries within the salary ranges, the Committee obtains from the Consultant published data showing projected salary adjustments compiled from the same sources as the salary structure information. If this information shows an increase in salary levels, the Committee may approve a percentage increase in the total salary budget for the Company s executive employee group (currently consisting of 56 executives) that corresponds to the market increase in salaries as shown by the survey data. This increase, which is referred to as a merit budget, is available for allocation among the executive employee group in the form of salary increases based on the Committee s evaluation of the executive s performance, length of service and any other factors that the Committee considers relevant. The Committee also may consider whether a further salary adjustment for a particular executive is warranted based on the goal of generally paying an executive at the median of the competitive salary range for the executive s position.

Based on the information provided by the Executive Market Pricing Review, the Committee determined that the salary of Dennis R. Wraase, the Company s Chairman, President and Chief Executive Officer, of $759,000 for 2004 was below the 50th percentile of the Peer Group and below the 25th percentile of the Industry Survey Group. To bring his salary level more closely in line with the comparison groups, the Committee in 2005 raised the competitive salary range for his position. To place his salary more closely to the midpoint of the competitive range, the Committee approved increases in Mr. Wraase s salary to $825,000 in 2005 and to $950,000 in 2006. In approving these increases, the Committee also took into account the Company s successes under Mr. Wraase s leadership in debt reduction, succession planning and management development, diversity efforts, safety record improvements, emergency response capability improvements, business unit integration, and Sarbanes-Oxley implementation.

As part of the Executive Market Pricing Review, the Committee in 2005 also established a salary range for the chief financial officer position, and increased the salary of Joseph M. Rigby, the Company s Senior Vice President and Chief Financial Officer, from $350,000 to $400,000, which brought his salary within the competitive range. In October 2006, the Committee, effective November 1, 2006, increased Mr. Rigby s salary to $475,000, slightly below the midpoint of the competitive range. In making this decision, the Committee concluded that Mr. Rigby was performing all components of the position as Chief Financial Officer in a superior manner, noting, in particular, the significant improvement in Sarbanes-Oxley compliance, the improvement in the strategic planning process, and the development of a comprehensive financial communication plan and deployment of the plan under his direction. The Committee also noted that the current employment market for individuals with Mr. Rigby s experience was very competitive and that the increase reflected the Committee s desire to ensure his continued development and employment by the Company.

With respect to the other NEOs, the Committee determined that the salaries of each of William T. Torgerson, Thomas S. Shaw, William J. Sim and Ed R. Mayberry were close to the midpoint of the competitive salary range for his position as established by the Committee based on the Executive Market Pricing Review, and accordingly each received only modest salary increases in 2005. In 2006, the salaries of these executive officers were increased as follows: Mr. Torgerson from $492,000 to $512,000, Mr. Shaw from $488,000 to $502,000, Mr. Sim from $289,000 to $298,000, and Dr. Mayberry from $271,000 to $280,000, representing percentage increases of between 2.9% to 4.0%, and reflecting allocations by the Committee, based on individual factors referred to above, from a 3.5% merit budget for 2006.

In January 2007, the Committee, based on the data furnished by the Consultant, approved a 2.6% increase in the minimum and maximum levels in the competitive salary range for each executive officer salary level. The Committee also approved a merit budget of 3.6%, which was allocated among the executive employee group. As part of this allocation, the Committee approved the following 2007 salary increases for each of the 2006 NEOs whose employment continued into 2007:

Name	2007 Salary	Percentage Increase From 2006
Dennis R. Wraase	$ 1,025,000	7.9%
William T. Torgerson	537,000	4.88%
Thomas S. Shaw	522,000	4%

Table of Contents

In approving the increase for Mr. Wraase, the Committee noted his direction and leadership during 2006 in achieving the Company s strategic initiatives, including: the successful negotiation of a settlement in the Mirant bankruptcy proceeding, implementation of a succession plan, the re-branding efforts for the Company s utility subsidiaries, development of comprehensive legislative and regulatory proposals to address rising electricity prices, strengthening the Company s Sarbanes-Oxley compliance, the three-year total return to shareholders of 52.64%, increasing the Company s dividend, and resolution of the reliability issues associated with the Potomac River generating plant.

In approving the increase for Mr. Torgerson, the Committee took into account his experience and tenure in the position of Vice Chairman and General Counsel and noted the following achievements in 2006: the Mirant bankruptcy settlement, leadership of the Company s legislative response to rising electricity prices, and contribution to diversity in employment of new staff.

As the basis for Mr. Shaw s increase, the Committee took into account the following accomplishments in 2006: achieving targeted savings levels associated with the Conectiv merger, keeping utility operations and maintenance spending within 1.5% of budget in spite of inflationary pressure on the prices of critical materials, and support of the Company s safety initiative.

No change was made to Mr. Rigby s salary in view of the November 1, 2006 increase.

Annual Cash Incentive Awards. The Company provides its executives, including its NEOs, with an opportunity to receive annual cash bonuses under the Executive Incentive Compensation Plan. Under this plan, payments are based on the extent to which the Company, one or more business segments, or individual performance meets specified objectives (which can be based on financial or other quantitative criteria). The Committee, however, retains the discretion, whether or not the established performance objectives are achieved, to adjust awards taking into account such factors and circumstances as it determines to be appropriate. As part of the 2005 review of executive compensation, the Committee was advised by the Consultant that the design of the Executive Incentive Compensation Plan was typical of annual incentive compensation plans generally and included best practice design elements. As a result, the Committee determined that no design changes to the Executive Incentive Compensation Plan were needed.

As part of the Executive Market Pricing Review, the Consultant determined that the total cash compensation (consisting of salary and target annual incentive compensation) opportunity for the Company s chief executive officer was significantly below, and for other executive officers was somewhat below, the midpoint of the competitive range. As a result, in conjunction with establishing a salary range for each executive officer position, the Consultant recommended, and the Committee adopted, a target short-term incentive opportunity for each executive officer as a percentage of salary that is designed to raise the Company s total cash compensation opportunity to a level that more closely approximates the midpoint of the comparison groups. The target levels adopted by the Committee for the NEOs are as follows:

Name	Target as a Percent of Salary
Dennis R. Wraase	100%
Joseph M. Rigby	60%
William T. Torgerson	60%
Thomas S. Shaw	60%
William J. Sim	50%
Ed R. Mayberry	50%

Under the Executive Incentive Compensation Plan, the performance criteria used as the basis for awards and the specific targets can vary from year to year. Generally, the financial targets are based on the Company s annual financial plan. Other quantitative targets are set at levels that exceed the level of performance in prior years. For a discussion of the 2006 awards under the Executive Incentive Compensation Plan, see the section headed Executive Incentive Compensation Plan Awards following the 2006 Grants of Plan-Based Awards table below.

Table of Contents

Long-Term Incentive Plan Awards. Long-term incentive awards are made under the Long-Term Incentive Plan (the LTIP). As discussed above, the Committee, as part of the 2005 review of executive compensation, approved design changes to the Company s long-term incentive award program, with the result that (i) two-thirds of the targeted long-term incentive award opportunity consists of Performance Stock that vests to the extent that established performance objectives are achieved and (ii) the other one-third consists of Restricted Stock that vests on the basis of the executive s continued employment.

In the Executive Market Pricing Review, the Consultant determined that the total direct compensation (consisting of salary, target annual cash incentive compensation, and target long-term incentive compensation) opportunity, like the Company s total cash compensation opportunity, for the Company s chief executive officer was significantly below, and for other executive officers was somewhat below, the midpoint of the competitive range. As a result, in conjunction with establishing a competitive salary range and the establishment of annual cash incentive compensation targets for each executive officer position, the Consultant recommended, and the Committee after extensive review adopted, target long-term incentive opportunities for each executive officer as a percentage of salary that are designed to raise the Company s total direct compensation opportunity to a level that more closely approximates the midpoint of the comparison groups. The target levels adopted by the Committee for the NEOs are as follows:

Name	Target as a Percent of Salary
Dennis R. Wraase	200%
Joseph M. Rigby	100%
William T. Torgerson	100%
Thomas S. Shaw	100%
William J. Sim	70%
Ed R. Mayberry	70%

Under the terms of the Restricted Stock awards, the executive has all rights of ownership with respect to the shares, including the right to vote the shares and the right to receive dividends on the shares. The executive is entitled to retain these dividends whether or not the shares vest at the end of the employment period.

With respect to the Performance Stock awards, the performance targets for each year in the three-year performance period typically are established relative to the performance of the Company in the year immediately preceding the first year of the three-year period, and are set at levels that reflect year-to-year improvement over the three-year period and further the Committee s goal of rewarding executives only if only they deliver results that enhance shareholder value. The objective of the Committee is to set target levels, which, if achieved, would place the Company s performance at the 75th percentile within the Peer Group.

If during the course of a performance period relating to an award of Performance Stock an extraordinary event occurs that the Committee expects to have a substantial effect on a performance objective during the period, the Committee, in its sole discretion, has the authority under the LTIP to revise the performance objective. Also under the terms of the LTIP, the Committee retains the discretion to adjust a performance award, whether or not the performance objectives are attained, based on such factors as the Committee determines in its sole discretion. If, at the end of the three-year performance period, shares are earned, the executive also will be entitled to receive additional shares of Company common stock equal to the number of shares that the executive would have owned at the end of the performance period had the cash dividends paid during the performance period on a number of shares equal to the number of shares earned been reinvested in additional shares of common stock. For a discussion of the 2006 awards under the LTIP, see the section headed Long-Term Incentive Plan Awards following the 2006 Grants of Plan-Based Awards table below and for a discussion of the vesting in 2006 of awards made in prior years under the LTIP, see the 2006 Option Exercises and Stock Vested table and the accompanying narrative.

24

Table of Contents

At-Risk versus Fixed Compensation. The percentages of each NEO s short-term and long-term incentive compensation opportunities relative to the executive s salary as established by the Committee are designed to reflect the Committee s view that, as the level of an executive s responsibility increases, the percentage of the executive s compensation that is at risk and tied to company or individual performance likewise should increase. The following table shows the allocation of each NEO s total salary and short-term and long-term incentive compensation opportunities between fixed and at-risk compensation:

Name	Fixed Compensation	Target At-Risk Compensation
Dennis R. Wraase	25%	75%
Joseph M. Rigby	38%	62%