

PECO ENERGY COMPANY



**REPORT ON THE STATEMENTS OF
ENERGY EFFICIENCY
AND CONSERVATION PROGRAM COSTS
FOR THE 12-MONTH PERIODS ENDED
MARCH 31, 2018 AND MARCH 31, 2017**

**Pennsylvania Public Utility Commission
Bureau of Audits
January 27, 2021**

Docket No. D-2020-3017032

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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.

On October 15, 2008, Act 129 became law and required the Commission to develop an Energy Efficiency and Conservation Program applicable to electric distribution companies with at least 100,000 customers. The Program permitted companies to implement a surcharge mechanism to recover the costs associated with implementing an Energy Efficiency and Conservation Program Plan. The Commission's October 28, 2009 Order approved, in part, PECO's Energy Efficiency and Conservation Plan at Docket No. M-2009-2093215¹. Effective January 1, 2010, PECO implemented its Energy Efficiency and Conservation Program Costs (EEPC) rider as a cost recovery mechanism.

The EEPC surcharge allows PECO to recover costs associated with all expenditures of the individual programs such as materials, equipment, installation, custom programs, evaluation measurement/verification, educating customers about availability (to the extent not included in consumer education costs recovered through any separate recovery mechanism), and any other cost associated with implementation of the programs. Any direct load control benefits to PECO from the programs shall be credited against the cost. The EEPC is applied to all customer bills as a non-bypassable surcharge and reconciled annually.

PECO's Phase III EEPC Plan, for the period June 1, 2016 through May 31, 2021, was filed with the Commission on November 30, 2015 at Docket No. M-2015-2515691 and approved at Public Meeting held March 17, 2016.

¹ By Order entered February 17, 2010, the Commission approved PECO's revised EEPC, originating from the Commission's directive in the October 2009 Order.



Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited PECO Energy Company's Statements of Energy Efficiency and Conservation Program Costs Over/Under Collections for the 12-month periods ended March 31, 2018 and March 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. Those 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 Energy Efficiency and Conservation Program Costs Statements, referred to above, present fairly, in all material respects, the Energy Efficiency and Conservation Program Costs revenue and expenses of PECO Energy Company as of March 31, 2018 and March 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 is not intended to be a complete presentation of PECO Energy Company's revenue and expenses.



Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
January 27, 2021

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**Energy Efficiency and Conservation Program Costs²
Over/(Under) Collections (Section 1307(e))
for the 12 months ended March 31, 2018³**

<u>Rate Class</u>	<u>Phase II Expenses</u>	<u>Phase III Expenses</u>	<u>EETC Revenue</u>	<u>Over/(Under) Collection</u>
	(1)	(2)	(3)	(4) = (3) - (1) - (2)
Residential	\$ (3,665)	\$ 41,213,706	\$ 38,742,236	\$ (2,467,805)
Commercial	(1,532)	10,199,632	12,138,484	1,940,384
Industrial	(1,911)	16,312,953	22,914,263	6,603,221
Street Lights	(50)	25,332	(270,032)	(295,314)
Total	<u>\$ (7,158)</u>	<u>\$ 67,751,624</u>	<u>\$ 73,524,951</u>	<u>\$ 5,780,485</u>

² As reported to the Commission at Docket No. M-2018-3001576.

³ Notes to the Financial Statements are an integral part of this report.

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**Energy Efficiency and Conservation Program Costs⁴
Over/(Under) Collections (Section 1307(e))
for the 12 months ended March 31, 2017⁵**

<u>Rate Class</u>	<u>EEPC Phase II Expenses</u>	<u>EEPC Phase III Expenses</u>	<u>EEPC Revenue</u>	<u>Over/(Under) Collection</u>
	(1)	(2)	(3)	(4) = (3) - (1) - (2)
Residential	\$ 9,511,396	\$ 29,210,818	\$ 37,524,145	\$ (1,198,069)
Commercial	2,797,442	5,330,162	9,457,977	1,330,372
Industrial	11,039,986	5,567,508	20,594,444	3,986,951
Street Lights	128,797	19,859	(402,253)	(550,909)
Total	<u>\$ 23,477,621</u>	<u>\$ 40,128,348</u>	<u>\$ 67,174,313</u>	<u>\$ 3,568,344</u>

⁴ As reported to the Commission at Docket No. M-2017-2601955.

⁵ Notes to the Financial Statements are an integral part of this report.

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Notes to the Financial Statements

1 – Statements

The Energy Efficiency and Conservation Program Costs (EEPC) 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 May 1, 2018 and June 20, 2017. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2018-3001576 and M-2017-2601955.

2 – EEPC Expenses

EEPC expenses include: all expenditures, of the individual programs such as materials, equipment, installation, custom programs, evaluation measurement/ verification, and educating customers about availability. Phase II amounts represent the expenses to finalize measures installed and commercially operable on or before May 31, 2016; expenses to finalize any contracts; and other Phase II administrative obligations.

3 – EEPC Revenue

EEPC Revenue for the residential, commercial, and industrial rate classes is derived by multiplying the EEPC rate, excluding E-Factor, to each kilowatt-hour (kWh) of energy supplied to customers who receive distribution service from PECO. EEPC Revenue for the street light rate class is derived by multiplying a blended EEPC rate, including the E-Factor, to each kWh of energy supplied or location, based on the customer rate structure.

4 – Over/(Under) Collections

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

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

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 Anthony Sciabarassi, assisted by Danielle Gumby.