

PECO ENERGY COMPANY



**REPORT ON THE STATEMENTS OF
ELECTRIC UNIVERSAL SERVICE FUND CHARGE
FOR THE 12-MONTH PERIODS ENDED
DECEMBER 31, 2018 AND DECEMBER 31, 2017**

**Pennsylvania Public Utility Commission
Bureau of Audits
November 17, 2020**

Docket No. D-2019-3011567

PECO ENERGY COMPANY

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Background

PECO Energy Company (PECO or company) 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 to Southeastern Pennsylvania 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.

On May 14, 1998, the Commission entered a Final Order, at Docket Nos. R-00973953 and P-00971265, approving the Joint Petition for Full Settlement of PECO's Restructuring Proceeding under the Electricity Generation Customer Choice and Competition Act of December 3, 1996. The Final Order approved PECO to recover universal service costs through a separate cost recovery mechanism. By Order entered July 17, 2003, at Docket No. R-00038535, the Commission approved PECO's proposed Universal Service Fund Charge (USFC) Rider.

By Order entered December 21, 2010, the Commission approved a Joint Petition for Partial Settlement of Rate Investigation (2010 Settlement), at Docket No. R-2010-2161575. The Commission approved PECO's request to make several changes to the USFC Rider and the accompanying annual reconciliation mechanism. The revised USFC Rider permits the company to recover the revenue shortfall incurred from providing discounted service to its CAP Customers. Additional changes to the USFC mechanism were: (1) limited self-enrollment for medical certificate renewals; (2) coordination with Act 129 Energy Efficiency and Conservation Programs; (3) termination suspension for certain low-income customers; and (4) December service reconnections.

In addition, the 2010 Settlement allowed for a base rate credit of \$0.0068 per kWh to be used to calculate the amount of CAP costs to be recovered through the base rates of residential non-CAP customers under Rate Schedules R and RH. Through the USFC, PECO recovers or refunds 73% (i.e., offset factor of .27) of the difference between the CAP class discount and the base rate credit of \$0.0068 per kWh.

On July 8, 2015, the Commission approved, beginning in October 2016, a change from the prior tiered rate approach CAP program to the Fixed Credit Option, or FCO.



PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

Independent Auditor's Report to the Public Utility Commission

Report on the Financial Statements

We have audited PECO Energy Company's Statements of Electric Universal Service Fund Charge Over/Under Collections for the 12-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 Electric Universal Service Fund Charge Statements, referred to above, present fairly, in all material respects, the Gas Universal Service Fund Charge 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 Monaghan

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
November 17, 2020

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Electric Universal Service Fund Charge¹ (USFC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2018²

Month	Base Recovery Over/ (Under)	C-Factor Revenue	L-Factor Revenue	L-Factor Expenses	F-Factor Revenue	F-Factor Match	Over/(Under) Recovery
	(1)	(2)	(3)	(4)	(5)	(6)	(7) = (1)+(2)+ (3)-(4)+(5)-(6)
January 2018	\$ 2,736,365	\$ (1,202,466)	\$ 188,338	\$ 64,059	\$ (72,438)	\$ (53,958)	\$ 1,639,699
February	1,810,880	(920,971)	144,248	94,810	(55,480)	(53,958)	937,825
March	1,513,367	(789,254)	123,618	143,764	(47,545)	(53,958)	710,380
April	1,695,204	(752,569)	117,872	263,509	(45,335)	(53,958)	805,621
May	1,491,168	(640,014)	100,243	237,103	(38,555)	(53,958)	729,697
June	1,790,016	(783,089)	122,652	77,009	(47,174)	(53,958)	1,059,354
July	2,529,392	(1,084,898)	169,924	105,577	(65,355)	(53,958)	1,497,443
August	2,860,044	(1,113,306)	174,373	128,803	(67,067)	(53,958)	1,779,199
September	3,164,888	(1,104,875)	173,053	180,481	(66,559)	(53,958)	2,039,984
October (est.)	74,571	(667,278)	104,513	121,123	(40,197)	(53,958)	(595,557)
November (est.)	51,615	(630,950)	98,823	121,123	(38,009)	(53,958)	(585,685)
December (est.)	737,662	(841,804)	131,849	121,123	(50,711)	(53,958)	(90,170)
Total	<u>\$ 20,455,172</u>	<u>\$(10,531,472)</u>	<u>\$1,649,508</u>	<u>\$ 1,658,484</u>	<u>\$ (634,426)</u>	<u>\$ (647,493)</u>	<u>\$ 9,927,791</u>

¹ As reported to the Commission on October 12, 2018 at Docket No. M-2018-3005342. Arithmetic differences are due to rounding.

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

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Electric Universal Service Fund Charge³ (USFC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2017⁴

Month	Base Recovery Over/ (Under)	C-Factor Revenue	L-Factor Revenue	L-Factor Expenses	F-Factor Revenue	InPA Match	Over/(Under) Recovery
	(1)	(2)	(3)	(4)	(5)	(6)	(7)=(1)+(2)+(3)- (4)+(5)+(6)
January 2017	\$ 1,390,671	\$ (62,792)	\$ 62,792	\$ 0	\$ (138,143)	\$ 196,086	\$ 1,448,614
February	693,000	(50,879)	50,879	0	(111,933)	104,625	685,691
March	717,742	(46,388)	46,388	42,333	(102,054)	135,340	708,694
April	732,198	(41,131)	41,131	56,896	(90,488)	165,788	750,602
May	745,582	(35,958)	35,958	55,271	(79,108)	186,644	797,848
June	1,014,692	(45,012)	45,012	22,116	(99,026)	156,356	1,049,905
July	1,615,141	(64,476)	64,476	12,875	(141,846)	147,040	1,607,460
August	1,724,717	(62,044)	62,044	20,826	(136,496)	143,164	1,710,558
September	1,148,595	(48,567)	48,567	29,344	(106,848)	124,732	1,137,136
October (est.)	13,354	(39,581)	39,581	83,350	(87,078)	124,732	(32,342)
November (est.)	59,154	(38,085)	38,085	121,000	(83,787)	124,732	(20,901)
December (est.)	744,353	(50,778)	50,778	126,000	(111,713)	124,732	631,372
Total	<u>\$ 10,599,199</u>	<u>\$ (585,691)</u>	<u>\$ 585,691</u>	<u>\$ 570,011</u>	<u>\$ (1,288,521)</u>	<u>\$ 1,733,970</u>	<u>\$ 10,474,638</u>

³ As reported to the Commission on October 16, 2017 at Docket No. M-2017-2629300. Arithmetic differences are due to rounding.

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

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Notes to the Financial Statements

1 - Condensed Statements

The Statements of Electric Universal Service Fund Charge (USFC) 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 on October 12, 2018 and October 16, 2017. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2018-3005342 and M-2017-2629300.

2 - Base Recovery Over/(Under)

Base Recovery Over/(Under) is the difference between the Customer Assistance Program (CAP) revenues recovered in base rates and the total CAP discounts, net of an offset factor of 0.27, as approved at Docket No. R-2010-2161575, effective January 1, 2011.

3 - C-Factor Revenue

C-Factor Revenue is derived by multiplying the sales volumes billed monthly to the residential non-CAP customers under Rate Schedules R and RH by the applicable C-Factor Rate.

4 - L-Factor Revenue

L-Factor Revenue is derived by multiplying the sales volumes billed monthly to the residential non-CAP customers under Rate Schedules R and RH by the applicable L-Factor Rate.

5 - L-Factor Expenses

L-Factor Expenses are the incremental Low-Income Usage Reduction Program (LIURP) Expenses not included in base rates and De-facto heating audit spend beginning in October 2017. The additional audit spend will occur for the three-year period ending September 2020.

6 - F-Factor Revenue

F-Factor Revenue is derived by multiplying the sales volumes billed monthly to the residential non-CAP customers under Rate Schedules R and RH by the applicable F-Factor Rate.

7 - F-Factor Match and InPA Match

The F-Factor Match and InPA Match are the amounts received from CAP customers toward their In-Program Arrearage balances and matched by PECO.

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8 - Over/(Under) Recovery

The Over/(Under) Recovery is the difference between the USFC Revenue and Match amounts and the USFC Expenses. The resulting amount represents the portion of USFC Revenue and Match amounts refundable or USFC Expenses recoverable through subsequent USFC rates. Differences arise for two primary reasons:

- Variations between the actual monthly volumes billed to customers and the estimates used to determine the USFC rate; and,
- Variations between the actual USFC expenses and the estimates used to determine the USFC rate.

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 William S Pierce, CPA, assisted by Danielle M. Gumby.