

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
BUREAU OF AUDITS**



REPORT ON PECO ENERGY COMPANY

**STATEMENTS OF
TRANSMISSION SERVICE CHARGE
DECEMBER 1, 2019 — NOVEMBER 30, 2021**

**DECEMBER 12, 2024
DOCKET NO. D-2023-3038752**

**PA PUC BUREAU OF AUDITS
DOCKET NO. D-2023-3038752**

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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 and 2020, PECO's total electric distribution revenues from customers, including default service sales, were \$2,400,172,832 and \$2,298,451,898; respectively.

By Order entered December 21, 2010, the Commission approved a Joint Petition for Settlement (Settlement) at Docket No. R-2010-2161575, establishing new base rates for PECO's electric operations effective January 1, 2011. Among other matters, the Settlement allowed PECO to establish a TSC tariff rider.

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 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.

The audit of the NBT for the 12-month periods ended November 30, 2021 and November 30, 2020 can be found at Docket No. D-2023-3038754 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 Transmission Service Charge Over/Under Collections for the 12-month periods ended November 30, 2021 and November 30, 2020.

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 Transmission Service Charge Statements, referred to above, present fairly, in all material respects, the Transmission Service Charge revenue and expenses of PECO Energy Company as of November 30, 2021 and November 30, 2020, 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
December 12, 2024

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**Transmission Service Charge (TSC)¹
Over/(Under) Collections (Section 1307(e))
for the 12 months ended November 30, 2021²**

<u>Rate Class</u>	<u>TSC Revenue</u> (1)	<u>TSC Costs</u> (2)	<u>Over/(Under) Collection</u> (3) = (1) - (2)
Rates R, RH	\$ 54,459,192	\$ 54,671,515	\$ (212,323)
Rate GS	13,039,577	10,457,575	2,582,002
Rates PD, HT, EP	1,566,755	1,991,782	(425,028)
Rates SLE, SLS, SLC, POL, AL, TLCL	<u>16,503</u>	<u>12,140</u>	<u>4,363</u>
Total	<u>\$ 69,082,027</u>	<u>\$ 67,133,013</u>	<u>\$ 1,949,015</u>

¹ As reported to the Commission at Docket No. M-2021-3029891. Arithmetic differences are due to rounding.

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

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**Transmission Service Charge (TSC)³
Over/(Under) Collections (Section 1307(e))
for the 12 months ended November 30, 2020⁴**

<u>Rate Class</u>	<u>TSC Revenue</u> (1)	<u>TSC Costs</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
Rates R, RH	\$ 47,846,767	\$ 49,209,037	\$ (1,362,270)
Rate GS	12,135,736	10,680,540	1,455,196
Rates PD, HT, EP	1,299,023	2,057,054	(758,031)
Rates SLE, SLS, SLC POL, AL, TLCL	<u>13,326</u>	<u>12,538</u>	<u>788</u>
Total	<u>\$ 61,294,852</u>	<u>\$ 61,959,169</u>	<u>\$ (664,317)</u>

³ As reported to the Commission, at Docket No. M-2020-3023319. 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 Transmission Service Charge (TSC) 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 8, 2021 and December 17, 2020. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2021-3029891 and M-2020-3023319.

2 - TSC Revenue

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

3 - TSC Costs

The TSC Costs are the applicable charges incurred by PECO to acquire transmission service on behalf of default service customers under the PJM Open Access Transmission Tariff (OATT) as approved by the Federal Energy Regulatory Commission.

4 - Over/(Under) Collections

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

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

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Current Audit Finding

Finding – PECO overstated December 2020 TSC Revenue by \$819,220.

In its TSC 1307(e) statement filed on December 8, 2021, at Docket No. M-2021-3029891, PECO erroneously reported December 2019 revenue for December 2020 for all rate classes. This resulted in overstatements of TSC-1 (Rates R, RH) revenue by \$644,683; TSC-2 (Rate GS) by \$162,402; TSC-3 (Rates PD, HT, EP) by \$12,556; and an understatement of TSC-4 (Rates SLE, SLS, SLC POL, AL, TLCL) by (\$421).

PECO determined that an incorrect revenue figure was provided to the rates department by the revenue accounting department. Although the revenue for December 2020 was properly recorded as reflected in the general ledger, no existing procedure or control existed to detect this error in the PUC filing.

Recommendation:

We recommend that PECO recoups \$644,683 from its TSC-1 customers, recoups \$162,402 from its TSC-2 customers, recoups \$12,556 from its TSC-3 customers, and refunds \$421 to its TSC-4 customers through adjustments to the E-Factor in its next TSC filing.

We further recommend that the company institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors related to TSC Revenue.

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 and Jenny Kalna.