



**Matthew K. Segers**  
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April 1, 2013

**PUBLIC VERSION**

Mr. David J. Collins  
Executive Secretary  
Maryland Public Service Commission  
William Donald Schafer Tower  
6 St. Paul Street, 16<sup>th</sup> Floor  
Baltimore, Maryland 21202

**Re: 2012 Potomac Electric Power Company's  
and Delmarva Power & Light Company's  
Annual Report for Minority, Women and  
Service Disabled Veteran-Owned  
Business Enterprises for 2012**

Dear Mr. Collins:

Delmarva Power & Light Company and Potomac Electric Power Company has filed a Confidential version of the Annual Report for Minority, Women and Service-Disabled Veteran-Owned Business Enterprises for January 1, 2012 through December 31, 2012.

Please contact me if you should have any questions

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Segers", with a long horizontal flourish extending to the right.

Matthew K. Segers

Enclosures

cc: Paula M. Carmody, People's Counsel  
Leslie M. Romine, Staff Counsel

# **DELMARVA POWER & LIGHT COMPANY**

## **ANNUAL REPORT FOR THE MINORITY, WOMEN AND SERVICE-DISABLED VETERAN-OWNED BUSINESS ENTERPRISES**

**JANUARY 1, 2012 THROUGH  
DECEMBER 31, 2012**

**Delmarva Power & Light Company  
Annual Report for  
Minority, Women and Service-Disabled Veteran-Owned  
Business Enterprises  
January 1, 2012 – December 31, 2012**

The following is the Annual Report pursuant to the State of Maryland Public Service Commission Memorandum of Understanding (MOU), signed on February 6, 2009. This Annual Report is submitted for the consideration of the Maryland Public Service Commission by Delmarva Power & Light Company (Delmarva Power or the Company), a Pepco Holdings, Inc. Company (PHI).

During the period January 1, 2012 through December 31, 2012, Delmarva Power spent **\$48.1** million on diverse supplier procurement, accounting for **16.860%** of total procurement spending and exceeding the target of **9.120%**.

Delmarva Power's procurement for goods and services totaled **\$285.3** million in direct spend and **\$0.1** million in subcontract (Tier 2) spend for a total of **\$285.4 million**. Delmarva Power's direct spend to diverse suppliers was **\$48.0** million and its subcontract spend was **\$0.1** million for a total of **\$48.1** million. The expenses for the PHI Corporate Services Company as of December 31, 2012 were **\$76.7** million dollars. Diverse contractors received **\$9.7** million in 2012 payments. The PHI Corporate Services Company dollars spent are not included in the dollars reported above.

<b>Diverse Suppliers</b>	<b>Annual Goal</b>	<b>Jan - Dec</b>
<b>Delmarva Power</b>	<b>2012</b>	<b>2012 Actual</b>
Minority Business Enterprise	6.000%	3.824%
Women Business Enterprise	3.000%	12.923%
Service Disabled Veteran Enterprise	0.020%	0.075%
Not For Profit Workshops	<u>0.100%</u>	<u>0.038%</u>
<b>Total</b>	<b>9.120%</b>	<b>16.860</b>

**As part of the Memorandum of Understanding, the Annual report shall contain at least the following elements:**

- 1. A description of Diverse Supplier Program activities engaged in during the previous calendar year. This description shall include both internal and external activities. (MOU § 6.2.1.)**

Delmarva Power participated in the following internal and external activities:

**INTERNAL EFFORTS**

- ❑ Delmarva Power maintains internal balanced scorecard metrics to track power delivery activities including contract spend with diverse suppliers and inclusion of diverse suppliers in bid opportunities. Detailed Supplier Diversity reports for all levels of management are posted to the Company's intranet site.
- ❑ Internal group and team meetings were held across the Company during the year to discuss available opportunities, share feedback on progress, and develop ideas to expand opportunities to diverse suppliers. Employees were encouraged to work together to maximize competitive opportunities for diverse suppliers and increase diverse spend in order to meet internal goals.
- ❑ Supplier Diversity staff met with and participated in staff meetings and more formal educational meetings with various departments including: Customer Care, Delmarva Power Operations, Corporate Communications, Human Resources, Corporate Affairs and Corporate Citizenship. These meetings frequently resulted in requests for sourcing new or upcoming opportunities and in expanding the knowledge base of employees.
- ❑ The Director, Supply Chain and Supplier Diversity teams met with the Executive Leadership team to review plans, discuss any obstacles to meeting goals, and debate other issues impacting Supplier Diversity. The results of the prior year are reviewed with a focus on improvement in the upcoming year.
- ❑ Delmarva Power continued to improve internal processes and systems to enhance internal reporting in order to provide useful and actionable data.
- ❑ Delmarva Power employed Sourcing Workflow, a key tool which provides Supplier Diversity exposure to new requisitions for contract services. The system is useful in tracking procurements of \$100,000 or greater from requisition to contract and allows the addition of suppliers to the candidate bidder pool.
- ❑ PHI contracted with CVM Solutions for Tier 2 data collection, reporting and validation in late 2012, after the reporting system used by Supplier Diversity was no longer available. The new Tier 2 program management services will be available in early 2013.
- ❑ Delmarva Power's Supplier Diversity Manager participated in cross-functional teams to develop strategies for critical projects including infrastructure projects to assure inclusion in the bidding of competitive contracts.
- ❑ The Supplier Diversity team hosted networking events as well as the Women President's Educational Organization (WPEO) *Done Deals* event which celebrated contracts involving woman-owned businesses.
- ❑ It is the policy of PHI to require that certain persons working at the Company (i) certify annually that they understand PHI's Corporate Business Policies, (ii) certify annually that they have completed the applicable course regarding the Sarbanes-Oxley Act (the "SOX Course"), and (iii) disclose (A) any conflicts of interest they may have with PHI's

interests, or (B) any other matters that should be disclosed under those policies. If the person is in a supervisory position, the Annual Certification includes a representation that discussions with employees about PHI's Business Policies including Supplier Diversity have taken place.

## EXTERNAL EFFORTS

- ❑ PHI Treasury executives met with and evaluated diverse investment and finance firms in 2012. PHI was recognized by Robert Clayton, a representative of the National Association of Security Professionals, for including a minority-owned business as co-manager on **\$250 million dollar** Delmarva Power first mortgage bonds (closed June 26, 2012).
- ❑ PHI selected a minority-owned firm to audit pension, voluntary employee benefits and savings plans.
- ❑ Other notable successes for Delmarva Power during 2012 include \$17 million paid to a minority-owned firm for cable, \$4.1 million paid to a minority-owned firm for underground construction and \$5.5 million paid to a woman-owned firm for AMI installation services.
- ❑ The Maryland Utility Forum met on a bi-monthly basis to discuss issues experienced by various utilities; utilities were encouraged to share information, discuss common objectives, advance supplier diversity initiatives, foster consistency in reporting, and share best practices. Maryland Commission staff were also invited to the meetings to address any open issues or to resolve issues. Rhonda Mencarini, Pepco, served as Chairman and Tom Tudor, SMECO, was Vice-Chairman.

The assessment of third-party certifiers was presented to the Maryland Public Service Commissioners at the July 17, 2012 hearing on PC-16. The results of the assessment will be reviewed by Staff and attached to the MOU updating Schedule 2.

A shared site for Maryland Utility Forum information, including the revised third party certified diverse suppliers, is being transferred to a new database to allow for improved access and content management.

- ❑ Delmarva Power continued its engagement with local, regional and national diverse business advocacy organizations. Staff time and attendance at events was designed to educate and provide opportunities to identify potential suppliers and contractors. Delmarva Power staff participated in conferences, seminars and workshops held by advocacy organizations. Staff also delivered presentations, served as panelists, provided workshops and educated diverse suppliers on Delmarva Power's business, procurement practices and additional contact information for supplier follow-up. The advocacy organizations Delmarva Power supported during 2012 include the following:
  - The National Minority Supplier Development Council (NMSDC);

- The MD/DC Minority Supplier Development Council (MD/DC MSDC);
  - PA/NJ/DE Minority Supplier Development Council (PA/NJ/DE MSDC);
  - Women's Business Enterprise National Council (WBENC);
  - PA/NJ/DE Women's Business Enterprise Council (PA/NJ/DE WBEC);
  - Women President's Education Organization (WPEO);
  - The Elite Service-Disabled Veterans Organization;
  - The Edison Electric Institute (EEI) Supplier Diversity Committee;
  - State of Maryland Governor's Office of Minority Affairs (GOMA);
  - Maryland Washington Minority Contractors' Association (MWMCA); and
  - Prince George's County MD Supplier Development and Diversity Division (PG SDDD).
- ❑ The Director of Supply Chain joined a panel of corporate executives to share personal insights that may help diverse suppliers in their professional development at the *MD/DC MSDC Annual Procurement Conference* held in Washington, DC.
  - ❑ *How to Do Business with Corporate America* was the topic of discussion at the Annual Maryland Hispanic Business Conference. This event is a collaborative effort of the regional Hispanic Chambers of Commerce and related organizations.
  - ❑ *I'm Certified Now What?* was the topic of a panel discussion where Supplier Diversity staff spoke. The event was presented by the National Association of Women Business Owners (NAWBO) and other organizations in the Baltimore and Washington regions.
  - ❑ The Maryland Washington Minority Contractors Association held two events: an *Annual Spring Breakfast and Procurement Fair* and the *Small, Minority and Woman Owned Business Expo and Symposium*. Supplier Diversity and Supply Chain team members were on hand to meet with diverse suppliers and learn about the suppliers' businesses and how they might be matched with procurement opportunities.
  - ❑ The WPEO-DC *Prime Suppliers and Second Tier Opportunities Speed Networking Event* focused on connecting WPEO certified woman-owned businesses with prime suppliers in order to get to know each other and market products and services to the prime contractors.
  - ❑ The *WPEO Corporate Roundtable* provided a forum for discussion of best practices on ways for large corporations to advance diverse supplier inclusion and business development tactics.
  - ❑ Women's Business Enterprise Program (WBEC) Council Meeting is an all-day event which features successful women business enterprises. Participants share how they arrived at their success via the Women's Business Enterprise Council advocacy efforts. PHI participates in this event as a part of the Company's supplier diversity initiatives for outreach and networking.

- ❑ Delmarva Power staff participated in the PA/NJ/DE MSDC Business Forum at New Barnes Museum. The Director of Supply Chain joined a panel of corporate executives to share personal insights that may help diverse suppliers in their professional development.
- ❑ Delmarva Power participated in the MegaBizFest Procurement and Business Conference. This is the City of Wilmington's annual signature procurement and business event for veterans, women and minority businesses. Delmarva Power partnered with the U.S. SBA and the Delaware District Office for MEDWEEK Celebration which stimulates economic opportunities and growth for small, women, veteran and minority-owned businesses.
- ❑ Delmarva Power took part in the eWomen's Leadership Success Summit mini trade show to meet women business owners.
- ❑ Staff participated in the PA/NJ/DE Women's Business Enterprise Council Annual Meeting as a part of Delmarva Power's supplier diversity initiatives for outreach and networking.
- ❑ Delmarva Power is actively involved with the PA/NJ/DE MSDC, serving on the board of directors and supporting trade fairs and other MBE networking events. Pepco Holdings Inc. was the winner of the Regional Corporation of the Year Award for 2012.
- ❑ PHI is proud of the recognition Supplier Diversity has garnered for initiatives to advance inclusion and increase opportunities for diverse businesses. The recognition received from January 1, 2012 through December 31, 2012 includes:
  - Diversity/Careers in Engineering & Information Technology **"Best Diversity Company 2012"** for Supplier Diversity;
  - Black Enterprise Magazine **"40 Best Companies for Diversity" for Supplier Diversity, Senior Management and Board of Director Diversity**;
  - Hispanic Business **"2012 Best Companies for Diversity"**;
  - Minority Business News USA **"101 Companies Supplier Diversity Best in Class"**;
  - PA-NJ-DE MSDC **"Regional Corporation of the Year"** Award; and
  - Prince George's County MD Supplier Development and Diversity Division **"Outstanding Supplier Diversity Operations"** Award.

**2. An overall summary of total Diverse Supplier spend, with breakdowns by socially disadvantaged group, compared with total Utility dollars spent of goods and services covered by this MOU.**

See Attachment A-1, Socially Disadvantaged Groups (MOU § 6.2.2.a.).

3. **A summary of total Diverse Supplier spend by NAICS Code, with breakdowns by Diverse Suppliers within each NAICS Code, compared with total Utility dollars spent within that NAICS Code on goods and services covered by this MOU.**

See Attachment A-2, NAICS Codes (MOU § 6.2.2.b.).

4. **A comparison of (1) the actual dollars spent with Minority Business Enterprises, Women Business Enterprises, Service Disabled Veteran Enterprises, Women Business Enterprises, and Service Disabled Veteran Enterprises compared with total Utility dollars spent on goods and services covered by the MOU with (2) the Goals for each type of business enterprise set pursuant to Section 5.1.**

See Attachment A-3, Goal Comparison (MOU § 6.2.2.c.).

5. **Throughout this MOU, the Utility shall report its spend, such that each dollar spent may only be reported, and counted toward the goal, once. For example, dollars spent with minority women-owned businesses can be reported and counted toward either the minority owned business enterprise Goal or the women-owned business Goal, but not toward both. Similarly, dollars spent with service disabled veteran business enterprises can be reported and counted either as service disabled veteran business enterprise procurement or the appropriate women or minority business enterprise Goal, but not toward both. (MOU § 6.2.2.d.)**

Delmarva Power's reporting complies with the intent of the MOU.

6. **An itemization of Diverse Supplier program expenses including salaries, outreach, etc., compared with total Utility dollars spent on general and administrative expenses. See Attachment B (program Expenses). The salary information contained in Attachment B may be filed with the Commission confidentially. (MOU § 6.2.3.)**

See Attachment B in the Annual Report, identified as "CONFIDENTIAL", for the itemization of the Diverse Supplier program expenses including salaries, outreach etc. compared with total Utility dollars.

7. **A description of progress in meeting or exceeding set Goals and an explanation of any circumstances that may have caused the Utility to fall short of or exceed its Goals. The Utility shall include a comprehensive discussion and detailed description of any efforts made to recruit Diverse Suppliers of products and services in areas that are traditionally underserved by Diverse Suppliers. The Utility may also explain in detail in its annual report how its ability to meet its Diverse Supplier Goals is affected because**



**Diverse Suppliers capable of supplying certain products and services are unavailable or uncompetitive. (MOU § 6.2.4.)**

- ❑ Delmarva Power set the goals for diverse procurement in 2009 and has exceeded those goals every year. Two Maryland based woman-owned firms received over half of the \$48.1 million; one firm specializes in underground construction and the other electronics.
- ❑ Delmarva Power met the service disabled veteran goal; however, the availability of service-disabled veterans for contracting opportunities remains limited despite active involvement and membership in The Elite Service-Disabled Veteran's Organization. Delmarva Power continues to support the organization in order to help meet Service Disabled Veterans Owned Business (SDVOB) goals.

**8. A description of Prime Contractor utilization of Diverse Supplier Subcontractors. (MOU § 6.2.5.)**

The Tier 2 reporting system, launched in 2009, identified diverse suppliers providing products and services on behalf of Delmarva by prime contractors. In 2012, 35 prime contractors reported second-tier spend for third-party certified suppliers and included their commitment to diverse inclusion in the contracting process.

The Tier 2 reports submitted by prime contractors during the first and second quarters of 2012 were verified as certified diverse suppliers by CVM Solutions, the new contractor for 2012 Tier 2 management. Unfortunately, the reporting portal was not available for the third and fourth quarter 2012 due to termination of the prior reporting system contract.

Prime contractors utilized diverse suppliers as Tier 2 providers for an array of products and services during 2012. Tier 2 contracts included environmental consulting, distribution equipment, safety systems and equipment, underground construction, electrical and electro-mechanical equipment, facility management services, line hardware, and electrical equipment.

Delmarva Power worked with diverse suppliers without current ownership certification to get the certification or did not count the firm as diverse in 2012.

**9. A list of Diverse Supplier procurement-related Complaints received during the past year, accompanied by a brief description of the nature of each Complaint and its resolution or current status. See Attachment C (Complaints). (MOU § 6.2.6.)**

There were no Diverse Supplier procurement-related complaints reported directly to Delmarva Power during the 2012 reporting year. See Attachment C.

**10. A discussion of the Utility's review process for addressing complaints. (MOU § 6.2.7)**

The policy for formal procurement-related complaints is to notify the Director of Supply Chain to follow-up and address the complaint (MOU §6.2.7).

- 11. A list identifying each Diverse Supplier that received payments for contract service for the reporting year, the NAICS Code(s) for the services provided, and the dollar amount paid to the vendor for the reporting year. If the Diverse Supplier is certified pursuant to sections 2.2.1, 2.2.2, or 2.2.3, that should be indicated, along with the relevant Section under which the certification is effective and the date, if relevant, that the certification became effective. Attachment D may be filed with the Commission confidentially. (MOU § 6.2.8.) See Attachment D (Vendor List)**

See Attachment D for the list of Diverse Suppliers that received a payment for 2012 contract services, the NAICS Code(s) for the services provided, and the dollar amount paid to each.

- 12. A description of any efforts made to recruit Diverse Suppliers of products or services in NAICS Code categories where Diverse Supplier utilization has been low, such as legal, accounting, auditing, underwriting, technology, testing, research and development, construction, demolition, financial services, public relations and government affairs, and other venture areas that are considered highly technical in nature. (MOU § 6.2.9.)**

- ❑ The number of SDVOB qualified and registered to provide services and/or materials to Delmarva is limited. A contract with a disabled veteran for the multi-lease of IT hardware for over \$1 million was released late 2012. PHI reviewed the VetBiz.com database to seek SDVOB businesses for opportunities.
- ❑ PHI Treasury executives met with and evaluated diverse investment and finance firms in 2012. PHI was recognized by Robert Clayton, a representative of the National Association of Security Professionals, for including a minority-owned business as co-manager on \$250 million Delmarva Power first mortgage bonds (closed June 26, 2012). In addition, PHI selected a minority-owned firm to audit pension, Voluntary Employee Benefits and savings plans.

- 13. Utilities shall retain all documents and data they rely on in preparing their Diverse Supplier annual report for the longer of either three years or in conformance with the utilities' individual document retention policies, and shall provide these documents and data to the Commission upon request. (MOU § 6.2.10.)**

PHI is in compliance with document retention policies. Three years of data are maintained in the offices of Supplier Diversity. Data older than three years have been transferred to an off-site storage facility.

ATTACHMENT A-1							
UTILITY NAME:		Delmarva					
FOR THE REPORTING YEAR:		2012					
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
LINE #	DESCRIPTION	DIRECT (\$)	SUB CONTRACT (\$)	DIVERSE SUPPLIER PROCUREMENT (\$)	PERCENTAGE (%) OF DIVERSE SUPPLIER PROCUREMENT	TOTAL UTILITY PROCUREMENT (\$)	PERCENTAGE (%) OF DIVERSE SUPPLIER (\$ TO TOTAL UTILITY PROCUREMENT
				COLS. (C) + (D)	\$ / TOTAL COL. (E)		Col. (E) / Col. G
	MINORITY BUSINESS ENTERPRISE						
1	AFRICAN-AMERICAN	\$4,156,571	\$108,710	\$4,265,281	39.08%		1.494%
2	AMERICAN INDIAN/NATIVE AMERICAN	\$3,466,834	\$0	\$3,466,834	31.76%		1.215%
3	ASIAN	\$3,173,326	\$0	\$3,173,326	29.07%		1.112%
4	HISPANIC	\$8,850	\$0	\$8,850	0.08%		0.003%
5	TOTAL MINORITY BUSINESS ENTERPRISE	\$10,805,581	\$108,710	\$10,914,291	100.00%		3.824%
7							
8	WOMEN BUSINESS ENTERPRISE	\$36,865,186	\$24,348	\$36,889,534	99.13%		12.923%
9							
10	SERVICE DISABLED VETERAN BE	\$213,648	\$0	\$213,648	0.57%		0.075%
11							
12	NOT FOR PROFIT WORKSHOPS	\$109,447	\$0	\$109,447	0.29%		0.038%
	TOTAL PROTECTED CLASS	\$37,188,281	\$24,348	\$37,212,629	100.00%		13.04%
13							
14	GRAND TOTAL	\$47,993,862	\$133,058	\$48,126,920	100.00%	285,450,966	16.860%

## ATTACHMENT A-2

UTILITY NAME: Delmarva

FOR THE REPORTING YEAR: 2012

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
LINE #	NAICS #	PRODUCT/SERVICE DESCRIPTIONS BY NAICS CODE 1, 2	MINORITY BUSINESS ENTERPRISE	WOMEN BUSINESS ENTERPRISE	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	NOT FOR PROFIT WORKSHOPS	TOTAL DIVERSE SUPPLIER (\$) BY NAICS CODE	PERCENTAGE (%) TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS	TOTAL UTILITY PROCUREMENT	PERCENTAGE OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT
							COLS. (D), (E), (F), and (G)	\$ / TOTAL COL. (H) %	\$	COL. (H) / TOTAL COL. (H) %
1	237	Construction - General	\$3,466,834	\$12,750,981	\$213,648	\$0	\$16,431,463	34.142%		
2	238	Specialty Trade Contractors	\$8,850	\$10,825,705	\$0	\$0	\$10,834,555	22.512%		
3	335	Elec Equip/Component Mfg	\$2,135,402	\$6,026,266	\$0	\$0	\$8,161,667	16.959%		
4	423	Merchant Wholesaler, Durable	\$1,272	\$1,553	\$0	\$0	\$2,825	0.006%		
5	424	Merchant Wholesalers Non-Durable	\$1,180,429	\$0	\$0	\$0	\$1,180,429	2.453%		
6	454	Non store retailers	\$1,188,487	\$0	\$0	\$0	\$1,188,487	2.469%		
7	541	Professional, Scientific, and Technical Services		\$294,722		\$0	\$294,722	0.612%		
8	561	Administrative and Support Services	\$2,824,308	\$6,965,958	\$0	\$109,447	\$9,899,713	20.570%		
		Delmarva - 2nd tier spend	108,710	24,348	\$0	\$0	133,058	0.276%		
Totals			\$10,914,291	\$36,889,534	\$213,648	\$109,447	\$48,126,920	100.000%	\$285,450,966	16.86%
			3.82%	12.92%	0.07%	0.04%	16.86%			

Public Service Commission of Maryland  
 Supplier Diversity Annual Report of  
 Goal Comparison  
 (MOU Sec. 6.2.2)

ATTACHMENT A-3			
		UTILITY NAME:	Delmarva Power
		FOR THE REPORTING YEAR:	2012
(A)	(B)	(C)	(D)
LINE #	DESCRIPTION	CURRENT YEAR RESULTS (%)	CURRENT YEAR GOALS (%)
1	MINORITY BUSINESS ENTERPRISE	3.824%	6.000%
2			
3	WOMEN OWNED BUSINESS ENTERPRISE	12.923%	3.000%
4			
5	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	0.075%	0.020%
6			
7	NOT FOR PROFIT WORKSHOPS	0.038%	0.100%
8			
9	TOTAL	16.860%	9.120%

**CONFIDENTIAL**  
**ATTACHMENT B**  
**REMOVED**

PUBLIC SERVICE COMMISSION OF MARYLAND  
SUPPLIER DIVERSITY ANNUAL REPORT OF  
COMPLAINTS  
(MOU SEC 6.25)

<b>ATTACHMENT C</b>					
		UTILITY NAME:	Delmarva		
		FOR THE REPORTING YEAR:	2012		
(A)	(B)	(C)	(D)	(E)	(F)
LINE #	NAME OF COMPANY	FILING DATE OF COMPLAIN T	NATURE OF COMPLAINT	RESOLVED YES OR NO	IF NO, PLEASE PROVIDE CURRENT STATUS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
No formal complaints filed during 2012					

**CONFIDENTIAL**  
**ATTACHMENT D**  
**REMOVED**



# **POTOMAC ELECTRIC POWER COMPANY**

## **ANNUAL REPORT FOR THE MINORITY, WOMEN AND SERVICE-DISABLED VETERAN-OWNED BUSINESS ENTERPRISES**

**JANUARY 1, 2012 THROUGH  
DECEMBER 31, 2012**

**Potomac Electric Power Company  
Annual Report for  
Minority, Women and Service-Disabled Veteran-Owned  
Business Enterprises  
January 1, 2012 – December 31, 2012**

The following is the Annual Report pursuant to the State of Maryland Public Service Commission Memorandum of Understanding (MOU), signed on February 6, 2009. This Annual Report is submitted for the consideration of the Maryland Public Service Commission by the Potomac Electric Power Company, (Pepco or the Company) a Pepco Holdings, Inc. Company (PHI).

During the period January 1, 2012 through December 31, 2012, Pepco spent **\$54.4** million on diverse supplier procurement, accounting for 8.783% of total procurement spending. The 2012 percentage of diverse procurement is 1.22% less than the target of **10.003%**.

Pepco's utility procurement for goods and services totaled **\$616.6** million in direct spend and **\$3.3** million in subcontract (Tier 2) spend for a total of **\$620.0 million**. Pepco's direct spend to diverse suppliers was **\$51.2** million and its subcontract spend was \$3.3 million for a total of **\$54.4** million, or **8.783%** of total utility procurement for goods and services.

<b>Diverse Suppliers Pepco</b>	<b>Annual Goal 2012</b>	<b>Jan - Dec 2012 Actual</b>
Minority Business Enterprise	7.000%	6.158%
Women Business Enterprise	3.000%	2.618%
Service Disabled Veteran Enterprise	0.002%	0.000%
Not For Profit Workshops	<u>0.001%</u>	<u>0.008%</u>
<b>Total</b>	<b>10.003%</b>	<b>8.783%</b>

Procurement expenditures in 2012 were \$124 million dollars more than expenditures in 2011 due to Pepco's reliability improvement plan work.

The expenses for the PHI Corporate Services Company as of December 31, 2012 were **\$76.7** million dollars. Diverse contractors received **\$9.7** million in 2012 payments. The PHI Corporate Services Company dollars spent are not included in the dollars reported above.

**As part of the Memorandum of Understanding, the Annual report shall contain at least the following elements:**

- 1. A description of Diverse Supplier Program activities engaged in during the previous calendar year. This description shall include both internal and external activities. (MOU § 6.2.1.)**

Pepco participated in the following internal and external activities:

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- ❑ Pepco maintains internal balanced scorecard metrics to track power delivery activities including contract spend with diverse suppliers and inclusion of diverse suppliers in bid opportunities. Detailed Supplier Diversity reports for all levels of management are posted to the Company's intranet site.
- ❑ Internal group and team meetings were held across the company during the year to discuss available opportunities, share feedback on progress, and develop ideas to expand opportunities to diverse suppliers. Employees were encouraged to work together to maximize competitive opportunities for diverse suppliers and increase diverse spend in order to meet internal goals.
- ❑ Supplier Diversity staff participated in Pepco's staff meetings and more formal educational meetings with various departments including: Customer Care, Pepco Operations, Corporate Communications, Human Resources, Corporate Affairs and Corporate Citizenship. These meetings frequently resulted in requests for sourcing new or upcoming opportunities and in expanding the knowledge base of employees.
- ❑ The Director, Supply Chain and Supplier Diversity teams met with the Executive Leadership team to review plans, discuss any obstacles to meeting goals, and debate other issues impacting Supplier Diversity. The results of the prior year are reviewed with a focus on improvement in the upcoming year.
- ❑ Pepco continued to improve internal processes and systems to enhance internal reporting in order to provide useful and actionable data.
- ❑ Pepco employed Sourcing Workflow, a key tool which provides Supplier Diversity exposure to new requisitions for contract services. The system is useful in tracking procurements of \$100,000 or greater from requisition to contract and allows the addition of suppliers to the candidate bidder pool.
- ❑ PHI contracted with CVM Solutions for Tier 2 data collection, reporting and validation in late 2012, after the reporting system used by Supplier Diversity was no longer available. The new Tier 2 program management services will be available in early 2013.

- ❑ Pepco's Supplier Diversity Manager participated in cross-functional teams to develop strategies for critical projects including infrastructure projects, to assure inclusion in the bidding of competitive contracts.
- ❑ The Supplier Diversity team hosted networking events as well as the Women President's Educational Organization (WPEO) *Done Deals* event which celebrated contracts involving woman-owned businesses.
- ❑ It is the policy of PHI and its affiliates to require that certain persons working at the Company (i) certify annually that they understand PHI's Corporate Business Policies, (ii) certify annually that they have completed the applicable course regarding the Sarbanes-Oxley Act (the "SOX Course"), and (iii) disclose (A) any conflicts of interest they may have with PHI's interests, or (B) any other matters that should be disclosed under those policies. If the person is in a supervisory position, the Annual Certification includes a representation that discussions with employees about PHI's Business Policies including Supplier Diversity have taken place.

#### EXTERNAL EFFORTS

- ❑ PHI Treasury executives met with and evaluated diverse investment and finance firms in 2012. PHI was recognized by Robert Clayton, a representative of the National Association of Security Professionals, for including a minority-owned business as co-manager on **\$250 million dollar** mortgage bonds (closed June 26, 2012).
- ❑ PHI selected a minority-owned firm to audit pension, Voluntary Employees Beneficiary Association post-retirement medical expense account (VEBA) and savings plans.
- ❑ Other notable successes for Pepco during 2012 include \$17 million paid to a minority-owned firm for cable, \$4.1 million paid to a minority-owned firm for underground construction and \$5.5 million paid to a woman-owned firm for AMI installation services.
- ❑ The Maryland Utility Forum met on a bi-monthly basis to discuss issues experienced by various utilities; utilities were encouraged to share information, discuss common objectives, advance supplier diversity initiatives, foster consistency in reporting, and share best practices. Maryland Commission staff were also invited to the meetings to address any open issues or to resolve issues. Rhonda Mencarini, Pepco, served as Chairman and Tom Tudor, SMECO, was Vice-Chairman.

The assessment of third-party certifiers was presented to the Maryland Public Service Commissioners at the July 17, 2012 hearing on PC-16. The results of the assessment will be reviewed by Staff and attached to the MOU updating Schedule 2.

A shared site for Maryland Utility Forum information including the revised third party certified diverse suppliers is being transferred to a new database to allow for improved access and content management.

- Pepco continued its engagement with local, regional and national diverse business advocacy organizations. Staff time and attendance at events was designed to educate and provide opportunities to identify potential suppliers and contractors. Pepco staff participated in conferences, seminars and workshops held by advocacy organizations. Staff also delivered presentations, served as panelists, provided workshops and educated diverse suppliers on Pepco's business, procurement practices and additional contact information for supplier follow-up. The advocacy organizations Pepco supported during 2012 include the following:
  - The National Minority Supplier Development Council (NMSDC);
  - The MD/DC Minority Supplier Development Council (MD/DC MSDC);
  - PA/NJ/DE Minority Supplier Development Council (PA/NJ/DE MSDC);
  - Women's Business Enterprise National Council (WBENC);
  - Women President's Education Organization (WPEO);
  - The Elite Service-Disabled Veterans Organization;
  - The Edison Electric Institute (EEI) Supplier Diversity Committee ;
  - State of Maryland Governor's Office of Minority Affairs (GOMA);
  - Maryland Washington Minority Contractors' Association (MWMCA); and
  - Prince George's County MD Supplier Development and Diversity Division (PG SDDD).
- The Director of Supply Chain joined a panel of corporate executives to share personal insights that may help diverse suppliers in their professional development at the *MD/DC MSDC Annual Procurement Conference* held in Washington, DC.
- The *MD/DC MSDC New MBE Orientation*, held at the Choice Hotels International Headquarters in Silver Spring, Maryland provided newly certified minority owned businesses (MBEs) an opportunity to learn how they can leverage their MBE certification in procurement opportunities.
- The Director of Supply Chain and Supplier Diversity staff attended the *Annual MBE Breakfast and Tech Talk Seminar* for MBEs held at Verizon Headquarters in Silver Spring, Maryland. The event was designed to provide visibility among the MD/DC MSDC certified minority businesses and other corporate members.
- Pepco staff partnered with Prince George's County staff to present the first annual Prince Georges' County Maryland Business Conference and Expo, *Primetime Business with Prime Contractors*. Pepco Supplier Diversity was supported by Pepco employees at this event with more than 800 attendees representing regional governments and businesses. The conference was an opportunity for local suppliers to become familiar with opportunities with local governments as well as large corporations currently doing business at the local level.
- Pepco staff employees attended the WPEO-DC *Annual Breakthrough Breakfast and Procurement Fair*, held at the JW Marriott in Washington, DC. This annual event

provides panels, speakers, and matchmaking opportunities for certified women-owned businesses and corporate members.

- ❑ *How to Do Business with Corporate America* was the topic of discussion at the Annual Maryland Hispanic Business Conference. This event is a collaborative effort of the regional Hispanic Chambers of Commerce and related organizations.
- ❑ *I'm Certified Now What?* was the topic of a panel discussion where Supplier Diversity staff spoke. The event was presented by the National Association of Women Business Owners (NAWBO) and other organizations in the Baltimore and Washington regions.
- ❑ The Maryland Washington Minority Contractors Association held two events: an *Annual Spring Breakfast and Procurement Fair* and the *Small, Minority and Woman Owned Business Expo and Symposium*. Supplier Diversity and Supply Chain team members were on hand to meet with diverse suppliers and learn about the suppliers' businesses and how they might be matched with procurement opportunities.
- ❑ The WPEO-DC *Prime Suppliers and Second Tier Opportunities Speed Networking Event* focused on connecting WPEO certified woman-owned businesses with prime suppliers to get to know each other and market products and services to the prime contractors.
- ❑ The *WPEO Corporate Roundtable* provided a forum for discussion of best practices on ways for large corporations to advance diverse supplier inclusion and business development tactics.
- ❑ Pepco staff supported the Prince George's County Community College Center for Minority Business Development *Minority Procurement and Business Development Conference: Opening Doors to New Opportunities*.
- ❑ PHI is proud of the recognition it has received for Supplier Diversity initiatives to advance inclusion and increase opportunities for diverse businesses. The recognition received from January 1, 2012 through December 31, 2012 includes:
  - Diversity/Careers in Engineering & Information Technology "**Best Diversity Company 2012**" for Supplier Diversity;
  - Black Enterprise Magazine "**40 Best Companies for Diversity**" for **Supplier Diversity, Senior Management and Board of Director Diversity**;
  - Hispanic Business "**2012 Best Companies for Diversity**";
  - Minority Business News USA "**101 Companies Supplier Diversity Best in Class**";
  - PA-NJ-DE MSDC "**Regional Corporation of the Year**" Award; and
  - Prince George's County MD Supplier Development and Diversity Division "**Outstanding Supplier Diversity Operations**" Award.

2. **An overall summary of total Diverse Supplier spend, with breakdowns by socially disadvantaged group, compared with total Utility dollars spent of goods and services covered by this MOU.**

See Attachment A-1, Socially Disadvantaged Groups (MOU § 6.2.2.a.).

3. **A summary of total Diverse Supplier spend by NAICS Code, with breakdowns by Diverse Suppliers within each NAICS Code, compared with total Utility dollars spent within that NAICS Code on goods and services covered by this MOU.**

See Attachment A-2, NAICS Codes (MOU § 6.2.2.b.).

4. **A comparison of (1) the actual dollars spent with Minority Business Enterprises, Women Business Enterprises, Service Disabled Veteran Enterprises, Women Business Enterprises, and Service Disabled Veteran Enterprises compared with total Utility dollars spent on goods and services covered by the MOU with (2) the Goals for each type of business enterprise set pursuant to Section 5.1.**

See Attachment A-3, Goal Comparison (MOU § 6.2.2.c.).

5. **Throughout this MOU, the Utility shall report its' spend, such that each dollar spent may only be reported, and counted toward the goal, once. For example, dollars spent with minority women-owned businesses can be reported and counted toward either the minority owned business enterprise Goal or the women-owned business Goal, but not toward both. Similarly, dollars spent with service disabled veteran business enterprises can be reported and counted either as service disabled veteran business enterprise procurement or the appropriate women or minority business enterprise Goal, but not toward both. (MOU § 6.2.2.d.)**

Pepco's reporting complies with the intent of the MOU.

6. **An itemization of Diverse Supplier program expenses including salaries, outreach, etc., compared with total Utility dollars spent on general and administrative expenses. See Attachment B (program Expenses). The salary information contained in Attachment B may be filed with the Commission confidentially. (MOU § 6.2.3.)**

See Attachment B in the Annual Report, identified as "CONFIDENTIAL", for the itemization of the Diverse Supplier program expenses including salaries, outreach etc., compared with total Utility dollars spent on general and administrative expenses.

7. **A description of progress in meeting or exceeding set Goals and an explanation of any circumstances that may have caused the Utility to fall short of or exceed its Goals. The Utility shall include a comprehensive discussion and detailed description of any efforts made to recruit Diverse Suppliers of products and services in areas that are traditionally underserved by Diverse Suppliers. The Utility may also explain in detail in its annual report how its ability to meet its Diverse Supplier Goals is affected because**

**Diverse Suppliers capable of supplying certain products and services are unavailable or uncompetitive. (MOU § 6.2.4.)**

- ❑ Pepco set the goals for diverse procurement in 2009. The estimate used for the calculation of goals in the ensuing years did not include the significant increase in total spend. Pepco missed the target goal primarily due to infrastructure improvement projects where no diverse suppliers exist.
- ❑ Accu-Read Services was a diverse contractor that was providing meter reading services for Pepco. The company was sold and the contract continued under the new majority owner; however, the 2012 contract payment of \$4.4 million could no longer be counted under diverse supplier spend.
- ❑ The availability of service-disabled veterans for contracting opportunities remains limited despite active involvement and membership in The Elite Service-Disabled Veteran's Organization. Pepco continues to support the organization in order to help meet Service Disabled Veterans Owned Business (SDVOB) goals.

**8. A description of Prime Contractor utilization of Diverse Supplier Subcontractors. (MOU § 6.2.5.)**

The Tier 2 reporting system, launched in 2009, identified diverse suppliers providing products and services on behalf of Pepco by prime contractors. In 2012, 35 prime contractors reported second-tier spend for third-party certified suppliers and included their commitment to diverse inclusion in the contracting process.

The Tier 2 reports submitted by prime contractors during the first and second quarters of 2012 were verified as certified diverse suppliers by CVM Solutions, the new contractor for 2012 Tier 2 management. Unfortunately, the reporting portal was not available for the third and fourth quarter 2012 due to termination of the prior reporting system contract.

Prime contractors utilized diverse suppliers as Tier 2 providers for an array of products and services during 2012. Tier 2 contracts included environmental consulting, distribution equipment, safety systems and equipment, underground construction, electrical and electro-mechanical equipment, facility management services, line hardware, and electrical equipment.

Pepco worked with diverse suppliers without current ownership certification to get the certification or did not count the firm as diverse in 2012.

**9. A list of Diverse Supplier procurement-related Complaints received during the past year, accompanied by a brief description of the nature of each Complaint and its resolution or current status. See Attachment C (Complaints). (MOU § 6.2.6.)**



There were no Diverse Supplier procurement-related complaints reported directly to Pepco during the 2012 reporting year. See Attachment C.

**10. A discussion of the Utility's review process for addressing complaints. (MOU § 6.2.7)**

The policy for formal procurement-related complaints is to notify the Director of Supply Chain to follow-up and address the complaint (MOU §6.2.7).

**11. A list identifying each Diverse Supplier that received payments for contract service for the reporting year, the NAICS Code(s) for the services provided, and the dollar amount paid to the vendor for the reporting year. If the Diverse Supplier is certified pursuant to sections 2.2.1, 2.2.2, or 2.2.3, that should be indicated, along with the relevant Section under which the certification is effective and the date, if relevant, that the certification became effective. Attachment D may be filed with the Commission confidentially. (MOU § 6.2.8.) See Attachment D (Vendor List)**

See Attachment D for the list of Diverse Suppliers that received payment for 2012 contract services, the NAICS Code(s) for the services provided, and the dollar amount paid to each.

**12. A description of any efforts made to recruit Diverse Suppliers of products or services in NAICS Code categories where Diverse Supplier utilization has been low, such as legal, accounting, auditing, underwriting, technology, testing, research and development, construction, demolition, financial services, public relations and government affairs, and other venture areas that are considered highly technical in nature. (MOU § 6.2.9.)**

- ☐ The number of SDVOB qualified and registered to provide services and/or materials to Pepco is limited. A contract with a disabled veteran for the multi-year lease of IT hardware for over \$1 million was released. PHI reviewed the VetBiz.com database to seek SDVOB businesses for opportunities.
- ☐ PHI Treasury executives met with and evaluated diverse investment and finance firms in 2012. PHI was recognized by Robert Clayton, a representative of the National Association of Security Professionals, for including a minority-owned business as co-manager on \$250 million first mortgage bonds (closed June 26, 2012). In addition, PHI selected a minority-owned firm to audit pension, Voluntary Employee Benefits and savings plans.

**13. Utilities shall retain all documents and data they rely on in preparing their Diverse Supplier annual report for the longer of either three years or in conformance with the utilities' individual document retention policies, and shall provide these documents and data to the Commission upon request. (MOU § 6.2.10.)**

PHI is in compliance with document retention policies. Three years of data are maintained in the offices of Supplier Diversity. Data older than three years have been transferred to an off-site storage facility.

Public Service Commission of Maryland  
Supplier Diversity Annual Report of  
Socially Disadvantaged Groups  
(MOU Sec. 6.2.2)

ATTACHMENT A-1							
		UTILITY NAME:	Pepco				
		FOR THE REPORTING YEAR:	2012				
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
LINE #	DESCRIPTION	DIRECT (\$)	SUB CONTRACT (\$)	DIVERSE SUPPLIER PROCUREMENT (\$)	PERCENTAGE (%) OF DIVERSE SUPPLIER PROCUREMENT	TOTAL UTILITY PROCUREMENT (\$)	PERCENTAGE (%) OF DIVERSE SUPPLIER TO TOTAL UTILITY PROCUREMENT
				COLS. (C) + (D)	\$ / TOTAL COL. (E)		Col. (E) / Col. G
	MINORITY BUSINESS ENTERPRISE						
1	AFRICAN-AMERICAN	\$32,234,652	\$302,965	\$32,537,617	85.246%		5.249%
2	AMERICAN INDIAN/NATIVE AMERICAN	\$0	\$38,940	\$38,940	0.102%		0.006%
3	ASIAN	\$1,747,308	\$12,916	\$1,760,224	4.612%		0.284%
4	HISPANIC	\$1,836,805	\$1,995,447	\$3,832,252	10.040%		0.618%
5	TOTAL MINORITY BUSINESS ENTERPRISE	\$35,818,765	\$2,350,268	\$38,169,033	100.000%		6.158%
6							
7							
8	WOMEN BUSINESS ENTERPRISE	\$15,309,050	\$921,286	\$16,230,336	0.997%		2.618%
9							
10	SERVICE DISABLED VETERAN BE	\$0	\$0	\$0	0.000%		0.000%
11							
12	NOT FOR PROFIT WORKSHOPS	\$46,582	\$0	\$46,582	0.003%		0.008%
		\$15,355,632	\$921,286	\$1,643,968,753	1.000%		2.626%
13							
14	GRAND TOTAL	\$51,174,397	\$3,271,554	\$1,682,137,786	271.368%	\$619,873,183	271.368%

Public Service Commission of Maryland  
Supplier Diversity Annual Report of  
NAICS Codes  
(MOU Sec. 6.6.2)

ATTACHMENT A-2										
UTILITY NAME: FOR THE REPORTING YEAR:			Pepco 2012							
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
LINE #	NAICS #	PRODUCT/SERVICE DESCRIPTIONS BY NAICS CODE <sup>1,2</sup>	MINORITY BUSINESS ENTERPRISE	WOMEN BUSINESS ENTERPRISE	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	NOT FOR PROFIT WORKSHOPS	TOTAL DIVERSE SUPPLIER (\$) BY NAICS CODE	PERCENTAGE (%) TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS	TOTAL UTILITY PROCUREMENT	PERCENTAGE OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT
							COLS. (D), (E), (F), and (G)	\$ / TOTAL COL. (H)		COL. (H) \$ / TOTAL COL. (H)
			\$	\$	\$	\$	\$	%	\$	%
1	237	Heavy Civil Engineering Construction	\$10,380,590	\$2,885,788	\$0	\$0	\$13,266,378	2.1402%		
2	238	Specialty Trade Contractors	\$704,435	\$5,523,026	\$0	\$0	\$6,227,460	1.0046%		
3	335	Electrical Equipment, Appliances, Component Manufacturing	\$16,716,703	\$572,095	\$0	\$0	\$17,288,798	2.7891%		
4	423	Merchant Wholsaler, Durable Goods	\$111,065	430	\$0	\$0	\$111,495	0.0180%		
5	454	Nonstore Retailer	\$1,285,788	\$23,003	\$0	\$0	\$1,308,791	0.2111%		
6	541	Professional, Scientific, and Technical Services	\$1,309,171	\$707,269	\$0	\$46,582	\$2,063,022	0.3328%		
7	561	Administrative and Support Services	\$5,311,013	\$5,597,439	\$0	\$0	\$10,908,452	1.7598%		
		Pepco - 2nd tier spend	\$2,350,268	\$921,286	\$0	\$0	\$3,271,554	0.5278%		
		Totals	\$38,169,032	\$16,230,336.45	\$0	\$46,582	\$54,445,950.82	8.7834%	\$619,873,183	8.78%
			6.158%	2.618%	0.00%	0.008%	8.78%			

Public Service Commission of Maryland  
Supplier Diversity Annual Report of  
Goal Comparison  
(MOU Sec. 6.2.2)

ATTACHMENT A-3			
	UTILITY NAME:	Pepco	
	FOR THE REPORTING YEAR:	2012	
(A)	(B)	(C)	(D)
LINE #	DESCRIPTION	CURRENT YEAR RESULTS (%)	CURRENT YEAR GOALS (%)
1	MINORITY BUSINESS ENTERPRISE	6.158%	7.000%
2			
3	WOMEN OWNED BUSINESS ENTERPRISE	2.618%	3.000%
4			
5	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	0.000%	0.002%
6			
7	NOT FOR PROFIT WORKSHOPS	0.008%	0.001%
8			
9	TOTAL	8.784%	10.003%

**CONFIDENTIAL**  
**ATTACHMENT B**  
**REMOVED**

Public Service Commission of Maryland  
Supplier Diversity Annual Report of  
Complaints  
(MOU Sec. 6.2.5)

ATTACHMENT C					
	UTILITY NAME: <b>Pepco</b>				
	FOR THE REPORTING YEAR: <b>2012</b>				
(A)	(B)	(C)	(D)	(E)	(F)
LINE #	NAME OF COMPANY	FILING DATE OF COMPLAINT	NATURE OF COMPLAINT	RESOLVED YES OR NO	IF NO, PLEASE PROVIDE CURRENT STATUS
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
	<b>No complaints filed during 2012</b>				

**CONFIDENTIAL**  
**ATTACHMENT D**  
**REMOVED**