Kenneth J. Parker
President
Atlantic City Electric Region

5100 Harding Highway
Mays Landing, NJ 08330

609.625.5864 – Telephone
609.625.5274 – Facsimile

kenneth.parker@atlanticcityelectric.com

July 25, 2008

VIA ELECTRONIC MAIL
energymasterplan@bpu.state.nj.us

New Jersey Board of Public Utilities
Office of Policy and Planning
Attention: Draft EMP Comments
Two Gateway Center
Newark, New Jersey 07102

RE: Atlantic City Electric Company
Draft EMP Comments

Ladies and Gentlemen:

On behalf of Atlantic City Electric Company ("ACE" or the "Company"), we would like to thank you for the opportunity to share our written comments on the draft Energy Master Plan (also referred to herein as the "EMP" or the "Plan"). ACE is a regulated public utility that provides safe, reliable and affordable energy to more than 545,000 customers in southern New Jersey.

At the outset, ACE would like to recognize the leadership of Governor Jon S. Corzine and his Administration, the Commissioners and Staff of the Board of Public Utilities (the "Board" or "BPU"), and the many other State agencies whose dedicated staffs have participated in the creation of the draft EMP. We applaud the open and transparent process under which the Plan was created.

New Jersey faces two critical energy challenges: the rising cost of energy and the impact of energy use on the environment. At the same time, customers are expecting more from their utility company when it comes to providing reliable electric service. ACE believes that the goals in the draft EMP address these critical issues. Furthermore, these goals can best be achieved if the State and the utilities actively work together to implement the goals outlined in the EMP.

We are pleased that the draft EMP envisions utility involvement; however, ACE also submits that the Plan should not limit the utility's role in participating in energy efficiency and energy conservation initiatives. The close relationships that utilities maintain with their customers enhance the utilities' ability to implement these initiatives.

Blueprint for the Future

In order to meet the State's energy challenges, ACE has a plan that we call the "Blueprint for the Future" (referred to in these comments as the "Blueprint"). The Blueprint complements the Plan and will assist in meeting many of the EMP's key goals. ACE's Blueprint includes advanced metering and related technology infrastructure ("AMI"), new demand-side management and renewable energy programs, as well as utility-managed energy efficiency and conservation programs. Implementation of these elements will ensure the Plan's goals are achieved and sustained.

The Blueprint is an ambitious, multi-faceted proposal for investing in innovative technologies and forward-thinking initiatives that will help the Company's customers manage their energy use more effectively, reduce the total cost of energy, protect the environment by reducing greenhouse gas emissions, and enhance ACE's overall system reliability.

In broad terms, ACE's vision of the Blueprint's goals are demand-side management programs, advanced metering infrastructure, and environmental and conservation programs.

The Blueprint includes ACE's proposal to manage existing demand-side management initiatives within its service territory, to establish new demand response programs, to establish AMI-supported dynamic electricity pricing, and to create a new, comprehensive energy saving pilot program. ACE has more than 15 years of experience in providing demand-side management programs to New Jersey customers and is prepared to work closely with the Board to design and implement utility-provided energy efficiency and conservation programs that would augment or supplant the Office of Clean Energy's programs. Direct utility involvement in the design and management of these programs will be an essential part of the activities needed to meet the ambitious energy consumption reductions desired by New Jersey policymakers, as articulated in the EMP.

Advanced meters provide detailed price and usage data, allowing customers to track and modify their electricity usage. These "smart meters" will help the Company enhance overall system reliability, outage management, and billing accuracy and timeliness for the benefit of ACE's customers. Advanced meters will allow the Company to collect and transmit customer information such as billing data, usage patterns, voltage levels and outage information, where the Company can process the data and use it to better serve customers. AMI systems can also be used to communicate directly with customers' thermostats and appliances and control the operation of this equipment based on energy prices. In the future, this system will allow ACE to send information, such as the price of electricity, to customers -- through a display in customers' homes or to an internet site. The Company anticipates service quality improvements, including the ability to remotely turn customers on or off, theft detection, and more accurate service transformer and wire sizing. Customer restoration will be improved with the assistance of detailed information concerning the number and location of customers out-of-service being received from advanced meters. Not only will this help the Company respond more quickly, it will also help to pinpoint the location of the problem. Finally, there are added benefits to retail

suppliers regarding access to immediate and detailed information regarding their customers' accounts.

Advanced metering will accommodate structures that support plug-in vehicles and small scale renewable power generators. ACE is currently laying the groundwork to upgrade to a more environmentally friendly fleet of cars and trucks. To further demonstrate our corporate commitment, ACE's parent company, Pepco Holdings, Inc. ("PHI"), has joined the National Action Plan on Energy Efficiency Coalition. This broad-based coalition of utilities, environmental advocacy groups, governmental agencies, state utility commissions and other stakeholders is committed to working together on environmental issues.

Transmission Infrastructure

The draft EMP should explicitly recognize that the development of transmission facilities will play a key role in achieving the State's objectives. Transmission facilities allow the import of renewable energy resources such as wind, solar power, and new nuclear energy into the State. The completion of the Mid-Atlantic Power Pathway ("MAPP"), which PHI is proposing, will provide the additional infrastructure needed to support proposed clean energy projects in the mid-Atlantic region. It also will complement New Jersey's energy efficiency and demand-side management initiatives by providing a diverse portfolio of energy supply options.

A robust electric system requires a transmission infrastructure that maintains reliability, allows for efficient markets, and encourages the addition of demand resources and generation resources. Demand resources, generation and transmission complement each other. A proper mix of these is required to provide reliable and cost-effective energy.

Transmission is an integral component of the electrical grid. It is planned on a regional basis and built to ensure reliability. A core principle is to ensure short-term, as well as long-term reliability within the region. It also facilitates economically efficient regional power markets.

New Jersey's energy policies should facilitate timely infrastructure additions to provide:

- full participation of demand resources, including conservation and energy efficiency programs;
- needed generation infrastructure additions to be built in a timely manner; and
- transmission resources that will deliver generation from the various in-State and out-of-State sources to New Jersey homes and businesses. This includes nuclear and renewable resources such as wind and solar.

Transmission is needed to:

- facilitate the reliable delivery of generation;

- strengthen the ability to use alternative energy sources that are subject to variables such as weather conditions (for example, wind and solar generation require immediate back-up energy to provide reliable customer power); and
- respond to changing generation and load conditions so reliability can be maintained. It is necessary to balance generation and load at any given moment to maintain reliability. Any geographic area must export excess generation or import energy to maintain this balance.

As New Jersey customers' demand for energy grows, and new demand resources and generation resources are added, the transmission system must be enhanced to maintain reliability requirements. The transmission network must be robust enough to maintain reliability for an unexpected loss of a generation unit or individual transmission line segment. It must also be robust enough to account for electric demand that is higher than forecasted, usually the result of exceptionally hot weather conditions. The importance of this is emphasized by many PJM, NERC and local reliability standards and requirements. If the transmission grid is not built to these standards, and the events mentioned above occur, New Jersey customers are at risk for extended black-outs. This is especially true during peak energy use periods.

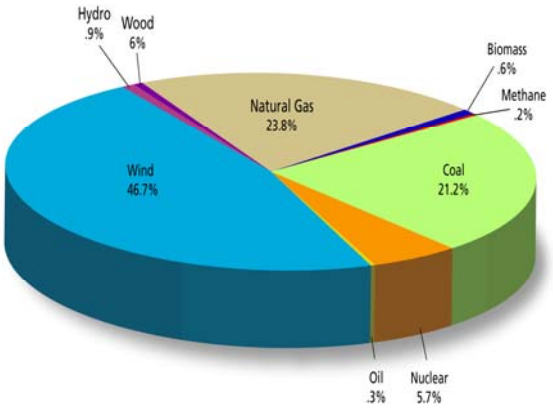
The transmission grid is currently in need of enhancements. It has been 25 years since major backbone transmission projects have been built in PJM. There is a need to take steps now to reinforce the PJM transmission system serving the eastern mid-Atlantic region.

New Jersey, like most mid-Atlantic states, is a net importer of energy. Initiatives like PHI's MAPP project will be supplying energy to New Jersey. This is especially important to:

- maintain reliability;
- provide power during peak usage periods (when State resources are inadequate to meet demand);
- stabilize energy costs (lower cost energy, especially during peak demand periods, to avoid run-away prices); and
- provide backup energy at any given instant in support of intermittent renewable energy sources that may not be available at peak load times.

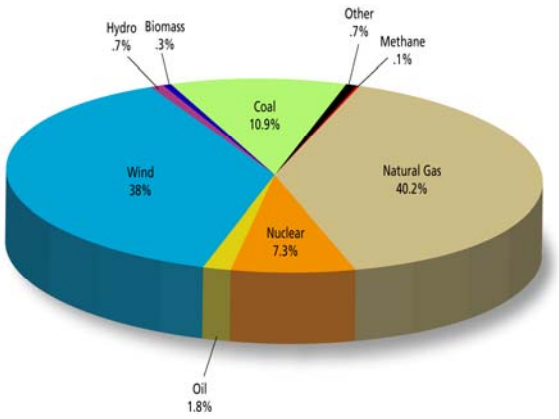
During periods where New Jersey requires additional energy, transmission provides a path to New Jersey from various locations within the grid to where it is needed. For example, according to the American Wind Energy Association, Virginia has a potential wind generation capacity of 1,380 MW. The following chart shows the significant wind-generation proposals within the western portion of PJM compared to the mid-Atlantic region.

Proposed Electricity Generation by Type for PJM West



Total= 40,636 MW

Proposed Electricity Generation by Type for PJM Mid-Atlantic



Total= 39,652 MW

Source: PJM Website—Generation Interconnection Queue

Having a geographically diverse portfolio of wind is also important because the lack of wind at any given time in one region can be offset by other regions where the wind is blowing.

Transmission will also allow the interconnection with, and delivery of, potential nuclear plant expansions, providing access to clean, reliable energy sources. This will further enhance the State's capability to meet greenhouse gas and other air emission reduction targets. In summary, transmission is needed to maintain reliability, stabilize the cost of electricity and facilitate interconnection and delivery of existing and future renewable energy resources.

The MAPP initiative is a significant transmission project that will help accomplish these goals.

Demand response and renewable energy resources will continue to become a more important part of meeting New Jersey's future energy needs and ACE will continue to support efforts in these areas.

Power Authority

With respect to the Power Authority concept embodied in the Plan, ACE does not see the need for the creation of a Power Authority, but the Company does support a State Energy Council that would coordinate policy and permitting, and attempt to streamline an extremely complex and time-consuming process. The combined and coordinated efforts of the various

State agencies and the active support of the utility companies are required to achieve the goals of the draft EMP.

Billing Stabilization Adjustment

To remove any seeming conflict between the goals of the draft EMP and the utilities' duties to their shareholders, ACE has suggested a rate adjustment mechanism that would remove the link between electricity use and revenues. Under this mechanism (which is sometimes referred to as decoupling), a Bill Stabilization Adjustment would periodically "true-up" over- or under-recovery of BPU-approved utility distribution revenues through a series of bill credits or charges that would adjust for revenues that are above or below the amounts approved as necessary by the Board. These usage changes will occur during unusually hot or cold weather or as the result of the successful implementation of conservation programs. If customers participate in conservation programs and thus conserve energy, they will still see reduced bills due to the reduced supply costs, which make up the majority of customer's bills and which have been increasing rapidly due to the increased cost of fuel(s) in the world market.

An electric utility's costs for providing services are generally fixed, regardless of the amount of electricity that is delivered to customers. The decoupling method proposed by ACE, the Bill Stabilization Adjustment, provides for a matching of revenues in quarterly periods with amounts that the BPU has approved. It also removes any disincentive to utilities for offering energy efficiency programs to customers.

The draft EMP notes (on pages 53 and 54) that certain states have implemented rate restructuring to eliminate financial disincentives to gas and electric utilities from implementing conservation and efficiency programs. The Company submits that a well-designed rate restructuring program should have the following attributes:

- It will provide a stable means for the recovery of essentially fixed costs, while maintaining a rate structure that is dependent on volumetric components. This will serve to make the Company whole for its cost of service, while providing the individual customer an incentive to conserve.

- It will position the Company financially to be a stakeholder in the promotion of energy efficiency measures.

- It would provide customers with reasonably stable bills over the course of a year. The mechanism should appropriately consider each service classification on an individual basis. Additionally, an effort should be made to identify and exclude rate classes that, due to size or usage characteristics, may not benefit from the mechanism.

- The mechanism should be understandable and verifiable based on available accounting data.

The Company's Bill Stabilization Adjustment, recently approved for PHI affiliates in Maryland, possesses all of the above attributes. The annual revenue recovery for each class is fixed at a per customer level determined in a base rate proceeding. Each month, individual customers receive bills based on their metered usage. At the end of the billing month, the total actual revenue for the class is compared to the fixed, approved level of revenue, and any overage or underage is put in the Billing Stabilization Adjustment Surcharge, which is applied in a subsequent month. Since the total class revenue collected does not vary because of customer conservation, the Company has no disincentive to invest in conservation. The calculation is submitted to the staff of the public utility commission each month for review before implementation. The calculation is easily verifiable from inputs readily obtainable from company records.

Since the approval of the Billing Stabilization Adjustment, PHI's Maryland affiliates have filed a comprehensive set of Demand Side Management programs for approval under their respective Blueprint for the Future dockets. This enhanced level of corporate interest in conservation and efficiency programs parallels the experience in New York and California cited in the draft Plan.

The Company respectfully submits that the Maryland-adopted decoupling method is better at removing the conservation disincentive than the pilot program that was approved by the Board for two gas utilities in October 2006. The primary reason for its superiority is that there appears to be much less uncertainty that the appropriate level of agency-approved base revenue will be recovered. The current New Jersey gas pilot program -- known as the Conservation Incentive Program ("CIP") -- falls short of removing a utility's disincentive for conservation efforts. The CIP establishes a surcharge for the participating utility to recover revenue lost due to conservation programs, but the surcharge is limited. Lost revenues are recoverable only to the extent they are offset by long-term supply costs savings and limited by an earnings cap. Recovery is uncertain and depends upon whether the utility is earning above or below the cap. There may be unknown financial impacts due to factors that strongly influence the surcharge that many times are unknown and outside the control of the utility. There is also a requirement for Board approval for any change in the surcharge rate. This presents uncertainty for the utility.

Goal 2 of the draft EMP calls for reducing peak energy demand. Two action items identified to achieve that goal include (1) expanding real time pricing to commercial and industrial customers and (2) the development of a smart grid infrastructure. Through increased usage information and corresponding price signals during times of peak demands, these two items provide key elements required for customers to modify usage patterns, conceivably resulting in the reduction of peak demands.

Inverted Tariff Pricing

Action Item 3 proposes the evaluation of a strong inverted tariff pricing program for residential customers as a potential mechanism to reduce peak demand. Inverted block tariffs are designed such that the customer pays a higher price if consumption exceeds a certain level. The consumption is simply measured in aggregate over a time period (usually, monthly) with no

consideration of *when* the usage occurred. Stated another way, under an inverted rate structure, there is a high likelihood that the customer will receive the wrong price signal, and inefficient usage of electricity may result. Any rate mechanism that does not include a time of use feature can have only an untargeted effect on overall consumption and is unlikely to result in a meaningful peak demand reduction. Given the typical residential customer's daily load pattern, an approach that more directly influences behavior during peak hours would be more appropriate. This will be much more efficient in controlling demand and energy usage.

ACE respectfully submits that a strong inverted tariff pricing system will not be an efficient means to achieve the EMP's goals. The implementation of AMI and the smart grid infrastructure will facilitate the development of dynamic and critical peak pricing along with other flexible pricing options, which will more directly and efficiently support the goals of the Plan, as the pricing structure will be efficient in controlling demand and energy usage when it is most costly. An inverted rate does not have the ability to directly match high cost periods to high price periods.

Long-Term Contracts to Purchase Energy

Finally, any long-term contracts to purchase energy, capacity or renewable energy credits should be analyzed against all possible supply alternatives to assure that the obligation to provide customers with reliable, cost-effective supply is met. The term and size of contracts for renewable energy should recognize the need for a balance between assuring customers stable prices in the years ahead and the potential for new and innovative technology changes that would drive down costs and open up new opportunities.

The EMP challenges utilities, the State, and other interested parties to find new, environmentally acceptable and reasonably priced sources of electricity generation with a preference for construction within New Jersey. ACE is willing to help meet these challenges and stands ready to contribute the knowledge and ability learned with its utility affiliates across several jurisdictions. An essential part of the challenge is to coordinate these innovative initiatives with the continuation of the successful Basic Generation Service ("BGS") procurement process. Today, all the needs of our customers are met through bundled, managed supply contracts with wholesale suppliers. In the future, as we bring in the new supplies contemplated by the EMP, the BGS supply, of necessity, becomes "unbundled." This means that some -- and perhaps eventually all -- of the electricity to be provided to ACE's customers will be procured from a variety of sources. Such a "portfolio" approach will require a process to procure the several components of electricity supply (capacity, energy, renewable supply, ancillary services and transmission) from the appropriate wholesale markets within PJM. This portfolio will include the solar and other Renewable Energy Certificates necessary to meet the goals as established in New Jersey. ACE is able to provide a managed portfolio approach that balances the costs and risks associated with electricity procurement.

The EMP contemplates that ACE might enter into contracts for the various components of supply that may exceed the current three-year terms of BGS supply. Generally, investors in

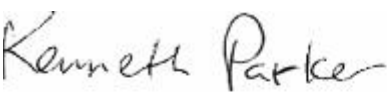
new generating plants and renewable resource facilities desire longer term purchase contracts for electricity in order to secure financing for their investments. It is desirable for the purchasers themselves to have a long-term obligation to deliver the electricity to retail customers. Ultimately, it is retail customers who provide the stable, long-term demand for the electricity, and the essential security for investments in new energy sources. Utilities, such as ACE, are expected to enter into longer term contracts on behalf of their customers.

Longer term contracts, like generation asset ownership, are inconsistent with retail choice. As long as customers can choose an electricity provider other than ACE, there is a significant risk that remaining customers will be stranded with the costs of longer term resource contracts. It is therefore fundamental that the issue of retail choice be resolved *before* longer term commitments are made. ACE is willing to consider longer term contracts if retail choice is restricted or an equivalent provision is made for recovery of costs from all customers through non-bypassable charges.

Planning for power supplies, including longer term contracts, is best handled through a considered process where the costs, opportunities, benefits and risks are evaluated across a range of options for specific retail customers, considering also the specific demand reduction, energy efficiency, and renewable energy requirements of those customers. Balance must be obtained between stable prices through longer term contracts, and purchases that reflect the periodic changes in contemporary prices. Longer term purchases, once made, decrease future flexibility. Therefore, it is important to leave some supply to be purchased later to capture technology innovations, the reduced costs of renewable resources that are expected over time, and the changes in customer use patterns that are expected from energy efficiency and demand reduction initiatives. ACE is familiar with such planning and can provide the analysis necessary to evaluate the options for its customers. Such planning is integral with the portfolio approach to procuring electricity. Planning periodically sets the guidelines and the strategy for acquisition of longer term supplies. Portfolio management addresses the tactical decisions of meeting customer loads within the guidelines and within the established boundaries for cost and risk. ACE recommends that planning and procurement to meet the EMP goals for its electricity customers be implemented using this coordinated supply planning/portfolio management approach. The Company also recommends that the appropriate assurance of cost recovery be implemented for longer term commitments, whether by elimination of retail choice or the provision for recovery of non-bypassable charges from all customers.

ACE thanks all parties for the opportunity to share written comments and looks forward to participating in the finalization and implementation of the draft EMP in the near future.

Respectfully submitted,



/jpr

Kenneth J. Parker
President, Atlantic City Electric Region