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July 18, 2019

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

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JUL 17 2019

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**Re: Petition of PECO Energy Company to Enter into an Agreement with Other Exelon Utility Companies That are Affiliated Interests Under 66 Pa C.S. §2101 To Acquire Real Property, as Tenants-in-Common (with Said Real Property to be Used as a Transmission System Operations Control Room)
Docket No. G-2019 -**

Dear Secretary Chiavetta:

PECO's Application is attached for filing.

PECO requests that the two exhibits to this filing be treated as confidential information.¹

A verification statement for this filing is enclosed immediately following the application, but preceding the exhibits.

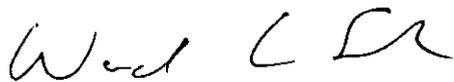
Pursuant to 52 Pa. Code § 5.14, publication or notice of applications, if needed, occurs through Commission publication in the Pennsylvania Bulletin and as may be otherwise required by the

¹ The request for confidential treatment is based upon the fact that the documents contain commercially-sensitive information. No claim is made that the documents contain Critical Energy Infrastructure Information.

Rosemary Chiavetta, Secretary
July 18, 2019
Page 2

Commission. Please inform me at your earliest convenience if the Commission requires PECO to publish, notify, or serve this application.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ward L. Smith". The signature is fluid and cursive, with the first name "Ward" being the most prominent.

Ward L. Smith
Counsel for PECO Energy Company

WS/adz
Enclosures

Cc: Robert Young, Law Bureau
Darren Gill, Bureau of Technical Utility Services

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION JUL 17 2019

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Application of PECO Energy Company :
to Enter into an Arrangement With :
Other Exelon Utility Companies That Are :
Affiliated Interests Under 66 Pa. C. S. §2101 *et seq.* : Docket No. G-2019-_____ :
To Acquire Real Property, as Tenants-in-Common :
(with Said Real Property to be Used as a :
Transmission System Operations Control Room) :

APPLICATION OF PECO ENERGY COMPANY

PECO Energy Company (“PECO”) wishes to enter into an arrangement with two of its corporate affiliates (Delmarva Power & Light Company, or “Delmarva,” and Atlantic City Electric, or “ACE”), to purchase certain real property as tenants-in-common. Both Delmarva and ACE are “affiliated interests” of PECO, as that term is used in 66 Pa. C. S. § 2102. The real property will be jointly used as for transmission system operations, including a transmission systems operation control room (“TSO North”) for the several utilities. PECO hereby submits for filing its Application for authority, pursuant to 66 Pa. C. S. § 2102, to engage in this affiliated interest arrangement and act as tenants-in-common with its utility affiliates for the purchase of real property.

PECO and the Affiliated Interests Involved in This Transaction

1. PECO is a Pennsylvania public utility corporation engaged in the transmission and distribution of electric utility service and the provision of natural gas utility service to approximately 1.7 million customers in Southeastern Pennsylvania.

2. PECO is a direct, wholly owned subsidiary of Exelon Corporation (“Exelon”), a Pennsylvania corporation.

3. Exelon is the ultimate corporate parent Pepco Holdings LLC (“Pepco Holdings”). Pepco Holdings is the parent company of Delmarva, a public utility whose service territory is in Delaware and Maryland; Potomac Electric Power Company (“Pepco”), a public utility whose service territory is in Maryland and the District of Columbia; and ACE, a public utility whose service territory is in New Jersey.

4. Pursuant to 66 Pa. C. S. § 2101(a)(3), each of the public utility companies named in the prior paragraph is an “affiliated interest” of PECO.¹

Affiliated Interest Approval Requested

5. Under 66 Pa. C. S. § 2102(b), Commission approval of a contract or arrangement with an affiliated interest must be based upon a Commission determination that the proposed arrangement is “reasonable and consistent with the public interest.”

6. PECO respectfully submits that the information provided in the remainder of this Application demonstrates that the proposed arrangement with PECO’s affiliated interests is reasonable and consistent with the public interest for three reasons: (1) the underlying project – creation of a TSO North transmission facility that has the ability to withstand modern challenges – is a best practice and itself is in the public interest; (2) by acting in tandem with affiliates, PECO will be able to obtain economies of scale and reduce its share of the cost of obtaining these

¹ Under 66 Pa. C. S. § 2101(a)(3), the term “affiliated interest” includes: “Every corporation 5% or more of whose voting securities are owned by any person or corporation owning 5% or more of the voting securities of such public utility or by any person or corporation in any such chain of successive ownership of 5% or more of voting securities.”

facilities; and; (3) the cost allocation proposed by PECO is reasonably based upon the allocable load share of the utilities that will be provided operational support by TSO North.

7. The arrangement for which PECO is seeking the Commission's approval -- to act as tenants-in-common for purposes of this real property purchase -- has not itself been reduced to a separate written agreement between PECO and its affiliated interests. Pursuant to 66 Pa. C. S. § 2102(b), when the affiliate arrangement for which approval is sought is not the subject of a written contract or agreement, the utility may seek approval on the basis of a "verified summary" of the arrangement. PECO hereby provides the following summary of the terms and conditions of the arrangement: PECO, Delmarva, and ACE will purchase certain real property located in Kennett Square, Pennsylvania. The purchase price will be allocated 56% to PECO, 27% to Delmarva, and 17% to ACE. The purpose of the transaction is to acquire property that will be improved and used for TSO North transmission operations, as described in more detail later in this application. This summary is verified by Darryl Stokes, Vice-President of Transmission Operations and Planning for Exelon Utilities, which is attached to this application.

8. Further detail regarding the real property purchase can be found in the Purchase and Sales Agreements ("PSAs") for the building and nearby undeveloped property, which are attached hereto as Confidential Exhibits 1 and 2. The PSAs are agreements between the Exelon utilities acting as tenants-in-common and an unaffiliated third-party seller of the real property, and PECO is not seeking Commission approval for the PSAs themselves. (They are being provided because they provide additional context for the Commission to understand the scope and nature of the affiliated tenancy-in-common for which approval is sought.) PECO notes that it also is not seeking a determination in this proceeding that the underlying purchase of the real property from a third party is prudent, and it is not seeking cost recovery approval for the transaction with the

third party. Such approval will be sought, as needed, through future transmission rate filings. Finally, PECO notes that it is requesting that the PSAs be treated confidentially because they contain market-sensitive information regarding the real property transaction that is proprietary to the third-party seller and which may be commercially sensitive to that seller.

Background on the New Enhanced Transmission Control Room Facilities

9. A reliable and resilient electric grid is foundational to the critical energy infrastructure upon which our nation's security and economy rests. Electric transmission is the backbone of the electric grid, and Exelon recognizes that ensuring its transmission system control rooms meet industry standards is of vital importance. Consequently, Exelon has conducted industry benchmarking with comparably sized peer utilities to ensure that its transmission operations facilities comply with industry norms and standards.

10. Currently, Exelon operates eight primary and back-up transmission system control facilities across its mid-Atlantic footprint.² Benchmarking indicates that Exelon's transmission control facilities, staffing levels, and scale of operations are not comparable to the transmission operations functions of current, and continually improving, industry peers. Moreover, in recent years there has been an increased focus on anticipating threats to the electric system, including from physical and cyber attacks, including from electromagnetic pulses ("EMPs") and a high-altitude electromagnetic pulse ("HEMP") detonation.³ Taking these factors into consideration,

² Exelon also operates two additional control rooms in the Midwest service territory of Commonwealth Edison, which is another Exelon utility with a service territory in Illinois and Indiana.

³ On March 26, 2019, President Trump issued an Executive Order on Coordinating National Resilience to Electromagnetic Pulses.

Exelon has identified a need to: enhance physical and cyber security at transmission operations control facilities; harden transmission control facilities against EMP threats; increase transmission system operator staffing and training; improve transmission system operator situational awareness; and establish continuity of electric system control for disaster recovery purposes. While Exelon's transmission system functions meet all minimum regulatory requirements, simply meeting minimum standards is not enough. As the company serving densely-populated major mid-Atlantic load centers, including Washington, D.C., Baltimore, Philadelphia, and many smaller communities in the Northeast, Exelon believes it is prudent to ensure its transmission control functions meet evolving industry standards, align with comparably-sized and improving industry peers, and are hardened against threats to the facility from weather, EMPs, physical and cyber-attacks.

Exelon's Transmission Control Room Consolidation Plan

11. Exelon plans to consolidate its eight existing mid-Atlantic transmission system control facilities into two modern, secure, state-of-the-art facilities. These two consolidated facilities will operate in a "hot-hot" continuously staffed mode to ensure continuity of operations in the event of a disaster. The South transmission system operations center ("TSO South") will be located in the State of Maryland in a facility currently owned by another Exelon utility (Baltimore Gas & Electric, or "BGE") which will combine the transmission operations functions of BGE and Pepco as part of the consolidation plan. The North transmission system control facility (which, as previously noted, will be known as "TSO North") will be located in Kennett Square, Pennsylvania, and will combine the transmission system control functions of PECO, Delmarva, and ACE. The consolidation plan includes the purchase and renovation of a building and adjacent vacant properties located in Kennett Square to be used for added security setbacks and buffers.

12. The consolidation proposal will allow Exelon to more effectively manage the risk of a targeted physical and/or cyber-attack against the electric grid by reducing the number of sites where attacks can be targeted. The trend of more stringent physical and cyber security requirements, combined with the increasing likelihood of malicious attacks against the grid and its control systems, necessitate this focus and elevate it to the level of a best practice. The consolidation plan allows the relocation of critical transmission system operations and personnel to a site specifically designed to address these challenges. Improved security and protection of these systems at a central physically and electronically hardened site serves to increase the reliability of service provided to PECO's customers by protecting these assets to a higher degree.

13. PECO believes that the proposed consolidation plan also is the most cost-effective solution to obtain the noted enhancements to its transmission system control facilities. By consolidating the PECO transmission system control operations with those of ACE and Delmarva, PECO will gain the benefit of a state-of-the-art facility with enhanced staffing but will be able to share the costs of this facility and its operation with its sister utilities. The proposed consolidation is planned to be operational by the first quarter of 2022. As noted above, TSO North will be located in an existing building in Kennett Square that will be purchased and renovated to meet current standards. The consolidation plan calls for the purchase of the Kennett Square facility and adjacent parcels of land, with PECO, ACE, and Delmarva jointly owning the building (as tenants-in-common) and sharing costs of the purchase based on their respective transmission load ratio share. Using this approach, PECO will pay 56%, Delmarva will pay 27%, and ACE will pay 17% of the costs of purchasing the building and related land.⁴ Consequently, PECO customers will

⁴ All percentages are approximate.

only pay their fair share of the cost of purchasing the land and buildings that will be used to construct TSO North.

14. PECO and its affiliates are purchasing existing buildings and land, as tenants-in-common, from an unaffiliated party. The purchase price was negotiated as an arms-length transaction. The purchase price of the property is subject to adjustment depending upon the final transaction date (which is contingent upon and will occur after all regulatory approvals are obtained); however, the purchase price is approximately \$13 million including closing costs, with the Company's 56% share of that cost totaling approximately \$7.25 million.

15. PECO currently estimates that it will cost approximately \$72 million, including the land and building purchase costs, to complete the renovation of TSO North to the intended hardened status. PECO's 56% share of that total estimated cost is approximately \$40 million. PECO's benchmarking shows that, when other major utilities have constructed similar EMP-hardened facilities from the ground up (that is, not using the renovation approach that Exelon will use), the construction cost of such facilities has exceeded \$100 million, which can be borne by the single utility. The affiliate transaction for which PECO is seeking approval today (purchase as tenants-in-common) will thus result in material cost savings to PECO's customers, both at the purchase stage and over the life of the project.⁵

⁵ As noted previously, PECO is not seeking Commission approval of the recovery of the building and land purchase costs, renovation costs, or operating costs through this application. Instead, PECO will seek recovery of its share of the purchase costs of TSO North, as need, in future transmission rate filings. This application only seeks approval to engage in the affiliate transaction of agreeing with its affiliated interests that it will act in concert, as tenants-in-common, to purchase the land and buildings. PECO expects the total cost of the project to be approximately \$72 million, with approximately \$13 million for purchase of the land and buildings and the remainder for renovation. The renovation costs will be allocated to PECO and its affiliates using the same 56%/27%/17% allocation previously described. The renovation work is likely to be comprehensively managed by a single project team on behalf of all three utilities. PECO is not seeking approval of those future service transactions through this application. Rather, to the extent

Allocation Formula

16. As discussed previously, PECO proposes to allocate the costs of the purchase of the land and buildings 56% to PECO, 27% to Delmarva, and 17% to ACE. TSO North will provide transmission services that are primarily related to ongoing transmission load in each of the utility systems, and PECO and its affiliates sought an allocator that reflects the operational burden that each utilities' operations will place on TSO North, when operational. The utilities agreed that the functions and benefits to be provided by TSO North will primarily be related to the daily operations of the transmission system, and the amount of operations support provided to each of the utilities will be closely related to their service territory transmission load. The companies further agreed that their respective PJM network service peak load ("NSPL") is the best available data on load for purposes of this allocator because it reflects the load and use that the transmission customers in each service territory are making of the transmission system that will be controlled and operated via TSO North. To ensure that the allocator reflects longer-term use of the transmission system

that those property management/construction management tasks result in service transactions with affiliated interests, those transactions will be accounted for and reported to the Commission through the annual informational filing of Mutual Services Agreement/General service transactions that PECO makes at the end of the first quarter of each year in Docket No. G-2010-2211383.

Once the TSO North is operational, ongoing operations may also include service transactions between PECO and its affiliates. For example, if one utility provides additional staffing for TSO North, it will charge the other utilities for their allocated share of the staffing costs. As with the renovation management services, PECO is not seeking approval of the future operating service transactions through this application. Rather, to the extent that those future operating tasks result in service transactions with affiliated interests, those transactions will be accounted for and reported to the Commission through the annual informational filing of Mutual Services Agreement/General service transactions that PECO makes at the end of the first quarter of each year in Docket No. G-2010-2211383.

rather than some short-term anomaly, the allocator is based upon five years of historical NSPL data.

18. PECO and its affiliates also considered allocating costs based on the companies' respective physical transmission assets, either on a miles of line basis or on invested capital basis. *This approach was not utilized because the operations functions that will be performed by TSO North are not provided on the basis of either miles or capital (a company could have a high allocation of miles or capital but an allocably smaller load).*

Requested Timing of Approval

19. 66 Pa. C. S. 2102(b) provides that the Commission should act within 30 days on applications for approval of affiliated interest arrangements, with an option by the Commission to extend the 30-day consideration period "by written order, giving reasons therefor." In PECO's experience, the Commission typically avails itself of the option to extend the 30-day consideration period, and PECO does not object to the Commission doing so in the instant case. However, Exelon is attempting to coordinate regulatory approvals in multiple jurisdictions and is also engaging in a building and land purchase transaction with an unregulated third party that wishes to complete the transaction as soon as reasonably possible. PECO therefore requests that, if possible, the Commission issue an order approving this application at or prior to its scheduled October 24, 2019 Public Meeting.

Conclusion

WHEREFORE, PECO respectfully requests that the Commission find that PECO's proposed arrangement to act as tenants-in-common with its utility affiliates is reasonable and

consistent with the public interest and is thus approved pursuant to 66 Pa. C. S. § 2102. PECO requests that the Commission make this finding and issue its Order no later than its scheduled October 24, 2019 Public Meeting.

Respectfully submitted,



Dated: July 17, 2019

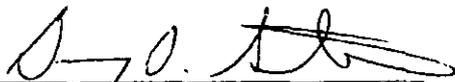
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

VERIFICATION

I, Darryl A. Stokes, hereby declare that I am Vice President of Transmission Operations and Planning for Exelon Utilities; that as such I am authorized to make this verification on behalf of PECO Energy Company; that the facts sets forth in the foregoing Pleading are true to the best of my knowledge, information and belief, and that I make this verification subject to the penalties of 18 Pa. C.S. § 4904 pertaining to false statements to authorities.

Date: July 17, 2019


Darryl A. Stokes
Vice President of Transmission Operations
and Planning
Exelon Utilities

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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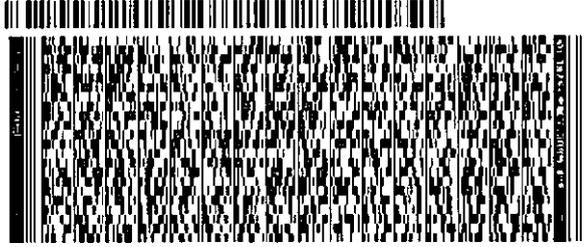
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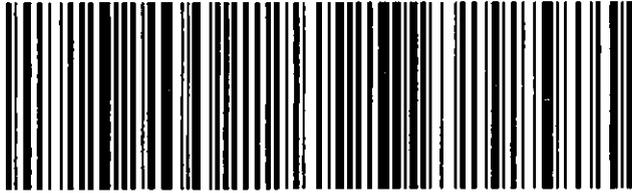


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