



An Exelon Company

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November 24, 2015

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17105-3265

**SUBJECT:** Petition of PECO Energy Company for Approval to Establish a Distribution System Improvement Charge for its Electric Operations  
Compliance Filing - PECO Energy Electric Tariff No. 4, Supplement 140  
Effective January 1, 2016, Docket No. P-2015-2471423

Dear Secretary Chiavetta:

The filing contains PECO's newly established Distribution System Improvement Charge ("DSIC"), effective January 1, 2016. This filing is being made on at least ten days' notice in accordance with the Commission's Opinion and Order in PECO's Petition for Approval of the Distribution System Improvement Charge ("DISC") to establish a Distribution System Improvement Charge for its Electric Operations issued October 22, 2015, Docket No. P-2015-2471423. The initial DSIC charge is set to 0.00%. Therefore, there will be no charge in customers' electric rates at this time because of the DSIC.

The following attachment is included in support of the filing:

Attachment 1 - Tariff page revisions reflecting the new DSIC charge.

As directed in the Opinion and Order, PECO has modified the DSIC tariff to include additional language specifying that billing for the DSIC will be on a bills rendered basis.

Rosemary Chiavetta, Secretary  
November 24, 2015  
Page 2

Thank you for your assistance in this matter and please direct any questions regarding the above to Rich Schlesinger, Manager, Retail Rates at (215) 841-5771.

Sincerely,

A handwritten signature in black ink, appearing to read 'R.C.', followed by a long horizontal flourish.

Copies to: C. Walker-Davis, Director, Office of Special Assistants  
P. T. Diskin, Director, Bureau of Technical Utility Services  
D. P. Hosler, Director, Bureau of Audits  
J. E. Simms, Director, Bureaus of Investigation & Enforcement  
Office of Consumer Advocate  
Office of Small Business Advocate  
McNees, Wallace and Nurick

**PECO Energy Company**

**Electric Service Tariff**

**COMPANY OFFICE LOCATION**

**2301 Market Street**

**Philadelphia, Pennsylvania 19101**

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**For List of Communities Served, See Page 4.**

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**Issued November 24, 2015**

**Effective January 1, 2016**

**ISSUED BY: C. L. Adams – President & CEO  
PECO Energy Distribution Company  
2301 MARKET STREET  
PHILADELPHIA, PA. 19101**

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**NOTICE**

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PECO Energy Company

Supplement No. 140 to  
Tariff Electric Pa. P.U.C. No. 4  
Hundredth and Twenty-Four Revised Page No. 1  
Supersedes Hundredth and Twenty-three Revised Page No. 1

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**LIST OF CHANGES MADE BY THIS SUPPLEMENT**

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) - Original Pages No. 40F – 40K**

Adding this rider in accordance with the Commission Order at Docket No. - P-2015-2471423.

**PECO Energy Company**

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**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC)**

In addition to the net charges provided for in this Tariff, a charge of 0.00% will apply consistent with the Commission Order dated October 22, 2015 at Docket No. P-2015-2471423, approving the DSIC.

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC) (CONTINUED)**

**1. General Description**

**A. Purpose:** To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide the Utility with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional supply problems.

The costs of extending facilities to serve new customers are not recoverable through the DSIC.

**B. Eligible Property:** The DSIC-eligible property will consist of the following:

Poles and Tower (Account 364);  
Overhead conductor (Account 365) and underground conduit and conductors (Accounts 366 and 367);  
Line transformers (Account 368) and substation equipment (Account 362);  
Any fixture or device related to eligible property listed above, including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers;  
Unreimbursed costs related to highway relocation projects where a natural gas distribution company or city natural gas distribution operation must relocate its facilities; and  
Other related capitalized costs.

**C. Effective Date:** The DSIC will become effective January 1, 2016.

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC) (CONTINUED)**

**2. Computation of the DSIC**

**A. Calculation:** The initial DSIC, effective January 1, 2016, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company's rates or rate base and will have been placed in service between September 1, 2015 and November 30, 2015. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Billing for the DSIC will be on a bills rendered basis. Thus, changes in the DSIC rate will occur as follows:

Effective Date of Change	Date to which DSIC Eligible Plant Additions Reflected
January 1	September - November
April 1	December - February
July 1	March - May
September 1	June - August

**B. Determination of Fixed Costs:** The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

**1. Depreciation:** The depreciation expense shall be calculated by applying the annual accrual rates employed in the Company's most recent base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded to the original cost of DSIC-eligible property is recorded to the original cost of DSIC eligible property.

**2. Pre-tax return:** The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Company's actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company's last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.



**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC) (CONTINUED)**

**C. Application of DSIC:** The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for distribution service (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of the STAS.

**D. Formula:** The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{(\text{DSI} * \text{PTRR}) + \text{Dep} + e}{\text{PQR}}$$

Where:

DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.

PTRR = Pre-tax return rate applicable to DSIC eligible property.

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated under the annual reconciliation feature or Commission audit, as described below.

PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers plus netted revenue from any customers which will be gained or lost by the beginning of the applicable service period.

Revenue shall be based upon one-fourth of the estimated annual distribution revenue.

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE)**  
**(DSIC) (CONTINUED)**

**3. Quarterly Updates:** Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

**4. Customer Safeguards**

**A. Cap:** The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

**B. Audit/Reconciliation:** The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on April 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same amount as an over-collection.

**C. New Base Rates:** The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in the Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

**D. Customer Notice:** Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change or through an explanatory bill insert included with the first billing.

**E. All customer classes:** The DSIC shall be applied equally to all customer classes.

**DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**  
**(DSIC) (CONTINUED)**

**F. Earning Reports:** The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Company would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section.