

PECO ENERGY COMPANY



**REPORT ON THE STATEMENTS OF
NON-BYPASSABLE TRANSMISSION SERVICE CHARGE
FOR THE 12-MONTH PERIODS ENDED
NOVEMBER 30, 2019 AND NOVEMBER 30, 2018**

**Pennsylvania Public Utility Commission
Bureau of Audits
November 8, 2021**

Docket: D-2020-3021330

PECO ENERGY COMPANY

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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 2019 and 2018, PECO's total electric distribution revenues from customers, including default service sales, were \$2,248,656,149 and \$2,221,191,403, 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 2019, PECO delivered electricity to approximately 1.7 million residential, commercial, and industrial customers.

By Order entered December 4, 2014, at Docket No. P-2014-2409362, the Commission allowed PECO to establish a Non-Bypassable Transmission Service Charge (NBT) applicable to all PECO distribution customers, effective June 1, 2015. The NBT permits PECO to recover Regional Transmission Expansion Plan (RTEP) costs, Expansion Cost Recovery costs, and Generation Deactivation/Reliability Must Run costs. These costs were originally recovered through the Transmission Service Charge (TSC). As of June 1, 2015, the TSC allows PECO to recover PJM Network Integration Transmission Service costs, Non-Firm Point to Point Transmission costs, and the cost for working capital associated with the purchase of transmission service from PJM.

Effective December 1, 2018, the adjustment to the NBT reflected the impact of approved Regional Transmission Expansion Plan (RTEP) credits being refunded to the PECO Zone by PJM Interconnections, LLC (PJM), pursuant to a settlement agreement with the Federal Energy Regulatory Commission (FERC) at Docket No. EL05-121-009. The NBT will continue to reflect RTEP credits that PJM will refund through 2025 as specified in the FERC settlement, in addition to PECO's retention of credits related to pre-2011 Transmission Enhancement charges as per PUC decision at Docket Nos. C-2018-3006242 and C-2019-3010737.

The audit of the TSC for the 12-month periods ended November 30, 2019 and November 30, 2018 can be found at Docket No. D-2020-3021354 on the PUC's website (<http://www.puc.pa.gov>).



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Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited PECO Energy Company's Statements of Non-Bypassable Transmission Service Charge Over/Under Collections for the 12-month periods ended November 30, 2019 and November 30, 2018.

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 Non-Bypassable Transmission Service Charge Statements, referred to above, present fairly, in all material respects, the Non-Bypassable Transmission Service Charge revenue and expenses of PECO Energy Company as of November 30, 2019 and November 30, 2018, 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 8, 2021

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Non-Bypassable Transmission Service Charge (NBT)¹ Over/(Under) Collections (Section 1307(e)) for the 12 months ended November 30, 2019²

<u>Rate Class</u>	<u>NBT Revenue</u> (1)	<u>NBT Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Rates R, RH	\$ 11,381,762	\$ 13,291,957	\$ (1,910,195)
Rate GS	6,082,795	6,651,971	(569,176)
Rates PD, HT, EP	6,968,780	9,257,614	(2,288,834)
Rates SLE, SLS, SLC POL, AL, TLCL	<u>22,617</u>	<u>19,562</u>	<u>3,054</u>
Total	<u>\$ 24,455,954</u>	<u>\$ 29,221,104</u>	<u>\$ (4,765,151)</u>

¹ As reported to the Commission at Docket No. M-2019-3014998. Arithmetic differences are due to rounding.

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

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**Non-Bypassable Transmission Service Charge (NBT)³
Over/(Under) Collections (Section 1307(e))
for the 12 months ended November 30, 2018⁴**

<u>Rate Class</u>	<u>NBT Revenue</u> (1)	<u>NBT Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Rate R, RH	\$ 45,415,213	\$ 28,881,452	\$ 16,533,761
Rate GS	24,307,604	14,232,193	10,075,411
Rates PD, HT, EP	28,059,612	19,675,977	8,383,635
Rates SLE, SLS, SLC POL, AL, TLCL	<u>24,847</u>	<u>44,624</u>	<u>(19,777)</u>
Total	<u>\$ 97,807,276</u>	<u>\$ 62,834,247</u>	<u>\$ 34,973,029</u>

³ As reported to the Commission at Docket No. M-2018-3006538. 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 - Statements

The Statements of Non-Bypassable Transmission Service Charge (NBT) 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 December 18, 2019 and December 14, 2018. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2019-3014998 and M-2018-3006538.

2 - NBT Revenue

NBT Revenue is derived by multiplying the sales volumes billed during the month by the applicable NBT rate, excluding E-Factor, to each kilowatt-hour (kWh) of energy or kilowatt (kW) of demand supplied to customers who receive distribution service from PECO.

3 - NBT Costs

The NBT Costs are the charges incurred by PECO to acquire applicable transmission services under the PJM Open Access Transmission Tariff (OATT) on behalf of PECO's distribution service customers.

4 - Over/(Under) Collections

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

- Variation between the actual volumes billed to customers and the estimates used to determine the NBT rates; and,
- Variation between the actual NBT costs and the estimates used to determine the NBT rates.

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Current Period Observation

Observation - PECO did not retain the \$5.5 million of PJM credits as stated in the NBT rate filings.

On November 7, 2018, at Docket No. M-2018-3005860, PECO filed proposed Supplement No. 76 to Tariff Electric-Pa. P.U.C. No. 5 and the supporting rate computations for their semi-annual NBT rate adjustment to become effective December 1, 2018. With this filing, PECO proposed to adjust the NBT rate to reflect the impact of approved Regional Transmission Expansion Plan (RTEP) credits being refunded to PECO by PJM pursuant to a settlement agreement with the FERC at Docket No. EL05-121-009.

Under the FERC Settlement Agreement, the PECO zone received a credit of \$49,567,831 for the historical period of June 2007 through December 2015. PECO proposed to retain \$5.5 million of the total credits, which PECO stated was the portion of RTEP charges that PJM billed to PECO from June 2007 through December 2010. The credits would be retained over the NBT filing periods from December 1, 2018 through November 30, 2019. As such, on May 15, 2019, at Docket No. M-2019-3010032, PECO filed proposed Supplement No. 13 to Tariff Electric-Pa. P.U.C. No. 6 and the supporting rate computations for their semi-annual NBT rate adjustment to become effective on June 1, 2019, which also proposed to retain the \$5.5 million of the total PJM credits.

The Office of Consumer Advocate (OCA) filed complaints, at Docket Nos. C-2018-3006242 and C-2019-3010737, against the December 1, 2018 and June 1, 2019 rates. On June 25, 2020, Administrative Law Judge Marta Guhl issued an Initial Decision that denied and dismissed the Complaints filed by the OCA against PECO. The Initial Decision was adopted by Order entered June 16, 2021.

After the conclusion of audit fieldwork, PECO self-reported that a review of their NBT records showed that the \$5.5 million of PJM credits that PECO proposed to retain, was inadvertently refunded to their customers. When reconciling revenues and costs, the intent was to adjust the NBT costs by \$5.5 million. However, the adjustment was not made. PECO is proposing to collect the \$5.5 million from customers through subsequent NBT rates.

The auditor's fieldwork confirms that all the PJM credits resulting from the FERC Settlement were included in the NBT costs for the audit period. The NBT costs did not reflect the retention of \$5.5 million in PJM credits by PECO.

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 Gerville J. Brown.