

PECO ENERGY COMPANY



**REPORT ON THE STATEMENTS OF
GENERATION SUPPLY ADJUSTMENT
FOR THE TWELVE-MONTH PERIODS ENDED
DECEMBER 31, 2018 AND DECEMBER 31, 2017**

**Pennsylvania Public Utility Commission
Bureau of Audits
January 2, 2020**

Docket: D-2019-3007745

PECO ENERGY COMPANY

Table of Contents

	<u>Page</u>
BACKGROUND	1
FINANCIAL REVIEW	
Independent Auditor's Report	2
Condensed Statement of Generation Supply Adjustment (GSA) Over/(Under) Collections (Section 1307(e)) for the twelve months ended December 31, 2018	4
Condensed Statement of Generation Supply Adjustment (GSA) Over/(Under) Collections (Section 1307(e)) for the twelve months ended December 31, 2017	5
Notes to the Financial Statements	6
Disposition of Prior Period's Audit Finding	7
ACKNOWLEDGEMENT	7

PECO ENERGY COMPANY

Background

PECO Energy Company (PECO) is principally engaged in providing transmission and distribution of electric and natural gas services to retail customers in southeastern Pennsylvania. As an electric distribution and natural gas distribution company, PECO's operations are subject to regulation by the Pennsylvania Public Utility Commission (PUC or Commission). PECO is a wholly-owned subsidiary of Exelon Corporation headquartered in Chicago, Illinois. According to PECO's annual reports filed with the PUC, for the years 2018 and 2017, PECO's total electric distribution revenues from customers, including default service sales, were \$2,221,191,403 and \$2,160,037,278; respectively.

PECO provides electric distribution service in an area of approximately 1,900 square miles with a population of approximately 4 million, including 1.6 million in the city of Philadelphia. During 2018, PECO delivered electricity to approximately 1.6 million residential, commercial, and industrial customers.

By Order entered June 2, 2009, the Commission approved a Settlement Agreement (Agreement) at Docket No. P-2008-2062739. The Agreement allowed PECO to establish a Generation Supply Adjustment (GSA) Rider. The GSA Rider was further authorized for continued application for the period of June 1, 2017 through May 31, 2021, by Order entered December 8, 2016, at Docket No. P-2016-2534980. The GSA Rider permits PECO to recover, from its default service customers, the cost of procuring power plus associated administrative expenses incurred in acquiring power and attaining regulatory approval of any procurement strategy and plan.



Independent Auditor's Report to the Public Utility Commission

Report on the Financial Statements

We have audited PECO Energy Company's Statements of Generation Supply Adjustment Over/Under Collections for the twelve-month periods ended December 31, 2018 and December 31, 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

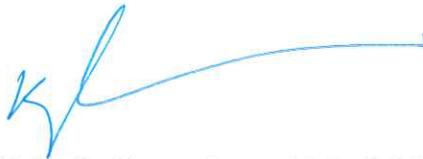
Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether these statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of these statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of these statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of these statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Generation Supply Adjustment Statements referred to above, present fairly, in all material respects, the Generation Supply Adjustment revenue and expenses of PECO Energy Company as of December 31, 2018 and December 31, 2017, in conformity with accounting principles generally accepted in the United States of America and the requirements of the Pennsylvania Public Utility Commission.

Report on Other Legal and Regulatory Requirements

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of the PECO Energy Company's revenue and expenses.



Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
January 2, 2020

PECO ENERGY COMPANY

**Condensed Statement¹ of
Generation Supply Adjustment (GSA)
Over/(Under) Collections (Section 1307(e))
for the twelve months ended December 31, 2018²**

<u>Rate Class</u>	<u>GSA Revenue</u> (1)	<u>GSA Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Residential	\$ 566,666,217	\$ 555,163,369	\$ 11,502,848
Small Commercial and Industrial	108,333,924	106,669,663	1,664,261
Medium / Large Commercial and Industrial (Hourly)	<u>51,317,957</u>	<u>48,679,212</u>	<u>2,638,745</u>
Total	<u>\$ 726,318,098</u>	<u>\$ 710,512,244</u>	<u>\$ 15,805,854</u>

¹ As reported to the Commission at Docket No. M-2019-3007530. Arithmetic differences are due to rounding.

² Notes to the Financial Statements are an integral part of this report.

PECO ENERGY COMPANY

**Condensed Statement³ of
Generation Supply Adjustment (GSA)
Over/(Under) Collections (Section 1307(e))
for the twelve months ended December 31, 2017⁴**

<u>Rate Class</u>	<u>GSA Revenue</u> (1)	<u>GSA Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Residential	\$ 508,128,658	\$ 506,636,581	\$ 1,492,077
Small Commercial and Industrial	98,359,575	96,782,115	1,577,460
Medium Commercial and Industrial (Hourly) ⁵	9,863,166	8,869,658	993,508
Large Commercial and Industrial (Hourly) ⁶	6,665,220	7,125,820	(460,600)
Medium / Large Commercial and Industrial (Hourly) ⁷	<u>23,232,649</u>	<u>23,140,341</u>	<u>92,308</u>
Total	<u>\$ 646,249,268</u>	<u>\$ 642,554,515</u>	<u>\$ 3,694,753</u>

³ As reported to the Commission at Docket No. M-2018-2645061.

⁴ Notes to the Financial Statements are an integral part of this report.

⁵ Rate in effect January 1, 2017 through May 31, 2017

⁶ Rate in effect January 1, 2017 through May 31, 2017

⁷ Rate in effect June 1, 2017 through December 31, 2017

PECO ENERGY COMPANY

Notes to the Financial Statements

1 - Condensed Statements

The Statements of Generation Supply Adjustment (GSA) Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on PECO's officially filed 1307(e) statements submitted to the PUC in accordance with Section 1307(e)(1) of the Public Utility Code. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2019-3007530 and M-2018-2645061.

2 - Generation Supply Adjustment

On December 8, 2016, at Docket No. P-2016-2534980, the Commission approved PECO Energy Company's Default Service Plan for the period of June 1, 2017 through May 31, 2021. In this proceeding the commission allowed PECO to consolidate the Medium Commercial and Industrial (Hourly) and the Large Commercial and Industrial (Hourly) rate classes into one. The rate consolidation was effective June 1, 2017.

3 - GSA Revenue

GSA Revenue is derived by applying the applicable GSA rate, excluding the E-Factor, to each kilowatt-hour (kWh) of energy delivered to all customers who receive default service from PECO.

4 - GSA Costs

GSA Costs for the Residential, Small Commercial and Industrial, and Medium Commercial and Industrial rate classes are the amounts paid to the full requirements suppliers providing the power for the quarter, the spot market purchases for the quarter, plus the cost of any other energy acquired through short or long-term contracts during the period. GSA Costs include energy, capacity and ancillary services, distribution line losses, cost of complying with the Alternative Energy Portfolio Standards Act (AEPS), and applicable administrative costs.

GSA energy costs for the Large C&I rate class are calculated by multiplying the PJM day ahead hourly price by the customers usage in the hour summed up for all the hours in the month. Costs also included are capacity charges, ancillary services costs, AEPS Compliance, and applicable administrative costs.

PECO ENERGY COMPANY

Notes to the Financial Statements

5 - Over/(Under) Collections

The Over/(Under) Collection is the difference between the GSA Revenue and GSA Costs. The resulting amount represents the portion of GSA Revenue refundable or GSA Costs recoverable through subsequent GSA rates. Differences arise for two primary reasons:

- Variations between the actual volumes billed to customers and the estimates used to determine the GSA rates; and,
- Variations between the actual GSA Costs and the estimates used to determine the GSA rates.

Disposition of Prior Period's Audit Finding

The prior audit of PECO Energy Company's Statements of Generation Supply Adjustment Over/(Under) Collections for the period January 1, 2015 through December 31, 2016 (Docket No. D-2017-2625621), included the following finding:

Finding – PECO overstated its GSA Costs by \$226,282 for the twelve months ended December 31, 2016.

Recommendation:

The Audit Staff recommended that PECO refund \$226,282, plus applicable interest, to its customers by making an adjustment to the E-Factor component in its next GSA filing.

Disposition:

PECO refunded \$226,282, plus applicable interest, to its customers in the GSA rates effective March 1, 2019, at Docket No. M-2019-3007107, and September 1, 2019, at Docket No. M-2019-3011573.

Acknowledgement

We wish to express our appreciation to the officers and staff of PECO Energy Company for their cooperation and assistance. The audit was conducted by Kenneth W. Raffensperger, assisted by Danielle M. Gumby.