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Kim M. Watson
Vice President

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February 26, 2009

The Honorable Roger Berliner
Vice President
Montgomery County Council
100 Maryland Avenue
Rockville, MD 20850-2322

Dear Councilmember Berliner:

Over the last several weeks, Pepco has seen an increase in the number of high bill complaints as customers pay their electric bills from January 2009. They seek answers to their questions about high bills amid falling energy prices. Some incorrectly believe that Pepco has instituted a rate increase without regulatory approval or public notification. We believe it is important for us to share with you pertinent facts in the event that you are contacted by your constituents about their electricity bills.

Primary concerns surround the issue of higher prices for the commodity of electricity. Since deregulation of this market nearly a decade ago, Pepco no longer generates electricity. Our role is to purchase this commodity for our customers in a competitive bid process overseen by the Public Service Commission. Today, consumers are using electricity procured through purchasing agreements from 2007 and 2008 when commodity prices were much higher.

The commodity price of electricity is reflected in the 'generation' portion of a customer's bill, which represents about 75% of the total cost for residential customers. As a result of the last auction, the average winter residential bill increased by 8.6% in October 2008. Approximately 20% of an electric bill is for distribution services, which represents the core operations of our utility. The last increase in distribution rates occurred in August 2007, resulting in an increase of 3.3% for an average residential bill.

The primary drivers for the increased bill amounts last month could likely be attributed to the following:

Colder Weather

This past January was an unusually cold month in our area. In fact, the National Weather Service reports this was the coldest January in five years with an average temperature of 31.6 degrees.

Increased Usage

When the temperature drops below 30 degrees, many heat pumps run constantly (on supplemental resistance heat) in order to maintain a comfortable temperature.

For some customers, electricity usage has increased due to the popularity of consumer electronics, including computers, plasma TV's, digital video recorders, etc.

Extended Billing Cycle

Another factor is the length of the billing period. Many customers experienced an extended billing cycle in December and January ranging from 34 to 38 days vs. the normal cycle of 28 to 32 days. These longer billing cycles were the result of the many holidays in December and January as well as the Presidential Inauguration.

Pepco recognizes the economy has taken its toll on residents and businesses across the region. In the short-term, we are working closely with our customers to: arrange time payment plans whenever possible; encourage enrollment in the budget billing program; and promote both public and private energy assistance programs. Pepco offers the on-line audit tool "My Account," which can be accessed on Pepco.com to help identify energy saving actions for a specific residential account.

Together, we will work toward solutions to rising energy costs through energy efficiency programs and technological advancements proposed in Pepco's Blueprint for the Future. A key component of our strategy to reduce energy costs for our customers is our proposed smart grid. In Maryland, we have submitted applications for smart community plans in both Montgomery (Bethesda) and Prince George's Counties (Fort Washington). The smart grid will not only empower customers to manage their energy use but also provide a date certain meter read and virtually eliminate the need for estimated meter reads for those customers receiving smart meters. This future-focused approach to energy management is currently under consideration at the Public Service Commission. In the meantime, we will continue to do all we can to help our customers cope with rising energy costs, while maintaining our ability to provide safe and reliable electricity through sound business practices.

We, at Pepco, understand your concerns and hope that this explanation, along with energy conservation tips in the enclosed brochure, will help you respond to constituent inquiries about high bills. If you have additional questions, please do not hesitate to contact my office.

Sincerely,



Kim Watson

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