

PECO ENERGY COMPANY



**REPORT ON THE STATEMENTS OF
ELECTRIC UNIVERSAL SERVICE FUND CHARGE
FOR THE 12-MONTH PERIODS ENDED
DECEMBER 31, 2021, DECEMBER 31, 2020, AND DECEMBER 31, 2019**

**Pennsylvania Public Utility Commission
Bureau of Audits
August 10, 2023**

Docket No. D-2022-3031465

PECO ENERGY COMPANY

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PECO ENERGY COMPANY

Background

PECO Energy Company (PECO or company) is a wholly-owned subsidiary of Exelon Corporation, headquartered in Chicago, Illinois. PECO provides transmission and distribution of electric and natural gas service to retail customers in southeastern Pennsylvania. As an electric and natural gas distribution company, PECO's operations are subject to regulation by the Pennsylvania Public Utility Commission (PUC or Commission). According to PECO's annual reports filed with the PUC, for the years 2021, 2020, and 2019, PECO's total electric distribution revenues from customers, including default service sales, were \$2,400,172,832; \$2,298,451,898; and \$2,248,656,149, 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 2021, PECO delivered electricity to approximately 1.7 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. The Commission approved PECO's proposed Universal Service Fund Charge (USFC) Rider by Order entered July 17, 2003, at Docket No. R-00038535.

By Order entered December 21, 2010 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 0.27) 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.



Independent Auditor's Report to the Pennsylvania 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, 2021, 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. 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 Electric Universal Service Fund Charge Statements, referred to above, present fairly, in all material respects, the Electric Universal Service Fund Charge revenue and expenses of PECO Energy Company as of December 31, 2021, 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 PECO Energy Company's revenue and expenses.

Kelly Monaghan, CPA

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
August 10, 2023

PECO ENERGY COMPANY

Electric Universal Service Fund Charge¹ (USFC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2021²

Month	Base Recovery Over/ (Under)	C-Factor Revenue	L-Factor Revenue	L-Factor Expenditures	F-Factor Revenue	F-Factor Match	Total Over/(Under) Recovery
	(1)	(2)	(3)	(4)	(5)	(6)	(5) = (1) + (2) + (3) - (4) + (5) - (6)
January 2021	\$ 2,069,583	\$ (2,104,000)	\$ 172,025	\$ 106,877	\$ 0	\$ 0	\$ 30,731
February	2,024,573	(1,994,286)	98,483	203,639	0	0	(74,868)
March	1,741,417	(1,751,294)	86,484	273,667	0	0	(197,060)
April	1,098,243	(1,331,861)	65,771	171,082	0	0	(338,928)
May	1,196,561	(1,244,213)	61,443	173,381	0	0	(159,590)
June	1,695,421	(1,674,067)	82,670	188,884	0	0	(84,860)
July	2,257,853	(2,245,958)	110,911	198,904	0	0	(76,098)
August	2,375,618	(2,244,925)	110,860	183,890	0	0	57,664
September	2,530,460	(2,183,348)	107,820	189,483	0	0	265,449
October (est.)	1,517,821	(1,356,715)	66,998	83,333	0	0	144,770
November (est.)	1,003,152	(1,249,864)	61,722	83,333	0	0	(268,324)
December (est.)	1,255,712	(1,679,564)	82,94	83,333	0	0	(424,244)
Total	<u>\$ 20,766,414</u>	<u>\$ (21,060,094)</u>	<u>\$ 1,108,129</u>	<u>\$ 1,939,807</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (1,125,358)</u>

¹ As reported to the Commission at Docket No. M-2021-3029068. 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, 2020⁴

Month	Base Recovery Over/ (Under)	C-Factor Revenue	L-Factor Revenue	L-Factor Expenditures	F-Factor Revenue	F-Factor Match	Total Over/(Under) Recovery
	(1)	(2)	(3)	(4)	(5)	(6)	(5) = (1) + (2) + (3) - (4) + (5) - (6)
January 2020	\$ 2,055,764	\$ (1,583,760)	\$ 208,713	\$ 229,599	\$ 85,940	\$ 0	\$ 537,058
February	1,639,368	(1,647,834)	200,698	266,977	0	0	(74,745)
March	1,392,602	(1,443,297)	175,786	143,346	0	0	(18,255)
April	1,468,551	(1,335,824)	162,697	70,517	0	0	224,906
May	1,640,104	(1,277,765)	155,625	39,530	0	0	478,434
June	1,816,623	(1,526,741)	185,949	73,080	0	0	402,751
July	2,873,059	(2,236,972)	272,452	45,235	0	0	863,303
August	3,613,533	(2,462,199)	299,883	90,870	0	0	1,360,348
September	2,823,356	(2,021,055)	246,154	63,786	0	0	984,669
October (est.)	1,409,541	(1,297,409)	158,018	83,335	0	0	186,814
November (est.)	952,549	(1,203,685)	146,603	83,334	0	0	(187,867)
December (est.)	1,204,383	(1,604,936)	195,473	83,334	0	0	(288,413)
Total	\$ 22,889,433	\$ (19,641,478)	\$ 2,408,050	\$ 1,272,943	\$ 85,940	\$ 0	\$ 4,469,003

³ As reported to the Commission at Docket No. M-2020-3022391. Arithmetic differences are due to rounding.

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

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Electric Universal Service Fund Charge⁵ (USFC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended December 31, 2019⁶

<u>Month</u>	<u>Base Recovery Over/ (Under)</u>	<u>C-Factor Revenue</u>	<u>L-Factor Revenue</u>	<u>L-Factor Expenditures</u>	<u>F-Factor Revenue</u>	<u>F-Factor Match</u>	<u>Total Over/(Under) Recovery</u>
	(1)	(2)	(3)	(4)	(5)	(6)	(5) = (1) + (2) + (3) - (4) + (5) - (6)
January 2019	\$ 2,821,734	\$ (1,106,489)	\$ 174,054	\$ 95,832	\$ 74,595	\$ 148,151	\$ 1,719,912
February	2,052,640	(1,146,061)	168,893	106,337	180,957	148,151	1,001,941
March	1,822,899	(991,371)	146,097	180,040	156,532	148,151	805,966
April	1,278,570	(774,610)	114,153	249,407	122,307	148,151	342,862
May	1,225,170	(669,900)	98,722	206,380	105,774	148,151	405,235
June	1,756,964	(887,704)	130,820	207,402	140,164	148,151	784,690
July	2,682,335	(1,269,185)	187,038	161,880	200,398	148,151	1,490,554
August	3,347,477	(1,382,577)	203,748	141,574	218,302	148,151	2,097,225
September	2,549,145	(1,114,684)	164,269	62,736	176,003	148,151	1,563,846
October (est.)	1,505,819	(778,286)	114,695	96,138	122,887	148,151	720,827
November (est.)	1,409,078	(723,725)	106,654	96,137	114,272	148,151	661,992
December (est.)	1,233,406	(966,135)	142,378	96,137	152,548	148,151	317,909
Total	<u>\$ 23,685,238</u>	<u>\$ (11,810,726)</u>	<u>\$ 1,751,521</u>	<u>\$ 1,700,000</u>	<u>\$ 1,764,737</u>	<u>\$ 1,777,812</u>	<u>\$ 11,912,958</u>

⁵ As reported to the Commission at Docket No. M-2019-3013523. Arithmetic Differences are due to rounding.

⁶ Notes to the Financial Statements are an integral part of this report.

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Notes to the Financial Statements

1 – Statements

The 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 Commission in accordance with Section 1307(e)(1) of the Public Utility Code on October 14, 2021, October 14, 2020, and October 14, 2019. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2021-3029068, M-2020-3022391, and M-2019-3013523.

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-2010-21615575, effective January 1, 2011.

3 – C-Factor Revenue

C-Factor Revenue is calculated 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 calculated 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 Expenditures

L-Factor Expenditures are the incremental Low-Income Usage Reduction Program (LIURP) expenditures not included in base rates and De-facto heating audit spend, beginning in October 2017, as a result of the settlement at Docket No M-2012-2290911. This additional audit spend will occur for a three-year period from October 2017 through September 2020. Effective January 1, 2019, as part of the Settlement at Docket R-2018-3000164, PECO has increased its annual LIURP budget by \$1 million.

6 – F-Factor Revenue

F-Factor Revenue is calculated 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.

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Notes to the Financial Statements (continued)

7 – F-Factor Match

F-Factor Match relates to the In-Program Arrearage Forgiveness Program per the settlement at Appendix C of Docket R-2015-2468981. The F-Factor Match represents the amounts received from CAP customers toward their In-Program Arrearage balances and matched by PECO.

8 – Over/(Under) Recovery

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

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

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Current Audit Finding

Finding – PECO Energy Company has not retained documentation to support enrolled customers' eligibility for the Customer Assistance Program.

PECO's Customer Assistance Program (CAP) is administered by a third-party CAP vendor. To qualify for PECO's CAP, a customer must provide income documentation to the vendor so that the customer's eligibility and the amount of subsidy can be determined. The record retention policy for the CAP vendor specifies that income source documentation be retained electronically and be available to PECO for a minimum of four years from receipt.

The PUC auditors randomly selected a sample of CAP customers from the audit period and requested the income verification documentation used by the CAP vendor to determine the customer's eligibility and the subsidy amount. Within the selected sample, there were several customers whose eligibility documentation was not available. According to PECO, they transitioned to a new CAP vendor in September 2019. Upon transition, access was lost to the former CAP vendor's document system, making all information prior to September 2019 unavailable to PECO.

Documentation retention issues make PECO's oversight of the CAP program difficult and increases the risk of providing assistance to non-qualified customers and/or denying assistance to otherwise eligible customers.

Recommendation

We recommend that PECO should consider developing a process where eligibility documentation is forwarded by the CAP vendor to PECO who would then become the custodian of records.

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 Larry Treaster.