

● Corporate Governance Guidelines

● The Board of Directors of Pepco Holdings, Inc. has adopted the following Corporate Governance Guidelines to identify in writing the policies applicable to Pepco Holdings, Inc. and its subsidiaries (collectively, "PHI" or the "Company") with respect to significant matters relating to the governance of the Company. The Board's Corporate Governance/Nominating Committee has the responsibility to review these Guidelines periodically and recommend changes when and if the Committee thinks appropriate.

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Corporate Governance Guidelines

A. Composition of the Board of Directors.

- The Board of Directors of the Company consists of thirteen members, a majority of whom are independent from the Company's management. The names and biographical information on Directors can be found on the Company's Web site.
- The Board of Directors annually, upon the recommendation of the Corporate Governance/Nominating Committee, elects one of its members as Chairman of the Board. If the person elected Chairman of the Board is not an independent Director, as defined in Section E of these Guidelines, the independent Directors will, upon the recommendation of the Corporate Governance/Nominating Committee, also annually

elect an independent Director to serve as Lead Independent Director. It is the Board's policy that the position of independent Chairman of the Board or Lead Independent Director should be rotated periodically among independent directors. Absent circumstances in which the Board determines that rotation would not be in the Company's best interest, it is expected that the tenure of an independent Chairman of the Board or Lead Independent Director will not exceed five years. The Lead Independent Director shall have the duties and responsibilities set forth below. The election of a Lead Independent Director is intended to facilitate communication among the independent Directors, the Board and management, and is not intended to inhibit communication among the Directors or between any Director and management.

- Lead Independent Director

The responsibilities of the Lead Independent Director shall be as follows:

(a) Chairs executive sessions of the Board's non-management Directors and has authority to call meetings of the non-management Directors.

(b) Determines the agenda for the executive sessions of the Directors, and participates with the Chairman of the Board in establishing the agenda for Board meetings.

(c) Presides at Board meetings when the Chairman of the Board is not present.

(d) Coordinates feedback among the non-management Directors, the Chief Executive Officer and other members of management.

(e) In consultation with the Chairman of the Board, consistent with Board policy, recommends to the Corporate Governance/Nominating Committee proposed committee assignments and chairmanships to be adopted at the annual organizational meeting of Board, subject to the approval of the Board.

(f) Oversees the development of appropriate responses to communications from shareholders and other interested persons addressed to the non-management Directors as a group.

(g) On behalf of the non-management Directors, retains such counsel or other advisors as they deem appropriate in the conduct of their duties and responsibilities.

(h) Performs such other duties as the Board deems appropriate.

- Committees

(a) It is the general policy of the Board that all major decisions be considered by the Board as a whole. Consequently, the committee structure of the Board is composed of those committees that are considered basic to, or are required for, the operation of a publicly owned company. Currently the Board has three committees made up entirely of

independent Directors -- the Audit Committee, the Compensation/Human Resources Committee, and the Corporate Governance/Nominating Committee. The Finance Committee is composed entirely of non-management Directors. There is also an Executive Committee which includes management, independent and non-management Directors. Each committee has a written charter that enumerates the Committee's duties and responsibilities and which has been approved by the Board as a whole. These charters are posted on the Company's Web site and can be found by clicking on the following links:

[Audit Committee Charter](#)

[Compensation/Human Resources Committee Charter](#)

[Corporate Governance/Nominating Committee Charter](#)

[Executive Committee Charter](#)

[Finance Committee Charter](#)

Proposed changes to committee charters are reviewed by the Corporate Governance/Nominating Committee prior to being submitted to the Board for approval.

(b) Committee assignments and chairmanships are determined by the Board as a whole upon the recommendation of the Corporate Governance/Nominating Committee. In doing so, the Board believes that it is desirable to rotate both committee and chair assignments periodically, recognizing however that there may be circumstances in which such rotation is not in the Company's best interest, such as where a board member has specialized knowledge or experience. Generally, it is expected that absent such circumstances a committee chair's tenure will be limited to five years.

(c) Each committee of independent or non-management Directors is required by its charter to conduct a self-evaluation annually.

B. Role of the Board of Directors.

- The Board of Directors of the Company, which is elected by the shareholders, represents their interest in connection with the governance and management of the Company. The Board has active responsibility for broad corporate policy and overall performance of the Company to enhance long-term shareholder value. The Board and the Company's management recognize that the long-term interests of shareholders may be advanced by responsibly addressing the concerns of other stakeholders and interested parties such as employees, the communities the Company serves, customers, suppliers, governmental entities and the public at large.
- In carrying out its responsibility the Board and its committees have specific functions in addition to the general oversight of management and the Company's business performance, including providing input and perspectives in evaluating alternative strategic choices; reviewing and, where appropriate, approving significant financial and business strategies and major corporate actions; ensuring processes are in place to maintain the integrity of the Company - including integrity with respect to its financial

statements; its compliance with laws and appropriate business ethics, and its relationships with customers, suppliers and other stakeholders; assessing major risks facing the Company and reviewing options for their mitigation; selecting, evaluating and compensating the Chief Executive Officer; planning for CEO succession; and monitoring selection, compensation and succession planning for other key positions.

C. Qualifications and Nomination of Board Members.

- Responsibility of the Corporate Governance/Nominating Committee. The Corporate Governance/Nominating Committee has responsibility for considering candidates for board membership and making recommendations to the Board with respect to nominations for election by shareholders at an annual meeting or election by the Board to fill a vacancy between annual meetings.
 - Board Membership Principles. In carrying out this responsibility, the Corporate Governance/Nominating Committee has proposed, and the Board has approved, the following principles:
 - (i) The number of independent Directors should never be less than seven (7).
 - (ii) The management Directors should always include the Chief Executive Officer, there should never be more than three (3) management Directors, and any management Directors other than the Chief Executive Officer should be selected from the Company's Executive Leadership Team.
 - Board Structure. The Board should include an appropriate blend of independent, non-management and management Directors, which should result in independent Directors being predominant, and in the views of the Company's management being effectively represented. Accordingly:
- Independent Director Attributes, Skill Sets and Other Criteria.
 - (i) Independent Director candidates should possess most or all of the following attributes:
 - (ii) In aggregate, the independent Directors should possess skill sets that include but are not limited to:
 - (iii) Independent Directors should be selected to ensure diversity, in the aggregate, which diversity should include expertise or experience germane to Pepco Holdings' total business needs, in addition to other generally understood aspects of diversity

Independence, as defined in Section E of these Guidelines

Integrity

Judgment

Credibility
Collegiality
Professional achievement
Constructiveness
Public awareness

- Financial acumen equivalent to the level of a Chief Financial Officer or senior executive of a capital market, investment or financial services firm
- Operational or strategic acumen germane to the energy industry, or other industry with similar characteristics (construction, manufacturing, etc.)
- Public and/or government affairs acumen germane to complex enterprises, especially in regulated industries
- Customer service acumen germane to a service organization with a large customer base
- Legal acumen in the field(s) of regulatory or commercial law at the partner or chief legal officer level
- Salient community ties in areas of operation of Pepco Holdings' enterprises
- Corporate governance acumen, gained through service as a senior officer or Director of a large publicly held corporation or through comparable academic or other experience

3. Board Candidate Nomination Process.

- a. List of Potential Candidates. The Corporate Governance/Nominating Committee develops and maintains a list of potential candidates for Board membership. Potential candidates are recommended by Committee members and other Board members. Shareholders may put forward potential candidates for the Committee's consideration by following submission requirements published in the Company's proxy statement for the previous year's meeting.
- b. Candidate Attributes, Skill Sets and Other Criteria. The Committee annually reviews the attributes, skill sets and other qualifications for potential candidates (see Section 2 above) and may modify them from time to time based upon the Committee's assessment of the needs of the Board and the skill sets required to meet those needs.
- c. Review of Candidates. All potential candidates are reviewed by the Committee against the current attributes, skill sets and other qualifications established by the Board (see Section 2 above) to determine if a candidate is suitable for Board membership. If a candidate is deemed suitable based on this review, a more detailed review will be performed through examination of publicly available information. This examination will include consideration of the independence requirement for outside Directors, the number of boards on which the candidate serves, the possible applicability of restrictions on Director interlocks or other requirements or prohibitions imposed by applicable laws or regulations, proxy disclosure requirements, and any actual or potentially perceived conflicts of interest or other issues raised by applicable laws or regulations or the Company's policies or practices.
- d. Prioritization of Candidates. The Committee then (i) determines whether any candidate needs to be removed from consideration as a result of the detailed

review, and (ii) determines a recommended priority among the remaining candidates for recommendation to and final determination by the Board prior to direct discussion with any candidate.

- e. Candidate Contact. Following the Board's determination of a priority-ranked list of approved potential candidates, the Chairman of the Committee or, at his or her discretion, other member(s) of the Board will contact and interview the potential candidates in priority order. When a potential candidate indicates his or her willingness to accept nomination to the Board, no further candidates will be contacted. Subject to a final review of eligibility under the Company's policies and applicable laws and regulations using information supplied directly by the candidate, the candidate will then be nominated.

D. Board Member Retirement.

Directors may not serve beyond the annual meeting following their 70th birthday; provided, however, notwithstanding such limitation, a Director who initially is elected to the Board at age 64 or older, shall be permitted to serve on the Board until the next Annual Meeting following his or her 72nd birthday.

E. Board Member Independence.

1. As required by rules promulgated by the New York Stock Exchange ("NYSE"), a majority of the Company's Directors are required to be independent from the Company's management. Currently 12 of the 13 Directors meet the independence standards set forth in paragraph 2 below.
2. For a Director to be considered independent under NYSE rules, the Board must determine that the Director does not have any material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). In accordance with the NYSE's listing standards, in evaluating relationships, the Board of Directors should consider all relevant facts and circumstances when assessing the materiality of a Director's relationship with the Company, not only from the standpoint of the Director but also from that of persons or organizations with which the Director has an affiliation. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others. Without limiting the generality of the foregoing, the Board of Directors has adopted the following non-exclusive guidelines to assist it in determining whether a material relationship between a Director and the Company exists. Under the following guidelines, a Director is not independent if:
 - 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 1 of 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 \$120,000 in direct compensation from PHI, 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 is a current partner or employee of a firm that is the Company's internal or external auditor; (B) the Director has an immediate family member who is a current partner of such a firm; (C) the Director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (D) the Director or an immediate family member was within the last three years 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, PHI for property or services in an amount which, in any of such other company's 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 guideline, 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 PHI or the relationship with PHI 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 PHI or any PHI subsidiary (other than in his or her capacity as a member of the Audit Committee, the Board of Directors or any other committee of the Board of Directors), 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 PHI or any PHI subsidiary.

(ii) A Director who is an "affiliated person" of PHI 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 shall not be considered independent for purposes of Audit Committee membership. A Director who beneficially owns more than 3% of PHI's common stock will be considered to be an "affiliated person."

F. Other Director Responsibilities and Authority.

1. Directors are expected to devote sufficient time to carry out their Board and committee responsibilities effectively, including review of agendas and materials provided in advance of meetings.
2. There are no limitations or restrictions on Director access to the Company's management or employees. Regular exposure to the Company's business managers is provided through presentations at Board and committee meetings, retreats and on-site visits.
3. The Board has the authority to retain and consult independent advisors as it sees fit. Specific committees have the authority to retain consultants, advisors or counsel with respect to their areas of responsibility. For example, the Compensation/Human Resources Committee regularly retains an outside consultant with respect to executive compensation, and the Audit Committee retains and supervises the Company's Independent Registered Public Accounting Firm.
4. A member of the Board is required to inform the Chairman of the Board prior to commencing service on the board of another public company.
5. A member of the Board whose principal employment responsibilities change in a significant manner is required to tender his or her resignation to the Board. The tendered resignation will be considered by the Corporate Governance/Nominating Committee for recommendation to the Board which has final authority to determine whether to accept the tendered resignation.

G. Meetings.

1. The Board and its committees meet at regularly scheduled times during the year and as needed in specially called meetings.
2. The Board has adopted an attendance policy 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.
3. The Office of the Corporate Secretary maintains an up-to-date master schedule of Board and committee meetings which includes regular and special agenda items for each meeting, coordinated in the case of the committees to their duties and responsibilities as set forth in their charters.

4. Agendas for Board meetings are established by the Chairman with the participation of the Lead Independent Director upon the recommendation of the Corporate Secretary, taking into account any input from Directors. Committee meeting agendas are established by the Committee chairmen upon the recommendation of the Corporate Secretary and taking into account any input from other Directors.
5. At each of their meetings, the Board and each of the Committees made up of independent Directors set aside time to meet in executive session without management and/or non-management Directors or other management personnel present. In the case of the Board, the executive session is convened by the Lead Independent Director. Committees which have independent outside advisors also meet separately with them. The Audit Committee also meets separately with the Vice President and General Auditor.

H. Director Compensation.

Compensation of non-employee Directors is determined by the Board upon the recommendation of the Corporate Governance/Nominating Committee, which is authorized to retain an independent consultant to advise it as to compensation practices in comparable companies. The Board believes that compensation should be established at a level consistent with comparable market practice taking into account the size and scope of the Company's business and the responsibilities of its Directors.

I. Director Stock Ownership.

In order to align the interests of Directors and shareholders, non-management Directors are expected to own at least 7,500 shares of the Company's common stock or common stock equivalents, which must be held by the Director for so long as the Director serves on the Board. Newly appointed or elected non-management Directors will be required to attain that ownership level within three years after their initial appointment or election as a Director of the Company. Non-management Directors serving as of January 1, 2005, will be required to attain that ownership level by December 31, 2007.

Effective May 20, 2012, the targeted ownership amount for each member of the board of directors is four times the annual cash retainer. Directors have five years from the latter of the commencement of board service or the effective date of these guidelines to accumulate the required number of shares. Directors must comply with these guidelines during their board service.

J. Director Orientation and Continuing Education.

New Directors are provided an extensive package of materials relating to the Company and its operations, and are given personal orientation by the Chairman of the Board and senior executives. The Directors as a group participate in an annual retreat at which presentations are made in a wide range of subjects related to the Company's strategy and operations, both by internal Company personnel and by outside experts. Opportunities are provided for Directors to visit major Company locations and installations and meet and be briefed by employees who work

there. Directors are also encouraged to participate in formal Director education programs sponsored by outside organizations.

K. Management Succession and CEO Evaluation.

1. The Compensation/Human Resources Committee of the Board annually evaluates the performance of the CEO. The Corporate Governance/ Nominating Committee makes recommendations to the Board with respect to CEO succession.
2. The Corporate Governance/Nominating Committee is also responsible to ensure that processes are in place for management development and succession.

L. Annual Performance Evaluation of the Board.

The Board annually conducts a self-evaluation using a process approved by the Corporate Governance/Nominating Committee. The Audit, Corporate Governance/Nominating, Compensation/ Human Resources and Finance Committees are each required by their written charters to conduct annual self-evaluations.

M. Code of Business Conduct and Ethics.

1. The Company has an array of Business Policies which, in their totality, constitute its code of business conduct and ethics. These policies are applicable according to their specific terms to all Directors, Officers and employees of the Company. These Policies are published on the Company's intranet site along with detailed procedures for employees to seek help in applying them. To read the Policies in summary form [click here](#).
2. Any waiver of the requirements of the Company's business policies for a Director or executive officer must be approved by the Board of Directors. Application for such a waiver must be made in writing and will be considered by the Corporate Governance/Nominating Committee for recommendation to the Board. Any waiver granted by the Board must be promptly reported to the shareholders through the filing of Form 8-K with the Securities and Exchange Commission.
3. The Company will not, directly or indirectly, including through any subsidiary, extend or maintain credit, arrange for the extension of credit, or renew an extension of credit, in the form of a personal loan to or for any Director or executive officer (or equivalent thereof) of the Company.

N. Communications With Directors.

1. PHI's Directors encourage interested parties, including employees and shareholders, to contact them directly and, if desired, confidentially and/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 the Company's Web site under the link: Board of Directors.
2. All PHI 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. Communications addressed to multiple recipients, such as to "Directors," "all Directors," "all non-management Directors," "independent Directors," etc. will necessarily have to be opened and copied by the Office of the Corporate Secretary in order to forward them, and hence cannot be treated confidentially. If you wish to remain anonymous, do not sign your letter or include a return address on the envelope.

3. Complaints from Company employees regarding accounting, internal accounting controls, or auditing matters may be submitted in writing addressed to: Vice President and General Auditor, Pepco Holdings, Inc., 701 Ninth Street, N.W., Room 8220, Washington, D.C. 20068 or by telephone to 202-872-3524. Such complaints will be handled initially by the Internal Audit Group, which reports to the Audit Committee of the Board, and will be reported to the Audit Committee, which is made up of Directors who are independent from the Company's management.

If for any reason the employee does not wish to submit the complaint to the Vice President and General Auditor, it may be addressed to the Chairman of the Audit Committee using the procedure set forth in Section N.2 above, or can be telephoned to the Company's Ethics Officer hotline at 1-888-683-0041 or 202-872-3376.

¹ For purposes of determining independence under these categorical standards, the term "executive officer" means the Pepco Holdings, Inc. president, principal financial officer, controller, any vice president of Pepco Holdings, Inc. 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 Pepco Holdings, Inc. Officers of Pepco Holdings, Inc.'s subsidiaries are deemed to be officers of Pepco Holdings, Inc. if they perform such policy-making functions for Pepco Holdings, Inc.