

**PECO ENERGY COMPANY (“PECO”)**

**Preliminary Challenges by  
Philadelphia Area Industrial Energy Users Group (“PAIEUG”)**

**2020 FORMULA RATE UPDATE Docket No. ER17-1519**

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January 25, 2021

In accordance with PECO Energy Company’s (“PECO”) Formula Rate Implementation Protocols set forth in its Attachment H-7C, Philadelphia Area Industrial Energy Users Group (“PAIEUG”) hereby submits its Preliminary Challenge pertaining to PECO’s May 29, 2020 Informational Filing of its 2020 Formula Rate Annual Update in FERC Docket No. ER17-1519 (“2020 Update”).

This Preliminary Challenge is divided into two sections. In Section A, Philadelphia Area Industrial Energy Users Group (“PAIEUG”) describes items that PAIEUG understands have been resolved by way of PECO responses to certain of PAIEUG’s discovery requests. To the extent PECO disagrees that those items are resolved, PAIEUG asserts its challenge to them. In Section B, PAIEUG describes issues to which it raises challenge with respect to PECO’s 2020 Update.

**A. RESOLVED ISSUES**

**PAIEUG PC-1 Reclassification of Employee Settlements from Account 925**

In reference to PECO’s responses to PAIEUG I-40 and PAIEUG-II-16, PECO stated the following, “the Company will reclassify the approximately \$16,000 associated with employee settlements from Account 925 and will incorporate the impacts of that change in the next Annual Update filing with interest.”

**PAIEUG PC-2 Political Action Committee-related Costs Recorded in Account 921**

In reference to PECO’s response to PAIEUG-I-46c, PECO stated, “For costs related to activities described in part C, there was \$948 recorded in A&G Account 921 that was included in PECO’s formula rate update. The amount of \$948 represents costs that were Political Action Committee-related that should have been recorded in the non-regulated FERC account 426.4 and will be refunded in the 2021 formula annual update with interest.”

**PAIEUG PC-3 Dues for Edison Electric Institute Utility Solid Waste Activities Group**

In reference to PECO’s responses to PAIEUG I-48c. and PAIEUG-II-19, PECO included \$4,089.64 of EEI Utility Solid Waste expenses in Account 566. PECO stated, “Dues for Edison Electric Institute Utility Solid Waste Activities Group will be reclassified to Account 930.2. PECO will incorporate the impacts of that change in the next Annual Update filing with interest.”

**PAIEUG PC-4 Interest Affiliated with the Intercompany Money Pool**

In reference to PECO’s responses to PAIEUG-I-80 and PAIEUG-II-7, PECO stated the following, “PECO failed to remove the \$219,588 of interest related to “Interest affiliated with the Intercompany money pool” from Tab “11 – Cost of Capital,” Line 7 (Less) Short-term Interest (5-P3 Support Note G). PECO will incorporate the \$219,588 in the next Annual Update filing with interest.”

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**PAIEUG PC-5 ADIT Not Included in Plant Column**

In reference to PECO’s responses to PAIEUG 1-97 and PAIEUG-II-59c, PECO stated, “ADIT of (\$941,505) should be included in the plant column as the assets are included in rate base. PECO will incorporate the impact of that change in the next Annual Update filing with interest.”

**B. UNRESOLVED ISSUES**

**PAIEUG PC-1 Gas Expenses included in the formula rate**

In reference to Attachment PAIEUG-II-3(a), Column J - Interco Svc - Descr, all line items entitled “Operate & Restore (Gas)” that total \$33,250, it appears that PECO has included expenses associated with gas in Account 923 within its electric transmission formula rate template. Gas expenses should not be included in an electric formula rate; therefore, PAIEUG challenges the inclusion of these expenses.

**PAIEUG PC-2 Smart Meter Operations Expenses**

In reference to Attachment PAIEUG-II-3(a), Column J - Interco Svc - Descr, all line items entitled “Smart Meter Operations” that total \$874,059, PECO has included expenses related to smart meter operations in Account 923. These operations support meters included Account 370 – Meters and Account 371 – Installation on Customers’ Premises, which are both distribution plant accounts. Account 923 specifies that “This account shall include the fees and expenses of professional consultants and others for general services which are **not applicable** to a particular operating function or to other accounts.” Since these operations can be directly attributed the distribution function, PECO should have directly assigned these expenses to a distribution operations and maintenance account such as Account 586 – Meter Expenses or Account 597 – Maintenance of Meters. For the foregoing reasons, PAIEUG challenges the inclusion of these Smart Meter Operations expenses in Account 923.

**PAIEUG PC-3 BSC CTA Included in the Formula Rate**

In reference to Attachment PAIEUG-II-3(a), Column J - Interco Svc - Descr, all line items entitled “BSC Cost to Achieve” that total \$8,722, it appears that PECO has included expenses associated with BSC CTA in Account 923 within its electric transmission formula rate template. CTA expenses should not be included in an electric formula rate; therefore, PAIEUG challenges the inclusion of these expenses.

**PAIEUG PC-4 AFUDC**

In response to PAIEUG-II-10, PECO confirms that it is its policy not to exclude non-cash accruals from the AFUDC base with capitalizing AFUDC. In accordance with

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Electric Plant Instruction No. 3, non-cash accruals includible in the AFUDC base must represent amounts actually paid. Non-cash accruals are not paid until future periods are not includible in the AFUDC base.<sup>1</sup> PECO’s practice is inconsistent with Commission precedent and has resulted in the overstatement of AFUDC accruals in 2019 and other accounting periods that will affect costs included in the current formula rate update and future updates. PECO should commit to cease its practice of accruing AFUDC on non-cash construction accruals and determine the impact of this accounting practice on plant included the transmission formula rate to make PAIEUG whole for the associated rate impact.

#### PAIEUG PC-5 Unresponsive Answers

- a. In PAIEUG-II-25, PAIEUG requested complete invoices for Edison Electric Institute, Energy Association of Pennsylvania, and American Gas Association membership dues in 2019. In response, PECO stated “This is an overly broad request as the complete invoices are not required to appropriately determine what was included in the formula rate update.” PAIEUG believes that the request is very specific, not broad, and readily available. To the contrary, the review of source data associated with costs included in the formula rate is within the scope of information requests to determine what was included in the formula rate update.<sup>2</sup> PAIEUG requests that PECO provide the requested materials necessary to verify that the inputs to the formula are proper.
- b. Additionally, in PAIEUG-II-38, PECO requested a detailed description of three projects to follow-up on the summary level description provided in Attachment PAIEUG 1-71(a). PECO failed to provide the requested information. The information requested associated with the intangible plant costs are for items included in the formula rate and is within the scope of information requests to determine what was included in the formula rate update. PAIEUG requests that PECO provide the requested information necessary to verify that the inputs to the formula are proper without future extensive information requests.

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<sup>1</sup> 18 C.F.R. Part 101, Electric Plant Instruction No. 3 (2020). See also FERC audit report findings of non-compliance in the following dockets FA19-3-000, FA17- 6-000, FA13-9- 000, and FA12-4-000, and the compliance trends in the 2020 FERC Report on Enforcement (page 47).

<sup>2</sup> See Midcontinent Indep. Sys. Operator, Inc. Ameren Illinois Co., 163 FERC ¶ 61163 at 57 (2018), stating “However, we note that, as the Commission has previously explained, Ameren must provide in its annual formula rate informational filings sufficient support and explanation for all inputs so that interested entities can verify that each input is consistent with the requirements of the formula without forcing interested entities to make extensive information requests to understand the implementation of the formula rate and to verify its correctness.”

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**PAIEUG PC-6 Non-Pension Post Retirement Benefit Obligation**

In reference to PAIEUG-I-64(a), the “Non-Pension PostRetire BenfObl” balance recorded to Account 228.3 should not contain amounts associated with the VEBA trust, unless the VEBA trust is also recorded on PECO’s books. PECO has not provided any supporting documentation that the monthly balances have a restricted funds account or VEBA trust recorded on the Companies Books. In fact, PECO has included a prepayment to VEBA, which indicates it is making payments to an external VEBA trust on Attachment 4 – Rate Base. Therefore the 13-month average balance of (\$288,119,551) reflected in Attachment PAIEUG-I-64(a) should be included as an Unfunded Reserve. Therefore, even if there is no trust for the Non-Pension Post Retirement Benefit Obligation, there still should be a restricted funds account balance, such as the VEBA, in a FERC funds account such as FERC Account 129, Special Funds or Account 128, Other Special Funds, or Special Deposits (Accounts 132 – 134) otherwise, PECO should provide the balance of the accrued balance of customer provided funds related to the Non-Pension Post Retirement Benefit Obligation expenses which had been recorded in FERC Account 926. For the foregoing reasons, PAIEUG challenges PECO’s decision to not include this reserve until PECO can provide further supporting documentation for PECO’s treatment.

**PAIEUG PC-7 Service Company Unfunded Reserves**

In reference to PECO’s response to PAIEUG 1-64(a) and PAIEUG 2-36, it appears that PECO incurs expense accruals related to payments to Exelon Business Services Corp (see PECO’s response to PAIEUG 2-36 Item\*2) and Exelon Corporate (see PECO’s response to PAIEUG 2-36 Item \*3). PECO then records amounts in Account 234 until payments are made to its respective affiliates. To the extent that these amounts are not settled every month and there is a balance at the end of the year, PECO should include these amounts as a reserve to offset rate base on Attachment 4 – Rate Base. For the foregoing reasons, PAIEUG challenges PECO’s decision to not include reserve amounts related to these affiliates.

**PAIEUG PC-8 Prepayment-Rate Base Items**

In response to PAIEUG-II-54, PECO indicates that certain prepayments included in rate base on a 100% transmission allocation are not fully transmission-related. Specifically, rents for use of SEPTA ducts provides services to customers in the city of Philadelphia which includes transmission but it appears to not be solely related to transmission; the CSX Transportation Lease is related to both transmission and distribution; and the Railroad Rents are both related to transmission and distribution.

Likewise, in response to PAIEUG-II-55 and PAIEUG-II-56, PECO indicates that prepayments were recorded for Land Acquisition costs and Building Acquisition costs.

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The Land Acquisition costs are described as one-time legal and environmental service fees related to the purchase of land for substation expansions. The Building Acquisition costs are described as one-time deposit made for a building purchase and rehabilitation project. Both the Land Acquisition and Building Acquisition costs are not prepayments properly included in Account 165, Prepayments. Rather, the costs are associated with capital projects and should be properly recorded as construction work in progress using Account 107. Account 165 is intended to include prepaid utility operating expenses rather than the costs of a capital project, such as substation expansions and rehabilitation projects. Therefore, the costs were not properly included in rate base. For the foregoing reasons, PAIEUG challenges PECO’s treatment of these SEPTA prepayments.

**PAIEUG PC-9 Intangible Plant**

In Attachment PAIEUG-I-104(a), PECO provides supporting information for certain items of intangible items that appear to be improperly allocated in the formula rate. Specifically, the following items appear to be directly related to distribution but are allocated in the formula rate using the Wages and Salaries allocator. These intangible plant items should be excluded from transmission in its entirety:

- a. Excel row 10, PECO Rate Case Planning SW, \$1,363,280
- b. Excel row 12, PECO/BGE Rate Case Planning SW, \$789,383
- c. Excel row 15, Distribution Rate Case SW, \$663,675
- d. Excel row 19, AMI Preference Center SW, \$477,081

Additionally, other intangible plant costs were 100% allocated to transmission that appear serve distribution and transmission functions and a portion should be reclassified to distribution:

- a. Excel row 60, BIDA Grid T&D Domain SW, \$833,017
- b. Excel row 61, BIDA Grid T&D W2 SW, \$114,182

For the foregoing reasons, PAIEUG challenges the treatment of PECO’s classification of the intangible plant as described above.

**PAIEUG PC-10 Improper Inclusion of Prosecution Agreement Expenses that Should be Included in Account 426.5**

In reference to PECO’s responses to PAIEUG-1-22 and PAIEUG-II-5, PECO indicates that these expenses are related to the ComEd prosecution agreement and therefore has nothing to do with transmission formula rates or PECO’s rate; therefore, these amounts should be included in Account 426.5.

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**PAIEUG PC-11 Production Plant included in Account 353**

In reference to Attachment PAIEUG-II-43(a), Account 353 – Station Equipment, Excel Row 26 - ETSPBSSR7, Peach Bottom South Nuclear structure work in the amount of \$23,020. PECO has included production plant in the transmission plant Account 353, therefore, PAIEUG challenges the inclusion of production plant in transmission plant. In addition, to the extent that PECO has included any other plant related to Peach Bottom South Nuclear in transmission plant accounts, PAIEUG also challenges the inclusion of those plant amounts.

**PAIEUG PC-12 Distribution Plant included in Account 353**

In reference to Attachment PAIEUG-II-43(a), Account 353 – Station Equipment, Excel Row 34 - ETMTPTRC4, Callowhill Transformer 6 Low side bushing in the amount of \$18,445, it appears that this plant addition is on the “low side” and therefore associated with distribution plant. For the foregoing reasons, PAIEUG challenges the inclusion of this plant in Account 353 as it is associated with distribution.

**PAIEUG PC-13 Research and Development Expenses included in Administrative and General Accounts**

- a. In reference to Attachment PAIEUG-II-49(a), Account 923 – Outside Services, all line items entitled “To record 2016-2018 R&D Tax Benefit” in the amount of \$2,115,244.

PAIEUG challenges the inclusion of these research and development tax benefit expenses until PECO can provide supporting documentation as to what they are related to and how the transmission customers received a benefit.

- b. In reference to Attachment PAIEUG-II-50(a), Account 930.2, PECO has not included enough information in its response to determine what the following expenses are related to, specifically the nature of the projects being performed.
  - i. ARIZONA STATE UNIVERSITY in the amount \$8,240.00
  - ii. CEATI INTERNATIONAL INC.in the amount of \$50,451.00
  - iii. GEORGIA TECH RESEARCH CORPORATION TECHNOLOGY LICENSING in the amount of \$27,686.00
  - iv. UNIVERSITY OF COLORADO FOUNDATION in the amount of \$2,472.00
  - v. WATSON & RENNER in the amount of \$12,397.00

PAIEUG challenges the inclusion of these research expenses until PECO can provide supporting documentation as to how they are attributable to the transmission function.

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**PAIEUG PC-14 Research and Development Expenses included in Account 930.2**

In reference to Attachment PAIEUG-II-50(a), PECO has included corporate dues associated with the PHILADELPHIA CONVENTION & VISITORS BUREAU FOUNDATION in the amount of \$5,583.60. It does not appear that these amounts were removed as shown in PECO’s response to PAIEUG 1-46e. These expenses do not appear to be non-operating in nature and should be removed from the formula rate template. For the foregoing reasons, PAIEUG challenges the inclusion of these expenses.

**PAIEUG PC-15 Revenue Not Included Based on a Wages and Salaries Allocator**

In reference to PECO’s response to PAIEUG 1-106b. and PAIEUG-II-64, PECO stated that “\$1,385 of the \$14,020 should be included in the formula rate update based on a wages and salaries allocator. PECO will incorporate the impacts of that change in the next Annual Update filing with interest.” PECO has not provided an explanation as to why only a portion of these revenues should be included as an offset to rate base. If 100% of the expense was included in Account 935 and included in the formula rate template, then the entire revenue amount should also be included. For the foregoing reasons, PAIEUG challenges the \$1,385 that PECO is attempting include as a revenue credit rather than the full amount of \$14,020.

**PAIEUG PC-16 Revenue Not Included Based on a Wages and Salaries Allocator**

In reference to PECO’s response to PAIEUG 1-106b and PAIEUG-II-65, PECO stated, “\$741 of the \$7,500 should be included in the formula rate update based on a wages and salaries allocator. PECO will incorporate the impacts of that change in the next Annual Update filing with interest.” PECO has not provided an explanation as to why only a portion of these revenues should be included as an offset to rate base. If 100% of the expense was included in Account 935 and included in the formula rate template, then the entire revenue amount should also be included. For the foregoing reasons, PAIEUG challenges the \$741 that PECO is attempting include as a revenue credit rather than the full amount of \$7,500.

**PAIEUG PC-17 Failure to Comply with Order 864**

PECO indicates in its response to PAIEUG 2-66 that it made a compliance filing related to Order 864. PAIEUG is unaware of any compliance filing that PECO has made subsequent to the settlement to comply with Order 864. For the foregoing reasons, PAIEUG contends that PECO is not in compliance and the items determined to be included in the remeasurement balances for protected and unprotected amounts and reserves the right to challenge the treatment of the items identified in PAIEUG 2-61, 2-66 and 2-67.