OPC

OFFICE OF PEOPLE'S COUNSEL

State of Maryland

A Consumer's Guide To:

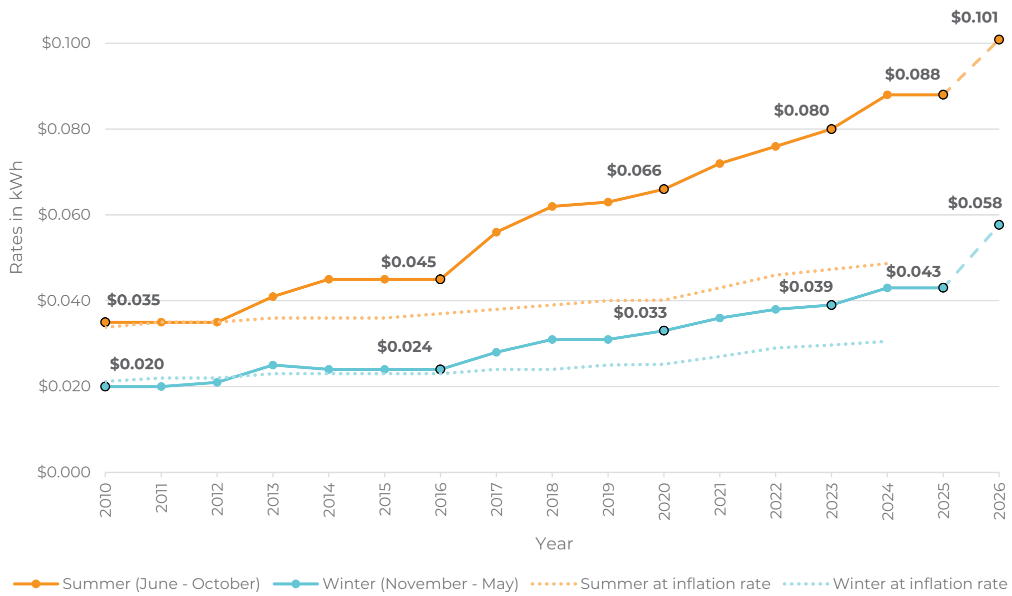
Pepco's Proposed Rate Increase

Each time a utility wants to increase the price it charges to distribute electricity or gas, the company files an application with the Public Service Commission—the State agency responsible for setting distribution rates and overseeing utility operations. The Commission holds a trial-like proceeding and then rules on the utility's request.

How much will rates increase under Pepco's proposal?

Pepco requests an increase of about 23 percent to the rate charged for the distribution of electricity to your home. The increase, if allowed, would mean Pepco's distribution rates will have increased 63 percent since 2020 and 132 percent since 2016. The commodity cost (also known as the supply cost)—the cost of the electricity itself—is passed directly through to customers and is not affected by Pepco's rate request. Similarly, other costs on utility bills, including taxes and fees and charges for the EmPOWER energy efficiency program, are not covered by Pepco's request. The chart below provides Pepco's distribution rates since 2010 and the new rate the company is requesting. (For more on rates and the components of your electric bill, see OPC's website here.)

Pepco Actual and Proposed Electric Distribution Rates ($/kWh)



Pepco's distribution rates have been increasing at about double the rate of inflation and it now proposes another increase of about 23 percent.

Pepco's proposed increase to the distribution cost includes increases to its monthly fixed "customer charge" and its charge based on how much electricity you use, known as the "volumetric charge." The monthly customer charge would increase by $0.23, from $8.44 to $8.67. The summer volumetric charge would increase by 1.3 cents/kWh, and the winter volumetric charge would increase by 1.4 cents/kWh. For the average Pepco customer (using 778 kWh), the typical monthly bill would increase by $11.73. For customers using 1,000 kWh, that increase would be $15.02.

What type of rate case is Pepco proposing and what are its implications?

Pepco's recent application for rate increases asks the Commission to approve more spending on infrastructure based on *forecasted* costs. Basing rates on forecasted costs is a sharp departure from the process typically used for setting rates, and OPC opposed it in a brief filed with the Commission. In a standard rate case, the company justifies its rate increase based on its actual spending over a prior year. Basing a request for a rate increase on actual costs allows the Commission to assess how reasonable the utility's spending was and enables it to set rates for future years based on concrete facts without speculation. In contrast, Pepco's proposal uses forecasted costs to set its rates based on projections of what it will spend in the future.

Pepco's prior two requests for rate increases came in the form of multi-year rate plans (MRPs), the second of which OPC opposed and the Commission rejected. Like Pepco's current proposal, MRPs establish rates based on *projected* costs. MRPs include three years of rate increases. MRPs have contributed to higher rates for customers. In response to concerns about the adverse customer impacts of MRPs and the experience of flawed utility cost projections, the General Assembly enacted legislation in 2025 that limits Commission approval of MRPs to those that demonstrate customer benefits and protect customers from utility forecasting errors.

Pepco's current proposal, like an MRP, is based on projected costs and allows the utility to charge customers for the costs of projects before those projects are used to serve customers. Pepco proposes a single rate increase that would go into effect in August 2026 and remain in effect indefinitely. The proposal would have customers pay for projects the utility has yet to start working on. Like an MRP, Pepco's proposal allows faster cost recovery than a rate case based on proven, actual costs and shifts risks of utility overspending away from investors and onto customers.

Why is Pepco proposing changes to rates?

Pepco's proposed rate increase is primarily driven by spending on infrastructure such as new poles and wires (43 percent of increase) and increased operational expenses such as employee salaries and tree trimming (32 percent of increase). The remaining 25 percent of the increase relates to increases in the company's "cost of capital," including an increase in the company's profit level. Utility infrastructure is necessary to maintain safe and reliable service. But the faster infrastructure is replaced or added, the more distribution rates increase.

Utility investors profit primarily from spending on infrastructure, as utility rates pay for all the utility's costs plus a return (profit) on all infrastructure spending. Operational costs are passed through to customers on a dollar-for-dollar basis.

Since customers are captive to their electric and gas utilities, which have government-protected monopolies, customers depend on effective Commission regulation to ensure the utilities spend the minimum amount necessary to provide safe and reliable service.

The Commission sets rates through a trial-like process, with discovery, testimony, and briefing. OPC represents residential customers in the rate-setting case, advocating to keep any rate increases as low as possible while maintaining safe and reliable service.

How can you get involved?

Stay informed. All public filings in this case are accessible on the Commission's website. To access the case docket, use the following link and search for Case No. 9820: https://webpscxb.psc.state.md.us/DMS/home.

Submit a written comment. In each rate case, the Commission solicits written comments from impacted customers. Written comments can be submitted at any time before the evidentiary record closes. The following website provides information on how to submit a comment: https://www.psc.state.md.us/make-a-public-comment/.

Attend the public comment hearings. For each rate case, the Commission holds public comment hearings—both virtual and in-person—to allow members of the public to bring their concerns directly to the Commission. The dates for these hearings will be set in the coming months and will be published by the Commission and Pepco.