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November 4, 2016

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17105-3265

**SUBJECT: PECO Energy Company Distribution System Improvement Charge for its Electric Operations Compliance Filing - PECO Energy Electric Service Tariff No. 5, Supplement No. 24, Effective January 4, 2017, Docket No. M-2012-2293611**

Dear Secretary Chiavetta:

The filing contains PECO's revised tariff pages to the Distribution System Improvement Charge ("DSIC"), effective January 4, 2017. This filing is being made in accordance with the Commission's Supplement Implementation Order entered on September 21, 2016.

The following attachment is included in support of the filing:

Attachment 1 - Tariff page revisions to the DSIC charge. Note, these pages also include the original change as required by the Commission's Opinion and Order issued October 22, 2015, Docket No. P-2015-2471423. That change included:

- 1) The addition of language specifying that billing for the DSIC will be on a bills rendered basis.

Rosemary Chiavetta, Secretary  
November 4 2016  
Page 2

Concurrent with this filing, PECO is also filing similar changes to its Gas Service tariff.

Thank you for your assistance in this matter and please direct any questions regarding the above to Rich Schlesinger, Manager, Retail Rates at (215) 841-5771.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Chiavetta', followed by a long horizontal flourish.

Copies to: C. Walker-Davis, Director, Office of Special Assistants  
P. T. Diskin, Director, Bureau of Technical Utility Services  
D. P. Hosler, Director, Bureau of Audits  
R. A. Kanaskie, Director, Bureaus of Investigation & Enforcement  
Office of Consumer Advocate  
Office of Small Business Advocate  
McNees, Wallace and Nurick

**PECO Energy Company**

**Electric Service Tariff**

**COMPANY OFFICE LOCATION**

**2301 Market Street**

**Philadelphia, Pennsylvania 19101**

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**For List of Communities Served, See Page 4.**

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**Issued November 4, 2016**

**Effective January 4, 2017**

**ISSUED BY: C. L. Adams – President & CEO  
PECO Energy Distribution Company  
2301 MARKET STREET  
PHILADELPHIA, PA. 19101**

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**NOTICE**

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**LIST OF CHANGES MADE BY THIS SUPPLEMENT**

**Distribution System Improvement Charge (DSIC) – 1<sup>st</sup> Revised Page Nos. 45, 46, and 47**

Revised in accordance with the Commission's Supplemental Implementation Order entered on September 21, 2016 at Docket No. M-2012-2293611.

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**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC)**

In addition to the net charges provided for in this Tariff, a charge of 0.00% will apply consistent with the Commission Order dated October 22, 2015 at Docket No. P-2015-2471423, approving the DSIC.

**1. General Description**

**A. Purpose:** To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Company with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional supply problems. (C)

The costs of extending facilities to serve new customers are not recoverable through the DSIC.

**B. Eligible Property:** The DSIC-eligible property will consist of the following:

Poles and Tower (Account 364);  
Overhead conductor (Account 365) and underground conduit and conductors (Accounts 366 and 367);  
Line transformers (Account 368) and substation equipment (Account 362);  
Any fixture or device related to eligible property listed above, including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers;  
Unreimbursed costs related to highway relocation projects where a natural gas distribution company or city natural gas distribution operation must relocate its facilities; and  
Other related capitalized costs.

**C. Effective Date:** The DSIC will become effective January 1, 2016.

(C) Denotes Change

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE  
 (DSIC) (CONTINUED)**

**2. Computation of the DSIC**

**A. Calculation:** The initial DSIC, effective January 1, 2016, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rates or rate base and will have been placed in service between September 1, 2015 and November 30, 2015. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Billing for the DSIC will be on a bills rendered basis. Thus, changes in the DSIC rate will occur as follows:

| Effective Date of Change | Date to which DSIC Eligible Plant Additions Reflected |
|--------------------------|---|
| January 1                | September - November                                  |
| April 1                  | December - February                                   |
| July 1                   | March - May   |
| October 1                | June - August   |

**B. Determination of Fixed Costs:** The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

**1. Depreciation:** The depreciation expense shall be calculated by applying the annual accrual rates employed in the Company's most recent base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded to the original cost of DSIC-eligible property.

**2. Pre-tax return:** The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

**C. Application of DSIC:** The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for distribution service (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of the STAS.

**D. Formula:** The formula for calculation of the DSIC is as follows:

$$DSIC = \frac{(DSI * PTRR) + Dep + e}{PQR}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated (+/-) under the annual reconciliation feature or Commission audit, as described below. (C)

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Revenue shall be based upon one-fourth of the estimated annual distribution revenue.

(C) Denotes Change

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC) (CONTINUED)**

**3. Quarterly Updates:** Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, Bureau of Audits and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

**4. Customer Safeguards**

**A. Cap:** The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

**B. Audit/Reconciliation:** The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year or the Company may elect to subject the DSIC to quarterly reconciliation but only upon request and approval by the Commission. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year or in the next quarter if permitted by the Commission. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection. The Company is not permitted to accrue interest on under collections. (C)

**C. New Base Rates:** The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

**D. Customer Notice:** Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change or through an explanatory bill insert included with the first billing.

**E. All customer classes:** The DSIC shall be applied equally to all customer classes.

**F. Earning Reports:** The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs. (C)

**G. Residual E-Factor Recovery Upon Reset To Zero:** The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any overcollection to customers and is entitled to recover any undercollections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

(C) Denotes Change

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**PECO Energy Company**

**Electric Service Tariff**

**COMPANY OFFICE LOCATION**

**2301 Market Street  
Philadelphia, Pennsylvania 19101**

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**For List of Communities Served, See Page 4.**

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**Issued ~~November 4, 2016~~**

**Effective ~~January 4, 2017~~**

**ISSUED BY: C. L. Adams – President & CEO  
PECO Energy Distribution Company  
2301 MARKET STREET  
PHILADELPHIA, PA. 19101**

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**NOTICE**

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PECO Energy Company

Supplement No. 24 to  
Tariff Electric Pa. P.U.C. No. 5  
Twenty-Fourth Revised Page No. 1  
Supersedes Twenty-Third Revised Page No. 1

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**LIST OF CHANGES MADE BY THIS SUPPLEMENT**

Distribution System Improvement Charge (DSIC) – 1<sup>st</sup> Revised Page Nos. 45, 46, and 47  
Revised in accordance with the Commission's Supplemental Implementation Order entered on September 21, 2016 at Docket No. M-2012-2293611.

Deleted: Provision for Recovery of Universal Service Fund Charge - 1<sup>st</sup> Revised Page No. 38

Reflects annual update to USFC as a result of the settlement at Docket No M-2012-2290911 which focuses on the new CAP Fixed Credit Option ("FCO") which will begin in October 2016 and the incremental LIURP. Also, the Correction Factor of the In-Program Arrearage Forgiveness Program which was the result of the settlement at Appendix C of Docket No R-2015-2468981.

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Rate R –Residence Service – 7<sup>th</sup> Revised Page No. 48

Variable Distribution Charge increased to reflect annual update to USFC. ¶

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**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC)**

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PECO Energy  
Company  
Original Page No. 45]

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**1. General Description**

**A. Purpose:** To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Company with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional supply problems.

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- Unreimbursed costs related to highway relocation projects where a natural gas distribution company or city natural gas distribution operation must relocate its facilities; and
- Other related capitalized costs.

**C. Effective Date:** The DSIC will become effective January 1, 2016.

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PECO Energy Company

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE  
 (DSIC) (CONTINUED)**

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**2. Computation of the DSIC**

**A. Calculation:** The initial DSIC, effective January 1, 2016, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rates or rate base and will have been placed in service between September 1, 2015 and November 30, 2015. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Billing for the DSIC will be on a bills rendered basis. Thus, changes in the DSIC rate will occur as follows:

| Effective Date of Change | Date to which DSIC Eligible Plant Additions Reflected |
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**2. Pre-tax return:** The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

**C. Application of DSIC:** The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for distribution service (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of the STAS.

**D. Formula:** The formula for calculation of the DSIC is as follows:

$$DSIC = \frac{(DSI * PTRR) + Dep + e}{PQR}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated (+/-) under the annual reconciliation feature or Commission audit, as described below. (C)

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Revenue shall be based upon one-fourth of the estimated annual distribution revenue.

(C) Denotes Change.

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**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE  
(DSIC) (CONTINUED)**

3. **Quarterly Updates:** Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, Bureau of Audits and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

4. **Customer Safeguards**

**A. Cap:** The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

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**B. Audit/Reconciliation:** The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year or the Company may elect to subject the DSIC to quarterly reconciliation but only upon request and approval by the Commission. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year or in the next quarter if permitted by the Commission. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection. The Company is not permitted to accrue interest on under collections.

**C. New Base Rates:** The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

**D. Customer Notice:** Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change or through an explanatory bill insert included with the first billing.

**E. All customer classes:** The DSIC shall be applied equally to all customer classes.

**F. Earning Reports:** The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs.

**G. Residual E-Factor Recovery Upon Reset To Zero:** The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any overcollection to customers and is entitled to recover any undercollections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

(C) Denotes Change