



November 29, 2004

Important Information About Your Electricity Service

Dear Pepco Customer:

I am writing to update you on some important information about your electric service, and I hope you will be able to take a few moments to review this letter.

You may already know that since January 2001 customers in the District of Columbia have been free to choose an electricity supplier other than Pepco. In fact, about 17,000 electric customers in D.C. have already done so. If you don't choose another supplier, Pepco buys the electricity and charges you at rates approved by the District of Columbia Public Service Commission. This is called "Standard Offer Service" (SOS) and the cost for this appears in the "generation services" portion of your bill. Even if you choose another supplier, Pepco continues to *deliver* the electricity to all customers.

Pepco's residential base rates have not increased since 1995. And, on January 1, 2001 when electricity competition took effect, **Pepco's base rates were reduced 7% and capped until February 8, 2005**. Over the past five years the prices for other energy products have increased significantly, including natural gas, up 54%; fuel oil, up nearly 80%; and coal, up nearly 113%. These fuels are used to produce electricity and none of these increases have been reflected in your bills to date.

Pepco's current SOS supply rates are effective through February 7, 2005. Under the supervision of the District of Columbia Public Service Commission, Pepco has sought bids from electricity suppliers in the competitive wholesale market so that we can provide the best available price for SOS supply on February 8.


Based on the bids we have received and assuming Commission approval, we expect that the average annual **total** electric bill for residential customers in the District (including SOS supply and delivery) will increase approximately 18% a year. For the typical Pepco customer whose current bill averages \$56.50 per month, the increase will amount to about \$10 per month, or a new monthly average of \$66.50. Of course, each customer's bill is based on individual use, so your bill may change more or less than the average. However, the rate for low-income customers qualifying for Pepco's Residential Aid Discount Program will remain capped until February 2007.

No one likes price increases. But when you consider price increases for other energy products, and that during the last four years Pepco's residential rates were held below the wholesale market price for electricity, the increase in SOS rates is well within the range that could be expected.

Under Pepco's existing rate structure, winter rates are lower than summer rates. But with the new SOS rates that take effect February 8, there will be a greater increase in winter rates than in summer rates. This means that many customers will see most of the annual increase in their winter bills. In fact, most likely you will see only modest increases in summer bills that begin with energy used in May. If you would prefer to avoid these seasonal fluctuations, you may want to take advantage of our average payment plan, which allows you to pay in equal monthly installments.

We anticipate distributing details on the new rates with the December bills, and this information will be available on our Web site, www.pepco.com. If you have additional questions please call 1-866-889-3261 between the hours of 8 a.m. and 7 p.m., Monday through Friday. I hope you find this information useful so that you can feel confident in your decisions about electric supply service.

Sincerely,

A handwritten signature in black ink that reads "Michael Sullivan". The signature is written in a cursive style with a large, stylized "S" at the end.

Michael Sullivan
Vice President, Customer Care