

# **PECO ENERGY COMPANY**



**REPORT ON THE STATEMENTS OF  
GENERATION SUPPLY ADJUSTMENT  
FOR THE 12-MONTH PERIODS ENDED  
DECEMBER 31, 2020 AND DECEMBER 31, 2019**

**Pennsylvania Public Utility Commission  
Bureau of Audits  
August 9, 2022**

**Docket No. D-2021-3026019**

# PECO ENERGY COMPANY

## Table of Contents

	<u>Page</u>
<b>BACKGROUND</b>	1
<b>FINANCIAL REVIEW</b>	
Independent Auditor's Report	2
Generation Supply Adjustment (GSA) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2020	4
Generation Supply Adjustment (GSA) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2019	5
Notes to the Financial Statements	6
Current Audit Finding	7
<b>ACKNOWLEDGEMENT</b>	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 2020 and 2019, PECO's total electric distribution revenues from customers, including default service sales, were \$2,298,451,898 and \$2,248,656,149; 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 2020, PECO delivered electricity to approximately 1.7 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.



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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 Generation Supply Adjustment Over/Under Collections for the 12-month periods ended December 31, 2020 and December 31, 2019.

### **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, 2020 and December 31, 2019, 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, CPA*

Kelly A. Monaghan, CPA, CGFM, CFE, CISA  
Director  
Bureau of Audits  
Harrisburg, PA  
August 9, 2022

**PECO ENERGY COMPANY**

**Generation Supply Adjustment (GSA)<sup>1</sup>  
Over/(Under) Collections (Section 1307(e))  
for the 12 months ended December 31, 2020<sup>2</sup>**

<b>Rate Class</b>	<b>GSA Revenue</b>	<b>GSA Costs</b>	<b>Over/(Under) Collections</b>
	(1)	(2)	(3) = (1) - (2)
Residential	\$ 551,785,143	\$ 542,905,284	\$ 8,879,859
Small Commercial and Industrial	92,057,587	92,063,258	(5,671)
Large Commercial and Industrial (Hourly)	40,394,319	39,396,371	997,948
<b>Total</b>	<b>\$ 684,237,049</b>	<b>\$ 674,364,913</b>	<b>\$ 9,872,136</b>

<sup>1</sup> As reported to the Commission at Docket No. M-2021-3023918.

<sup>2</sup> Notes to the Financial Statements are an integral part of this report.

**PECO ENERGY COMPANY**

**Generation Supply Adjustment (GSA)<sup>3</sup>  
Over/(Under) Collections (Section 1307(e))  
for the 12 months ended December 31, 2019<sup>4</sup>**

<b>Rate Class</b>	<b>GSA Revenue</b>	<b>GSA Costs</b>	<b>Over/(Under) Collections</b>
	(1)	(2)	(3) = (1) - (2)
Residential	\$ 557,127,204	\$ 557,427,317	\$ (300,113)
Small Commercial and Industrial	107,179,964	106,135,917	1,044,047
Large Commercial and Industrial (Hourly)	<u>42,349,193</u>	<u>40,446,541</u>	<u>1,902,652</u>
Total	<u>\$ 706,656,361</u>	<u>\$ 704,009,775</u>	<u>\$ 2,646,586</u>

<sup>3</sup> As reported to the Commission at Docket No. M-2020-3017840.

<sup>4</sup> Notes to the Financial Statements are an integral part of this report.

# PECO ENERGY COMPANY

## Notes to the Financial Statements

### **1 - 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 on January 29, 2021 and January 31, 2020. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2021-3023918 and M-2020-3017840.

### **2 - 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.

### **3 - GSA Costs**

GSA Costs for the Residential and Small 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 Costs for the Large Commercial and Industrial (Hourly) rate class are calculated by multiplying the PJM day ahead hourly price by the customer's 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.

### **4 - 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.

# PECO ENERGY COMPANY

## Current Audit Finding

### **Finding – PECO overstated its February 2019 Residential Block/Spot Costs for Energy, Capacity and Ancillary Services by \$175,816.**

The Residential Block/Spot Costs for Energy, Capacity and Ancillary Services for the month of February 2019 were \$423,465, which was reflected correctly in the General Ledger. However, PECO reported the costs as \$599,281 in the reconciliation statement filed with the PUC. This error occurred because the internal source document was not updated during the accounting close. As a result, Residential February 2019 costs were overstated by \$175,816<sup>5</sup>.

### **Recommendations:**

We recommend that PECO refund \$175,816 plus applicable interest to its Residential customers in its next GSA rate filing and to implement additional internal controls, including adequate review procedures to prevent this situation from occurring in the future.

### **Auditor's Note:**

PECO agrees with the finding and recommendations and will make the necessary adjustment in its next GSA rate filing. PECO also indicated that they would continue to develop and implement various procedures that will improve their recording and reporting processes.

## 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, assisted by Danielle M. Gumby.

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<sup>5</sup> \$423,465 - \$599,281 = \$(175,816)