OPC
OFFICE OF PEOPLE'S COUNSEL
State of Maryland

A Consumer's Guide To:

Pepco's Proposed Multi-Year Rate Plan

The price that utility companies like the Potomac Electric Power Company (Pepco) charge customers must be approved by the government. In Maryland, rates are reviewed and approved by the Public Service Commission (PSC). While in other industries, competition incentivizes companies to keep prices low, utilities are regulated because they do not have to compete against other companies in their service areas. As regulated entities, utilities enjoy lower market risks than other industries.

What Is Pepco's Proposed Multi-Year Rate Plan?

Each time a regulated utility company wants to increase the price it charges for distributing electricity or natural gas, the company files an application with the PSC. In May 2023, Pepco filed an application for a multi-year rate plan (MRP) requesting that the PSC approve a series of rate increases over three years. This MRP is Pepco's second; the PSC approved its first MRP in 2021.

An MRP does not just determine three years of rate adjustments at once, but also fundamentally changes how rates are set. In a standard rate case, the justification for a rate increase is based on spending by the utility company in a prior year. This allows the PSC to assess how reasonable the company's spending was when determining rates and setting levels of cost recovery for future years. In an MRP, rates are instead based on projected spending, with little accountability.

Compared to standard rate setting procedures, an MRP also allows utilities to charge customers for the costs of projects before those projects are used to serve customers. In their rates, customers may even pay for projects the utility has not even started working on yet. This recovery method reduces the utility's regulatory risk by allowing much faster cost recovery, shifting risk of utility overspending away from utility investors to customers.

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What Rate Increase Is Pepco Proposing?

Pepco's MRP application requests to increase the rate charged for the distribution of energy—the rate charged for delivering electricity to your home. The commodity cost (the cost of the energy itself) is passed directly through to customers. The utility does not control other costs, such as taxes, that are included in a customer's bill. Separating out the distribution rate increases from the rest of the utility bill provides a clear picture of the rate increases Pepco is proposing. The charts below provide Pepco distribution rates from past years for context, the current rates, and the rates requested by Pepco.

Pepco Actual and Proposed Electric Distribution Rates

Summer (June - October)

	Year	Rate ($/kWh)	% Increase from 2023
ACTUAL	2010	$0.035	
	2020	$0.066	
	2023	$0.080	
PROPOSED	2024	$0.094	18%
	2025	$0.101	26%
	2026	$0.107	34%
	2027	$0.110	38%

Winter (November - May)

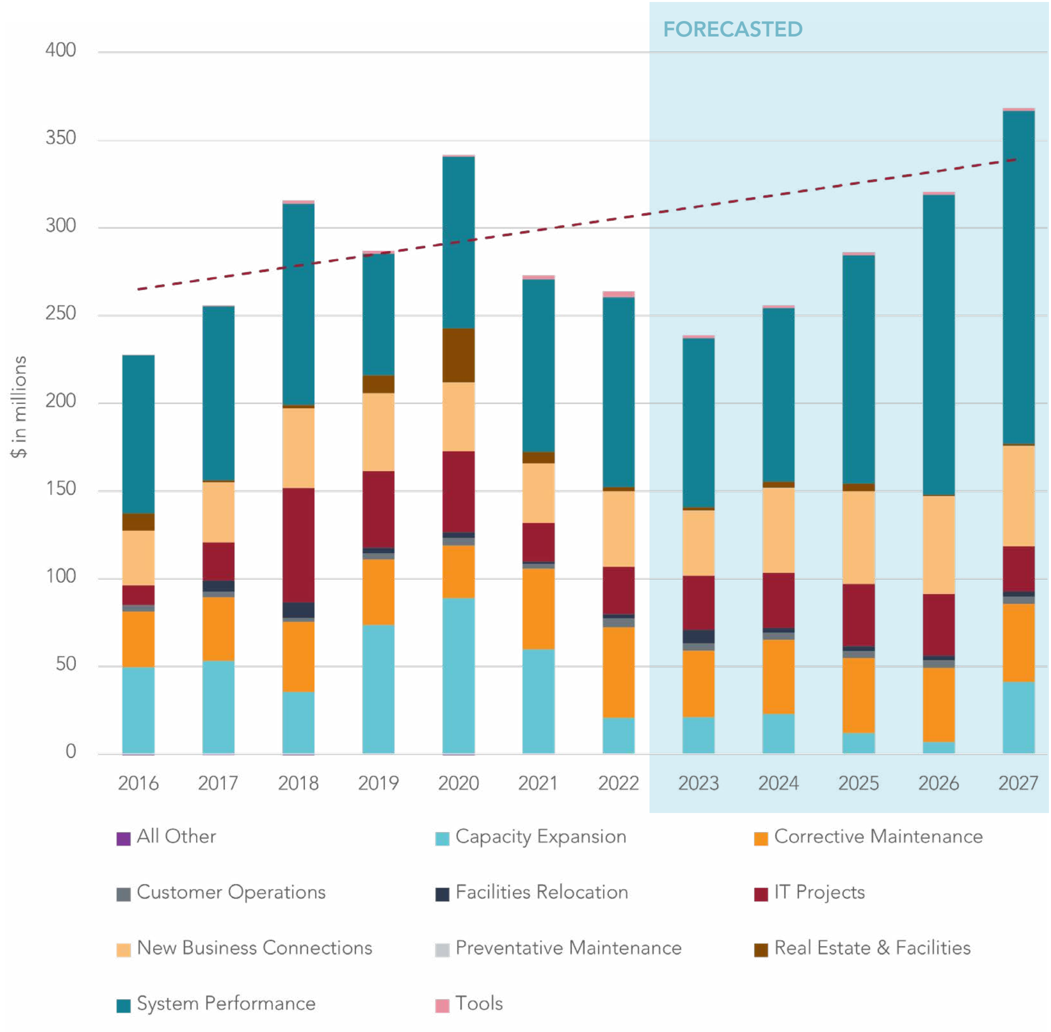
	Year	Rate ($/kWh)	% Increase from 2023
ACTUAL	2010	$0.020	
	2020	$0.033	
	2023	$0.039	
PROPOSED	2024	$0.055	41%
	2025	$0.061	56%
	2026	$0.066	69%
	2027	$0.069	77%

Pepco's proposed distribution rates would increase rates to more than three times what Pepco charged in 2010. The last full year that rates were in place as a result of a standard rate case (instead of an MRP) was 2020.

Why Is Pepco Proposing Changes to Rates?

Distribution rate increases are primarily driven by spending on infrastructure. Utility infrastructure is necessary to maintain safe and reliable service. Distribution rates generally will stay constant if the utility is replacing and building new infrastructure at the same rate as older infrastructure is paid off or retired. But if infrastructure is replaced or added more quickly, distribution rates will increase. Utility investors profit primarily from spending on infrastructure, with more spending bringing greater returns. Thus, effective regulation is necessary to ensure utilities spend at appropriate levels. In Pepco's proposed MRP, capital spending would increase by 54% from 2023 to 2027.

Pepco Maryland Capital Spending Trend
2016-2022 Actual; 2023-2027 Forecast/Proposed



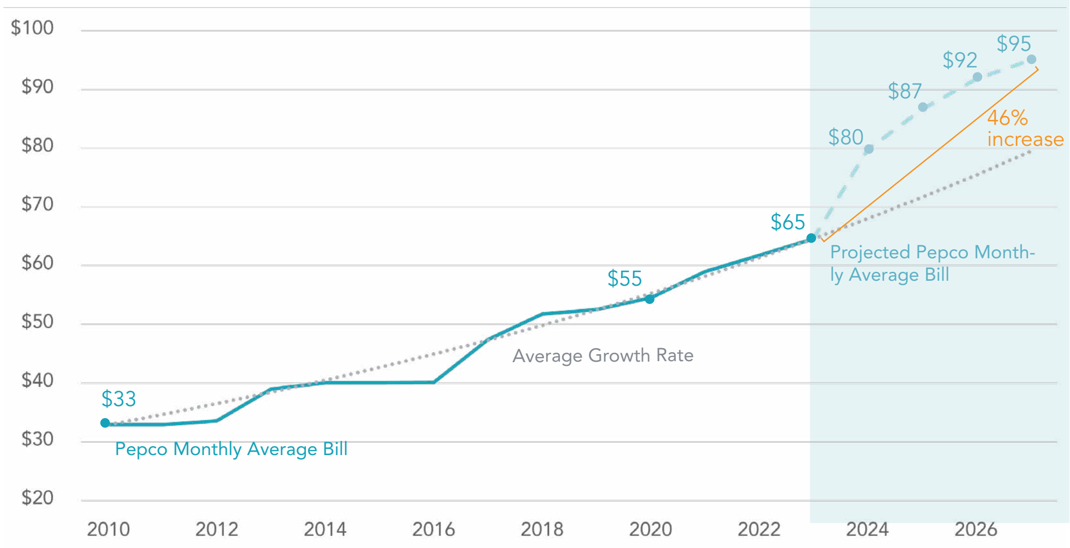
The decline in spending from 2021 to 2024 reflects PSC's rejection of about 50% of Pepco's proposed overall spending in its first MRP. Pepco's higher spending levels prior to 2021 are largely driven by significant IT expenditures from 2018 to 2020.

What Would This Mean for My Energy Bill?

Assuming electric usage of 1,000 kWh/month, under Pepco's proposed MRP, a customer's monthly bill for distribution (excluding commodity costs) would grow from $55 in 2020 to $95 in 2027, an increase of 73%.

The average rate of growth in electric distribution charges between 2010 and 2023 was 5.3%. The proposed rate increases in Pepco's proposed MRP for 2024-2027—which average a growth rate of 10.4%—outpace these historic growth rates and are significantly higher than inflation, which averaged 2.5% from 2010 to 2022.

Average 12-Month Electric Monthly Distribution Bill for Customer Using 1,000 kWh/month, 2010 to 2027



In contrast to the summary above, Pepco's application to the PSC presents a different picture of its proposed rate increases by using a "total bill" cost with an assumption of usage of 824 kWh per month. Pepco says that if approved, the MRP will result in a price increase of 5.0% in year one, 3.8% in year two, 3.7% in year three, and 1.2% in the proposed nine month extension period. While this may be technically true based on certain assumptions about various components that comprise the "total bill" cost, Pepco's figures obscure the distribution rate increases that are central to Pepco's MRP proposal.

Where Can I Learn More?

There will be public hearing dates and opportunities for public comment, which OPC will publicize once available. You can learn more at the Office of People's Counsel's website at https://opc.maryland.gov/.