



February 5, 2009

Dear Municipal Official:

As major changes occur in our state’s energy market, we want to provide you with the information you need to understand these changes and their impact on your business. This is the first in a series of updates to help you become as informed as possible and prepare for the changes that will be taking place on Jan. 1, 2011.

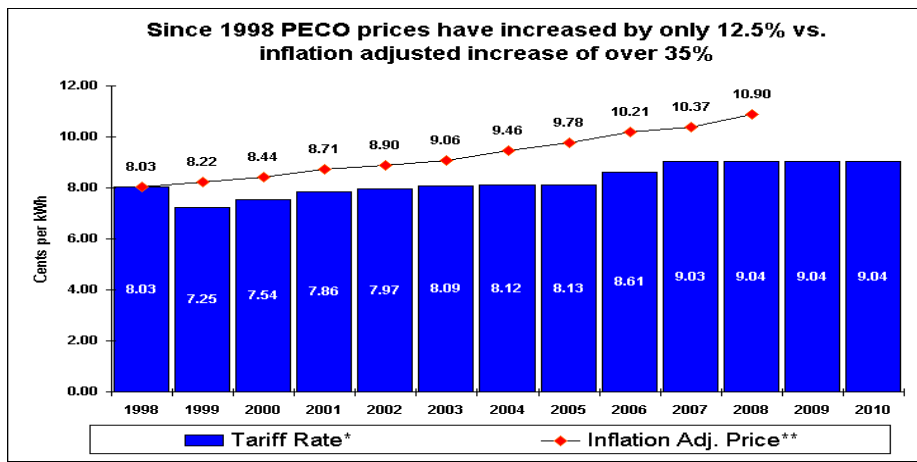
An industry changes. . .

During the late 1990s, Pennsylvania government and the state Public Utility Commission approved the restructuring of the electric industry in Pennsylvania. As a result, rate caps were established for PECO customers through the end of 2010. In addition, utilities in the state, like PECO, became “poles and wires” companies – responsible for energy delivery and customer service. Utilities were no longer responsible for producing electricity for customers.

Since the late 1990s PECO has been purchasing electricity on behalf of customers through a long-term contract and at pricing set more than a decade ago. That contract expires at the end of 2010.

Because of the rate caps put in place through deregulation, PECO customers have received significant value in the face of escalating energy costs. It is estimated that since the beginning of restructuring, PECO’s rates have been about 15 percent lower than if they had increased with inflation.

Comparison of PECO’s Primary Rates vs. Inflation Adjusted Prices Since 1998



* Tariff rates are illustrative of a 1 MW High Tension customer with an average load factor of 65% – 70%

** Inflation index based on Bureau of Labor Statistics Consumer Price Index for All Urban Consumers

On to the competitive marketplace

On January 1, 2011, the rate caps for PECO customers will expire as will the company's long term power purchase agreement. PECO will begin purchasing power at current wholesale market prices and provide it – without any profit margin– to customers who have not selected an alternate electricity supplier.

Because of increased energy costs, the transition to market-based pricing is expected to result in increased costs for most customers. At this time, it is too early to forecast the exact amount of any increase. However, large industrial and commercial customers will have opportunities to purchase generation through a competitive energy market, as increased activity by alternate electric generation suppliers is anticipated.

With several years before the final transition to market-based rates, now is the perfect time to prepare. The following steps will help customers begin the process:

Understand

Review your records for past electric bills, understand your usage patterns and the times when your energy usage is the highest.

Reduce

Once you know how you use energy, consider looking for ways to reduce your energy consumption. Utilize PECO's Website, www.peco.com/save for the latest energy efficiency tips.

Make PECO Your Trusted Resource

In the coming weeks and months, more information will be available about the energy market and your future energy options. We will remain your energy expert, a resource you can trust. If you have any additional questions at this time, please call me at 610-725-7189.

Sincerely,

Gregory Cary
Regional External Affairs Manager
Chester County