**PECO ENERGY COMPANY**

**A REPORT ON THE STATEMENTS OF**

**GAS UNIVERSAL SERVICE FUND CHARGE**

**OVER/(UNDER) COLLECTIONS**

**FOR THE TWELVE MONTH PERIODS ENDED**

**NOVEMBER 30, 2012, NOVEMBER 30, 2011,**

**NOVEMBER 30, 2010, AND NOVEMBER 30, 2009**

**Prepared By The**

**Pennsylvania Public Utility Commission**

**Bureau of Audits**

**Report Date: February 18, 2015**

**Docket No. D-2012-2323036**

**PECO ENERGY COMPANY**

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**FINANCIAL REVIEW**

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| PUC logo | COMMONWEALTH OF PENNSYLVANIAPENNSYLVANIA PUBLIC UTILITY COMMISSIONP.O. BOX 3265, HARRISBURG, PA 17105-3265 | **IN REPLY PLEASE REFER TO OUR FILE** |

## INDEPENDENT AUDITOR’S REPORT

## To The Pennsylvania Public Utility Commission

We have audited PECO Energy Company’s Statements of Gas Universal Service Fund Charge Over/Under Collections (Section 1307(e)) for the twelve month periods ended November 30, 2012, November 30, 2011, November 30, 2010, and November 30, 2009. These statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the 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 the specified statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements referred to above. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentations. We believe that our audit provides a reasonable basis for our opinion.

 The Statements of Gas Universal Service Fund Charge Over/Under Collections 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 Company’s revenues and expenses.

In our opinion, the information set forth in the accompanying condensed Statements of Gas Universal Service Fund Charge Over/Under Collections for the twelve month periods ended November 30, 2012, November 30, 2011, November 30, 2010, and November 30, 2009 of PECO Energy Company presents fairly, in all material respects, in relation to the audited financial statements from which they were derived.

Dennis P. Hosler, CPA

 Director

 Bureau of Audits

**PECO ENERGY COMPANY**

**Condensed (Note 1)**

**Statement of Gas Universal Service Fund Charge (USFC)**

**Over/(Under) Collections (Section 1307(e))**

**For The Twelve Months Ended November 30, 2012\***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Base Recovery****Over/(Under)****Actual @ 0.73** |  | **USFC****Revenues** |  | **Over/(Under)****Collections** |
|  |  | (1) |  | (2) |  | (3)=(1)+(2) |
|  |  | (Note 2) |  | (Note 3) |  | (Note 4) |
|  |  |  |  |  |  |  |
| December 2011 |  | $ 424,780 |  | $ (100,252) |  |  $ 324,528 |
| January |  | 637,666 |  | (339,649) |  |  298,017 |
| February |  | 582,612 |  | (310,109) |  |  272,503 |
| March |  | 425,355 |  | (223,267) |  |  202,088 |
| April |  | 233,341 |  | (123,604) |  |  109,737 |
| May |  | 169,719 |  | (86,328) |  |  83,391 |
| June |  | 133,022 |  | (46,265) |  |  86,756 |
| July |  | 126,022 |  | (37,504) |  |  88,518 |
| August |  | 123,255 |  | (32,815) |  |  90,440 |
| September \*\* |  | 41,748 |  | (46,422) |  |  (4,674) |
| October \*\* |  | 115,134 |  | (110,041) |  | 5,093 |
| November \*\* |  |  340,803 |  |  (216,332) |  |  124,471 |
|  Totals |  | $ 3,353,458 |  | $ (1,672,589) |  |  $ 1,680,870 |

\* - As reported to the Commission at Docket No. M-2012-2325821.

\*\* - Estimated data is trued-up in the subsequent annual USFC rate filing.

Arithmetic differences are due to rounding.

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

**PECO ENERGY COMPANY**

**Condensed (Note 1)**

**Statement of Gas Universal Service Fund Charge (USFC)**

**Over/(Under) Collections (Section 1307(e))**

**For The Twelve Months Ended November 30, 2011\***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Base Recovery****Over/(Under)****Actual @ 0.73** |  | **USFC****Revenues\*\*** |  | **Over/(Under)****Collections** |
|  |  | (1) |  | (2) |  | (3)=(1)+(2) |
|  |  | (Note 2) |  | (Note 3) |  | (Note 4) |
|  |  |  |  |  |  |  |
| December 2010 |  | $ 831,046 |  | $ (814,432) |  |  $ 16,614 |
| January |  | 1,014,781 |  | (683,992) |  |  330,789 |
| February |  | 704,963 |  | 0 |  |  704,963 |
| March |  | 436,299 |  | 0 |  |  436,299 |
| April |  | 284,581 |  | 0 |  |  284,581 |
| May |  | 112,771 |  | 0 |  |  112,771 |
| June |  | 104,771 |  | 0 |  |  104,771 |
| July |  | 117,658 |  | 0 |  |  117,658 |
| August |  | 114,371 |  | 0 |  |  114,371 |
| September \*\*\* |  | 29,832 |  | 0 |  |  29,832 |
| October \*\*\* |  | (13,587) |  | 0 |  |  (13,587) |
| November \*\*\* |  |  65,812 |  |  0 |  |  65,812 |
|  Totals |  | $ 3,803,298 |  | $ (1,498,424) |  |  $ 2,304,874 |

\* - As reported to the Commission at Docket No. M-2011-2262958.

\*\* - Per the base rate case at Docket No. R-2010-2161592, the C-Factor portion of the USFC rate was set to zero as of January 1, 2011, with an E-Factor rate of $0.0154.

\*\*\* - Estimated data is trued-up in the subsequent annual USFC rate filing.

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

**PECO ENERGY COMPANY**

**Condensed (Note 1)**

**Statement of Gas Universal Service Fund Charge (USFC)**

**Over/(Under) Collections (Section 1307(e))**

**For The Twelve Months Ended November 30, 2010\***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Base Recovery****Over/(Under)****Actual @ 0.83** |  | **USFC****Revenues** |  | **Over/(Under)****Collections** |
|  |  | (1) |  | (2) |  | (3)=(1)+(2) |
|  |  | (Note 2) |  | (Note 3) |  | (Note 4) |
|  |  |  |  |  |  |  |
| December 2009 |  | $ 592,332 |  | $ (310,967) |  | $ 281,366 |
| January |  | 1,021,993 |  | (1,111,034) |  | (89,042) |
| February |  | 934,118 |  | (1,004,172) |  | (70,054) |
| March |  | 597,697 |  | (757,206) |  | (159,509) |
| April |  | 204,805 |  | (337,244) |  | (132,439) |
| May |  | 125,179 |  | (213,467) |  | (88,288) |
| June |  | 138,327 |  | (133,840) |  | 4,487 |
| July |  | 160,774 |  | (97,041) |  | 63,733 |
| August |  | 157,882 |  | (85,028) |  | 72,854 |
| September \*\* |  | 169,655 |  | (120,737) |  | 48,919 |
| October \*\* |  | 519,735 |  | (287,422) |  | 232,313 |
| November \*\* |  |  753,529 |  |  (521,715) |  |  231,814 |
|  Totals |  | $ 5,376,025 |  | $ (4,979,873) |  |  $ 396,153 |

\* - As reported to the Commission at Docket No. M-2010-2191701.

\*\* - Estimated data is trued-up in the subsequent annual USFC rate filing.

Arithmetic differences are due to rounding.

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

**PECO ENERGY COMPANY**

**Condensed (Note 1)**

**Statement of Gas Universal Service Fund Charge (USFC)**

**Over/(Under) Collections (Section 1307(e))**

**For The Twelve Months Ended November 30, 2009\***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Base Recovery****Over/(Under)****Actual @ 0.83** |  | **USFC****Revenues\*\*** |  | **Over/(Under)****Collections** |
|  |  | (1) |  | (2) |  | (3)=(1)+(2) |
|  |  | (Note 2) |  | (Note 3) |  | (Note 4) |
|  |  |  |  |  |  |  |
| December 2008 |  | $ 0 |  | $ 0 |  | $ 0 |
|  (Note 5) |  |  |  |  |  |  |
| January |  | (92,274) |  | 0  |  |  (92,274)  |
| February |  |  361,439 |  | 0 |  | 361,439 |
| March |  |  372,380 |  | 0 |  | 372,380 |
| April |  |  264,801 |  | 0 |  | 264,801 |
| May |  |  127,256 |  | 0 |  | 127,256 |
| June |  |  126,226 |  | 0 |  | 126,226 |
| July |  |  146,650 |  | 0 |  | 146,650 |
| August |  |  152,999 |  | 0 |  | 152,999 |
| September \*\*\* |  |  148,429 |  | 0 |  | 148,429 |
| October \*\*\* |  |  539,457 |  | 0 |  | 539,457 |
| November \*\*\* |  |  828,316  |  |  0  |  |  828,316  |
|  Totals |  | $ 2,975,679 |  | $ 0 |  | $ 2,975,679 |

\* - As reported to the Commission at Docket No. M-2009-2123068.

\*\* - Per the base rate case at Docket No. R-2008-2028394, the C-Factor and E‑Factor components of the USFC rate were set to zero as of January 1, 2009.

\*\*\* - Estimated data is trued-up in the subsequent annual USFC rate filing.

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

**PECO ENERGY COMPANY**

**Notes To The Financial Statements**

**1- Condensed Statements**

The Statements of Gas Universal Service Fund Charge (USFC) Over/(Under) Collections presented in this report are condensed from the officially filed statements for the purpose of clarity. The audit was conducted on PECO Energy Company’s (PECO or Company) officially filed 1307(e) statements submitted to the Pennsylvania Public Utility Commission (PUC or Commission) in accordance with Section 1307(e)(1) of the Public Utility Code on September 20, 2012, September 14, 2011, September 15, 2010 and October 5, 2009 and are available at Docket Nos. M‑2012-2325821, M‑2011‑2262958, M-2010-2191701, and M-2009-2123068, respectively, via <http://www.puc.pa.gov>.

**2 - Base Recovery Over/(Under) Actual @ 0.73 and 0.83**

 Base Recovery Over/(Under) Actual @ 0.73 and 0.83 are the differences between the CAP revenues recovered in base rates and the total CAP discounts, net of an offset factor. The offset factor approved at Docket No. R-2010-2161592, effective as of January 1, 2011, was 0.27. In addition, the base rate credit used to calculate the amount of CAP costs recovered through base rates was set at $0.2656 per MCF. The offset factor approved at Docket No. R-2008-2028394, effective as of January 1, 2009, was 0.17. In addition, the base rate credit used to calculate the amount of recoverable CAP costs recovered through base rates was set at $0.3608 per MCF.

**3 - USFC Revenues**

 USFC Revenues are derived by multiplying the sales volumes billed during the month by the C-Factor of the applicable USFC rate. The USFC is charged to non‑CAP Residential Rate Schedule GR customers.

**4 - Over/(Under) Collections**

The Over/(Under) Collections are the differences between the USFC Revenues and the Base Recovery Over/(Under) Actual amounts. The resulting amounts represent the portion of USFC Revenues refundable to or costs recoverable from customers through subsequent USFC filings. Interest is applied to both over and under collections. Differences arise for two primary reasons:

* Variations between the actual monthly volumes billed to customers and the estimates used to determine the USFC rate.
* Variations between the actual USFC costs and the estimates used to determine the USFC rate.

**PECO ENERGY COMPANY**

**Notes To The Financial Statements (continued)**

**5 – December 2008**

For the twelve months ended November 30, 2009, the December 2008 line item shows all zeros as the revised USFC mechanism became effective January 1, 2009 by Order entered October 29, 2008, at Docket No. R-2008-2028394. Under the USFC mechanism that ended December 31, 2008, PECO was permitted to recover $200 annually for each incremental CAP customer above the first 17,500 customers participating in the CAP. As shown below, the allowable cost recovery for the months of December 2008 and January 2009 represents the final costs and revenues under this USFC methodology.

 The method by which PECO derives USFC Revenues is explained in Note 3. As shown below, the USFC Revenues in the months of December 2008 and January 2009 are generated from the USFC mechanism that ended December 31, 2008.

 The Over/(Under) Collections are the differences between the Allowable Cost Recovery and the USFC Revenues. The Over/(Under) Collections represent the final two months of the USFC mechanism that ended December 31, 2008. The over collection amount of $113,191, interest owed to the customers of $15,504, and a prior period cumulative over collection amount of $27,942 were applied to the calculation of the USFC rate that became effective December 1, 2009, at Docket M‑2009-2123068.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Month** |  | **Allowable****Cost****Recovery** |  | **USFC****Revenues** |  | **Over/(Under)****Collections** |
|  |  | (1) |  | (2) |  | (3)=(2)-(1) |
|  |  |  |  |  |  |  |
| December 2008  |  | $ 61,446 |  |  $ 101,236 |  |  $ 39,791 |
| January 2009  |  |  0 |  |  73,400 |  |  73,400 |
|  Totals |  | $ 61,446 |  | $ 174,636 |  | $ 113,191 |

As reported to the Commission at Docket No. M-2009-2123068.

Arithmetic differences are due to rounding.

# BACKGROUND

# AND

# OPERATIONAL REVIEW

**PECO ENERGY COMPANY**

**Background**

This background section was developed substantially from unaudited data and documentation made available by PECO and is presented solely for informational purposes.

PECO is a company principally engaged in providing transmission and distribution of electric and natural gas services to retail customers in southeastern Pennsylvania. PECO’s operations as an electric distribution company and natural gas distribution company are subject to regulation by the Commission. PECO is a wholly owned subsidiary of Exelon Corporation headquartered in Chicago, Illinois. According to PECO’s annual reports filed with the PUC, during 2012, 2011, 2010, and 2009 PECO’s total sales of gas were $509,404,963, $577,416,821, $657,577,513, and $736,240,961, respectively.

PECO provides natural gas distribution service to approximately 493,600 customers located in the four counties adjacent to the City of Philadelphia. PECO’s gas system consists of 6,798 miles of distribution and transmission piping.

 By Order entered October 29, 2008, the Commission approved a Joint Petition for Settlement of Rate Investigation (2008 Settlement), at Docket No. R-2008-2028394, establishing new base rates for PECO’s natural gas operations effective January 1, 2009. Among other matters, the 2008 Settlement modified the Company’s USFC Rider, changing the methodology for calculating the amount of costs to be recovered through the USFC. The previous methodology for calculating the recoverable CAP costs allowed the Company to recover $200 per year for each incremental CAP customer above the first 17,500 customers participating in the CAP and recovered through base rates.

 Under the provisions of the 2008 Settlement, a base rate credit of $0.3608 per MCF is used to calculate the amount of CAP costs to be recovered through the base rates of the Residential Rate Schedule GR customers. To calculate the amount of CAP costs recoverable through the USFC, PECO calculates a target annual bill for each CAP class. Next, for each Purchased Gas Cost (PGC) quarter, PECO calculates an average annualized bill using that quarters’ PGC. A CAP class discount is then calculated using the difference between the target annual bill and the calculated average annualized bill. Through the USFC, PECO recovers or refunds 83% (i.e., offset factor of .17)

of the difference between the CAP class discount and the base rate credit of $0.3608 per MCF.

In addition, a modification to the USFC permits the annual recovery of an additional $500,000 in Low Income Usage Reduction Program (LIURP) costs through the USFC and the inclusion of any applicable refunds from the PECO Energy Efficiency Plan (EEP).

**PECO ENERGY COMPANY**

**Background (continued)**

 By Order entered December 29, 2010, the Commission approved a Joint Petition for Settlement of Rate Investigation (2010 Settlement), at Docket No. R-2010-2161592, establishing new base rates for PECO’s natural gas operations effective January 1, 2011. Among other matters, the 2010 Settlement modified the Company’s USFC Rider, increasing the amount PECO may recover annually through the USFC for its EEP from $1.8 million to $2.008 million. To the extent PECO expends less than $2.008 million annually on its EEP, a credit is to be included in the USFC E-Factor calculation to credit the difference to customers. In addition, the base rate credit used to calculate the amount of CAP costs recovered through base rates decreased from $0.3608 per MCF to $0.2656 per MCF. Finally, the amount PECO recovers or refunds through the USFC decreased from 83% to 73% (i.e., offset factor of .27) of the difference between the CAP class discount and the base rate credit.

###### PECO ENERGY COMPANY

**Disposition of Prior Period Audit Findings**

Our previous audit of PECO’s Universal Service Fund Charge for the twelve month period ended November 30, 2008 disclosed the following findings:

**Finding No. 1 – The Company Billed Non CAP Customers At CAP Rates.**

**Recommendation**

Staff recommended that PECO implement more effective review and monitoring processes of the customers receiving CAP rates and to also implement procedures and reports that will enable comparison of the customers receiving CAP rates with the customers enrolled in CAP.

**Disposition**

PECO has indicated that changes to address the situation were in various stages of implementation.

**Finding No. 2 – The Company Erroneously Enrolled, Re-certified Or Removed CAP Customers, And Was Unable To Provide Records And Proper Documentation For Some Of The CAP Customers.**

**Recommendation**

Staff recommended that PECO implement more effective review and monitoring of the employees and contracted entities administering the various CAP programs to ensure greater compliance with outlined policies and procedures. PECO should implement and enforce procedures to provide for better maintenance of records and documents related to its respective programs.

**Disposition**

PECO conducted an internal audit in 2009 and a follow-up audit in 2010. The 2009 internal audit found inconsistencies in the CAP enrollment and re‑certification processes. The 2010 internal audit found that the findings from the 2009 internal audit were addressed and corrected. Revised procedures, as well as periodic quality reviews, are currently in place to avoid future occurrences.

###### PECO ENERGY COMPANY

**Disposition of Prior Period Audit Findings (continued)**

**Finding No. 3 – The Company Maintains And Relies On Reports That Are Not Useful In Its Efforts To Review, Monitor Or Administer CAP.**

**Recommendation**

 Staff recommended that PECO review all current reports related to its CAP for usefulness and redesign or implement tailored reports that will be useful in administering its CAP programs.

**Disposition**

PECO has indicated that additional reports are being used in the administration of the various CAP programs.

**Finding No. 4 – The Company Has Certain Policies And Procedures, For**

 **CAP, Which Should Be Reviewed And Revised To**

 **Ensure That They Can Be Implemented In A Consistent Manner.**

**Recommendation**

Staff recommended that PECO revise the wording on the CAP application to specifically state the age at which income verification is required for household occupants.

**Disposition**

PECO updated its policies and procedures to state that income verification is required for all household occupants that are 19 years of age and older.

**ACKNOWLEDGEMENTS**

 We wish to express our appreciation to the officers and staff of PECO Energy Company for the cooperation and assistance given to us during the course of our examination. The audit was conducted by Gerville J. Brown, assisted by Katrina S. Johnson and Tony Novak.