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ECONOMICS**
CENTERED ON ENERGY

Pepco Holdings

Pepco DC SOS Administrative Charge Audit Report

April 15, 2025



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1. Acronyms and Key Terms

ACE – Atlantic City Electric

AT – Applications Technology Group

BE – Billing Expert

BGS – Basic Generation Service (ACE equivalent to SOS)

CAM – Cost Allocation Manual

CREF – Community Renewable Energy Facility

DER – Distributed Energy Resources

DPL – Delmarva Power & Light Company

GPC – Green Power Connection

JCOS - Jurisdictional Cost of Service Study

KFC – Key Financial Control

MPS – Market Price Service

PCA – Procurement Cost Adjustment

PHI – Pepco Holdings Inc.

PHISCO – PHI Service Company

PPA – Purchase Power Agreement

RA – Regulatory Asset

RL – Regulatory Liability

RFP – Request for Proposal

SME – Subject Matter Expert

SOS – Standard Offer Service



2. Executive Summary

Atrium Economics, LLC (“Atrium”) was retained by Pepco (“The Company”), on behalf of services requested by the Public Service Commission of the District of Columbia (or the “DC Commission” or “Commission”), to perform an evaluation of the processes, procedures, mechanics, and internal controls related to Pepco’s Administrative Charge for its Standard Offer Service (“SOS”) program for the period June 1, 2018, through May 31, 2024 (a six (6) year audit period).

Pepco, as the SOS Administrator, obtains electric supply for SOS pursuant to a competitive wholesale procurement process. Pepco purchases this electric supply for SOS customers through power supply contracts in an annual auction. Following the procurement process (SOS auctions), Pepco is required to submit to the Commission, the retail SOS rates, including the administrative charges, based on the winning wholesale bids. Pepco’s SOS service provides generation and transmission services to customers who have not contracted with an alternate supplier for such services. Pepco includes an Administrative Charge as a rate component of the price it charges to each customer group for SOS. Each customer group (Residential, Small Commercial, and Large Commercial) has a separate Administrative Charge rate for SOS. The SOS Administrative Charge includes an annual true up for under and over collections of the SOS administrative costs, recovery of Incremental Costs, an Adder that serves as a proxy for competitive energy supplier costs, SOS Margin, SOS Cash Working Capital and SOS-related Taxes.

The Administrative Charge is designed to recover the SOS Administrator’s incremental costs for procuring and providing the service, which includes actual incremental costs for the following: a proportionate share of SOS customer uncollectible accounts for each SOS Customer Group, Commission Consultant expenses, SOS bidding expenses for both the Wholesale full requirements service supply of SOS and long-term renewable energy PPA or PPAs, working capital expenses related to SOS for each customer group, wholesale supply transaction costs related to wholesale SOS provider administration and transmission service administration, wholesale payment and invoice processing, incremental billing process expenses, customer education costs, incremental system costs, costs related to the purchase of electric supply from CREFs, and legal and regulatory filing expenses related to SOS requirements.

Atrium reviewed the Company’s SOS Administrative Charge components, processes, internal controls and filing requirements, as well as the case histories and Orders of FC 1017 and FC 1050 for the period under audit.

Atrium’s report documents and supports our assessment of the adequacy of Pepco’s SOS Administrative Charge in response to objectives set out by the DC Commission and through a lens of best practices to ensure that the costs within the Administrative Charge are accurate and appropriate.



Specifically, Atrium is tasked with the following items to fulfill its audit scope:

- A. Independently verify that each component of the Administrative Charge is properly calculated for each rate class, including the annual true-up for the six (6) year audit period.
- B. Independently verify that costs recovered through the Administrative Charge are not duplicative of costs recovered through the SOS Procurement Cost Adjustment (“PCA”) for the six (6) year audit period.
- C. Independently identify any recommended improvements related to the Administrative Charge, as well as any recommended changes in existing internal controls or new internal controls.
- D. Independently assess compliance with Commission orders, regulations, and other mandates with regard to the SOS Administrative Charge.

Overall Atrium found that in all material respects, the SOS Administrative Charge is properly calculated for each rate class, that costs are not duplicative of costs recovered through Pepco’s distribution rates or Pepco DC’s SOS PCA, and such charges are in compliance with Commission Orders, regulations and other mandates with respect to the SOS Administrative Charge. Atrium’s findings are summarized in Table 1. Details with respect to Atrium’s testing and findings can be found in Appendix A.

Table 1: Summary of Findings and Recommendations

Reference	Finding	Recommendation
5.2 (1)	Wholesale Bidding Expense fringe benefits and payroll taxes were recovered through both the SOS Administrative Charge and also Included in Pepco DC’s Distribution Cost of Service in FC 1156. Amounts identified were minor.	Atrium recommends that Pepco institute a process to view the mapping of all SOS Administrative Charge Incremental Expenses to verify that the charge account either directly maps to a non-distribution FERC account; or is flagged to a distribution account so that the charges may be captured and removed from the distribution cost of service before undergoing a rate filing.
5.2 (2)	Duplicate ICF charges recovered through SOS Administrative Charge of \$51,000.	Atrium proposes a correction for these duplicate charges in Pepco’s next SOS Administrative Charge filing. Further, Atrium recommends that Pepco employ consistent classification of like charges from year to year.
5.3 (1)	Sampling of Customer Bills - SOS charges were excluded from one GSLV Customer’s Bill.	Atrium recommends that the Billing Team ensures that at least one customer from each class and any subgroups of each rate class be selected for monthly testing to ensure that all SOS customers are correctly receiving the approved SOS Administrative Charge rate.



Reference	Finding	Recommendation
5.3 (2)	The Adder - The Adder provides an important function in ensuring a level, competitive playing field in Washington DC for electric supply. But, as the SOS Administrative Charge and the Adder are currently derived, there is very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself.	Atrium recommends a potential enhancement to Pepco’s process so that the SOS Administrative Charge and Adder may be tied to or verified against third-party quotes to ensure that the Adder does not undercut competition.
5.3 (3)	When Incremental SOS Costs Exceed the SOS Administrative Charge – When costs exceed the SOS Administrative Charge, the Company has stated that the Administrative Charges should be increased. However, in practice, Pepco sets the calculated Adder for the class to zero since the Administrative Credit cannot result in a charge to distribution customers.	If it is determined that Pepco’s SOS Administrative Costs exceed its SOS Administrative Charge for any given rate class, Pepco should increase the fixed Administrative Charge to equal the sum of the Administrative Cost components such that the Adder would be zero and no negative Administrative Credit rate would result.
5.3 (4)	Return of SOS Administrative Costs to Distribution Customers - Pepco initially proposed to return the net monies collected from the Adder to all customers on a near contemporaneous basis through a rolling monthly Administrative Credit. However, in practice, the Administrative Credit allows all revenues and expenses to flow through the revenue deferral account and the Adder is returned to customers on a prospective twelve-month basis.	The Administrative Credit should be remitted contemporaneously to distribution customers on a dollar-for-dollar basis such that it is immediately passed through to distribution customers, based on the annual revenue amount targeted to be collected through the Adder that is charged to SOS customers.
5.4 (1)	Conformance Memo – Pepco has a KFC to produce a conformance memo for significant changes to regulatory deferrals due to Commission Orders. Pepco did not develop any conformance memos for the period under audit, even though the treatment of CREF costs has significantly impacted the SOS Administrative Charge.	A written conformance memo should be produced to document the procedure for properly capturing allowable CREF-related incremental expenses as part of the SOS Administrative Charge.

3. Project Background

3.1. SOS Administrative Charge History and Evolution

Pepco, as the SOS Administrator, obtains electric supply for SOS pursuant to a competitive wholesale procurement process. Pepco purchases this electric supply for SOS customers through power supply contracts in an annual auction. Following the procurement process (SOS auctions), Pepco is required to submit to the Commission, the retail SOS rates, including the administrative charges, based on the winning wholesale bids.



The SOS Administrative Charge was conceived upon the inception of wholesale Standard Offer Service “SOS” on March 1, 2004, to allow Pepco to recover its administrative costs associated with administering Standard Offer Service on behalf of its customers. As the designated SOS Administrator, Pepco conducts competitive bidding procurement auctions to obtain third-party supply contracts to provide SOS for the District. The Commission is periodically required to review the SOS Administrator’s SOS program in the District and make any changes or adjustments to SOS as competitive developments in the District of Columbia change. In conducting this review and considering options for improving SOS, the Commission, among other things, must seek to ensure that the price for SOS will not hinder the development of a competitive electricity supply market in the District, provide appropriate SOS contract lengths, protect against any SOS Administrator’s failure to provide service, ensure an appropriate rate design, provide for a contingency plan in the event of insufficient or inadequate bids, and determine the threshold financial viability of wholesale bidders.¹

Standard Offer Service has three primary components: Procurement, Transmission and the Administrative Charge – the latter of which is the focus of this Audit. Procurement and the Administrative Charge are classified as generation services, whereas the transmission component of SOS is recorded as transmission service.

Figure 1: Standard Offer Service Overview²

STANDARD OFFER SERVICE OVERVIEW					
PROCUREMENT		Transmission		Administrative	
Revenues	Expenses	Revenues	Expenses	Revenues	Expenses
Collected from Customers through Billing System for Generation Services	Supplier charges for supplying load incurred by the Company for providing Generation service to SOS customers	Collected from Customers through Billing System for Transmission Services	PJM charges incurred by the Company for providing Transmission service to SOS customers	Collected from Customers through Billing System for Generation Services - Admin Charge (embedded in Generation)	Miscellaneous administrative charges incurred by the Company for providing SOS; Uncollectible and Cash Working Capital costs incurred by the Company for providing SOS
Procurement Revenues <i>less</i> Procurement Expenses <i>plus/minus</i> Procurement Deferral <i>equals</i> Zero		Transmission Revenues <i>less</i> Transmission Expenses <i>plus/minus</i> Transmission Deferral <i>equals</i> Zero		Administrative Revenues <i>less</i> Administrative Expenses <i>plus/minus</i> Administrative Deferral <i>equals</i> Return	
Procurement Deferral <i>adjusted through</i> Procurement Cost Adjustment (PCA)		Transmission Deferral <i>adjusted through</i> Procurement Cost Adjustment (PCA)		Administrative Deferral <i>adjusted through</i> Admin Credit (A/C)	

¹ See D.C. Code §§ 34-1509 (c), (d)(1)(A), and (e) (2012 Repl.) as referenced in Order No. 18829, footnote 4.

² Pepco Response to DR 1-2(a) Attachment 1



The Commission-authorized processes and procedures related to the SOS Administrative Charge have evolved through a series of orders from two primary dockets: Formal Case 1017 – In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia; and Formal Case 1050 – In the Matter of the Investigation of the Implementation of Interconnection Standards in the District of Columbia. The SOS Administrative Charge is comprised of five primary components: Incremental Costs, Uncollectible Costs, Cash Working Capital, Margin, and an Adder.

Incremental Costs - include, but are not limited to: the Commission’s market monitoring consultant costs, wholesale bidding expenses, wholesale supply transaction costs related to wholesale supplier administration and transmission service administration, wholesale payment and invoice processing, incremental billing process expenses, customer education costs, incremental system costs, costs related to the administration of the Community Renewable Energy Facilities (“CREF”) program, and legal and regulatory filing expenses related to SOS requirements.³

In January 2022, the Commission allowed recurring incremental costs for the purchase of electric supply from CREF and incremental CREF billing process expenses to be recovered through the SOS Administrative Charge.⁴ However, CREF-related costs for equipment and system upgrades were only to be passed on to CREF subscribers who would receive the direct benefit, consistent with Commission rules.^{5 6} The Commission further ruled that capital costs related to the development of a system for CREFs should not be recovered through the SOS Administrative Charge but instead should be recovered through an assessment to CREF subscribers.⁷ The Commission also found that the costs associated with reading, billing, or removal of Pepco’s installed meters at CREF locations would not be recovered through the SOS Administrative Charge after June 1, 2022.⁸ The Commission determined that ratepayers should not bear the costs of previously recovered costs associated with the installation of Pepco meters rather than

³ DC PSC, Order No. 18829 (July 7, 2017) at Ps 94B, 107-109

⁴ DC PSC, Order No. 21099 (January 14, 2022) at P 11

⁵ Ibid.

⁶ The relevant Commission rule is Rule 4103.4. This rule states that: [t]he administrative charge is designed to recover the SOS Administrator’s incremental costs for procuring and providing the service. Actual incremental costs shall include, but not be limited to, a proportionate share of SOS customer uncollectibles for each SOS Customer Group, Commission Consultant expenses (as described in Subsection 4110.1), SOS bidding expenses for both the Wholesale Full Requirements Service supply of SOS and Long-Term Renewable Energy PPA or PPAs (including all incremental expenses associated with the development and execution of Long-Term Renewable Energy PPAs), working capital expenses related to SOS for each SOS Customer Group, wholesale supply transaction costs related to Wholesale SOS Provider administration and transmission service administration, wholesale payment and invoice processing, incremental billing process expenses, customer education costs, incremental system costs, costs related to the purchases of electric supply from CREFs, and legal and regulatory filing expenses related to SOS requirements.

⁷ DC PSC, Order No. 21986 (May 1, 2024) at P 11.

⁸ Ibid.



the use of CREF-owned meters and such costs would be reviewed in the upcoming proceedings, FC 1171 and FC 1176.⁹

Uncollectible Costs – the cost of SOS write offs net of late payment fee revenues, directly attributed to each customer class.¹⁰

Cash Working Capital – Pepco’s SOS Administrative Charge recovers its cash working capital and capital investment costs associated with SOS. These are direct costs that will increase as a result of Pepco’s obligation to serve as SOS provider. As such they were determined to be incremental in nature and recoverable through SOS rates.¹¹

Margin – The Margin compensates Pepco, as SOS Administrator, for any regulatory and market risk it assumes in relation to SOS service. It is calculated as the historical three-year average of margin by customer class.¹² The Margin is subject to gross up for taxes. The Commission has found that there is risk associated with the provision of SOS service for which a return is appropriate.¹³

True-Up – A True-Up Adjustment is made which revises the credits to customers based on actual and forecasted collection of the Administrative Charge and payments of the Administrative Credit.¹⁴ The True-Up Adjustment is calculated by taking the Cumulative Over/(Under) collection of SOS Administrative Costs, on a one-year lag, added to any cumulative differences in previously filed Cumulative Over/(Under) Collection. The true-up amount is passed on to distribution customers based on the most recently available twelve months of actual distribution kWh. A negative true-up is the result of a cumulative over collection, whereas a positive true-up is the result of a cumulative under collection.

Adder – The Adder is to serve as a proxy for acquisition and customer care costs that the Company will not incur as the SOS provider. Pepco explains that so as not to impede competition, there is an Adder to account for these costs that is ultimately redistributed among all distribution customers via an Administrative Credit that is to be returned to customers through a rolling monthly credit. The Adder consists of the fixed overall Administrative Charge less Incremental Costs, Uncollectible Expenses, the Margin, and is subject to true ups. The revenue collected from the Adder would be returned to all distribution customers as a credit to their distribution rates through a process similar to Pepco’s Generation Procurement Credit. The Commission found that “PEPCO’s proposed adder mechanism [was] a reasonable means of accounting for cost

⁹ Id. at P 12.

¹⁰ DC PSC, Order No. 13426 (November 22, 2004) at P 25.

¹¹ DC PSC, Order No. 13268 (August 19, 2004) at P 63.

¹² DC PSC, Order No. 18829 (July 7, 2017) at P144.

¹³ DC PSC, Order no. 13268 (August 19, 2004) at P 65.

¹⁴ Pursuant to DC PSC, Order No. 13268 as stated in Order 13241 Rule 2953.2 (d) (2) and 2957.3



differences in a way that places SOS rates on an expected par with those offered by competitive suppliers.”¹⁵

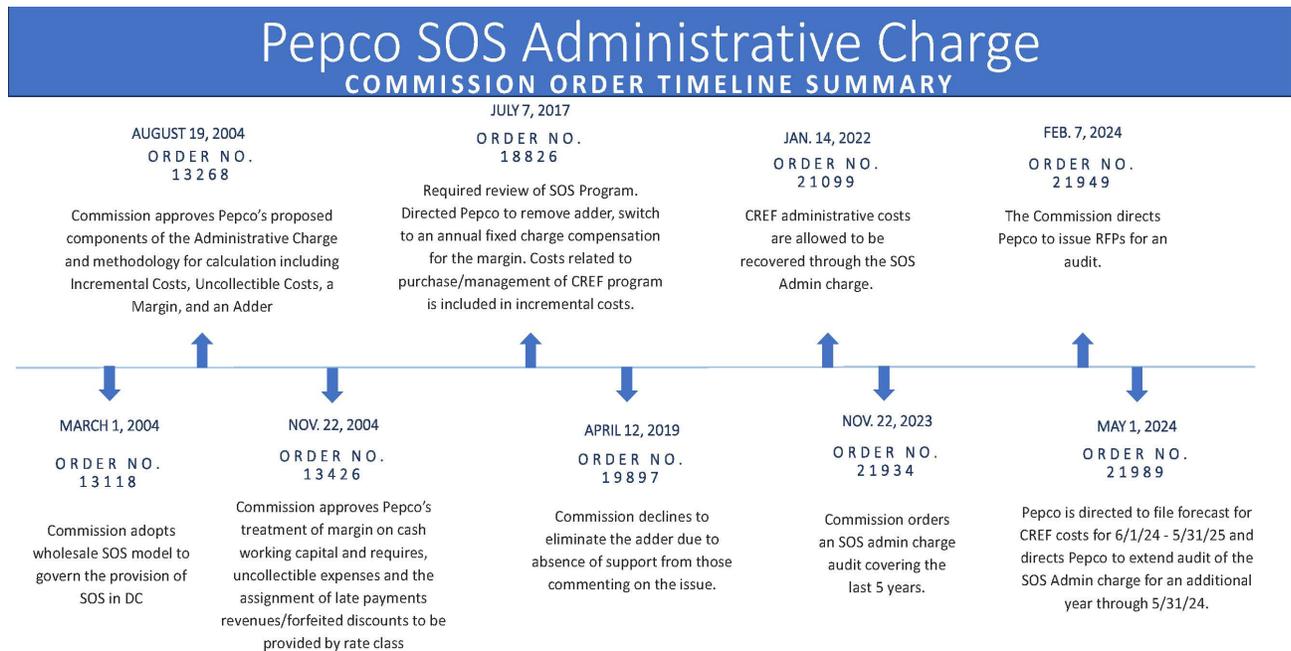
Figure 2, below, illustrates a summary timeline of the key Orders that have defined the evolution of processes and procedures by the Commission relating to Pepco’s SOS Administrative Charge from March 2004 to the present. Important takeaways from those key orders are:

- Order 13118, March 1, 2004 – DC Commission adopts SOS wholesale model and finds that it is in the best interest of the District and its ratepayers.
- Order 13268, August 19, 2004 – approved SOS Administrative Charge to include four primary elements, incremental costs, uncollectible costs, margin, and adder, during and after the term of the SOS service.
 - Incremental Costs included: proportional share of SOS customer uncollectibles for each SOS customer group, Commission consultant expenses, wholesale bidding expenses, working capital expenses related to SOS for each SOS customer group, wholesale supply transaction costs related to wholesale supplier administration and transmission service admin, wholesale payment and invoice processing, incremental billing process expenses, customer education costs, incremental system costs, and legal and regulatory filing expenses related to SOS requirements.
 - The Margin was set at a specific mills per kWh and would be subject to an adjustment for the return on cash working capital and a gross up for taxes.
 - The Adder was established as the residual amount after subtracting the incremental charges, uncollectible expenses, the margin, and any true-ups from the Administrative Charge. The adder is to be refunded to distribution customers through a monthly rolling credit.
- Order 13426, November 22, 2004 – adds late payment revenues as an offset to uncollectible expense; and allows the inclusion of one-time system costs to be amortized over three years.
- Order 18829, July 7, 2017 – adds new incremental cost related to the purchase/management of the Community Renewable Energy Facilities (“CREF”).
- Order 21099, January 14, 2022 – allows the Company to recover CREF related administrative costs going forward. Also establishes that other net CREF-related costs for equipment and system upgrades should be passed on only to the CREF subscribers who will receive the direct benefit.
- Order 21986, May 1, 2024 – Commission emphasizes that capital costs of developing a system for CREFs should not be recovered through the Administrative Charge, but rather Pepco should recover through a rate assessment to subscribers. Further, the Order clarified that costs related to reading, billing, or removal of Pepco’s installed meters at CREF locations from June 1, 2022, onwards should not be included in SOS Administrative Charges.

¹⁵ DC PSC, Order no. 13268 (August 19, 2004) P 104.



Figure 2: Pepco SOS Administrative Charge Timeline



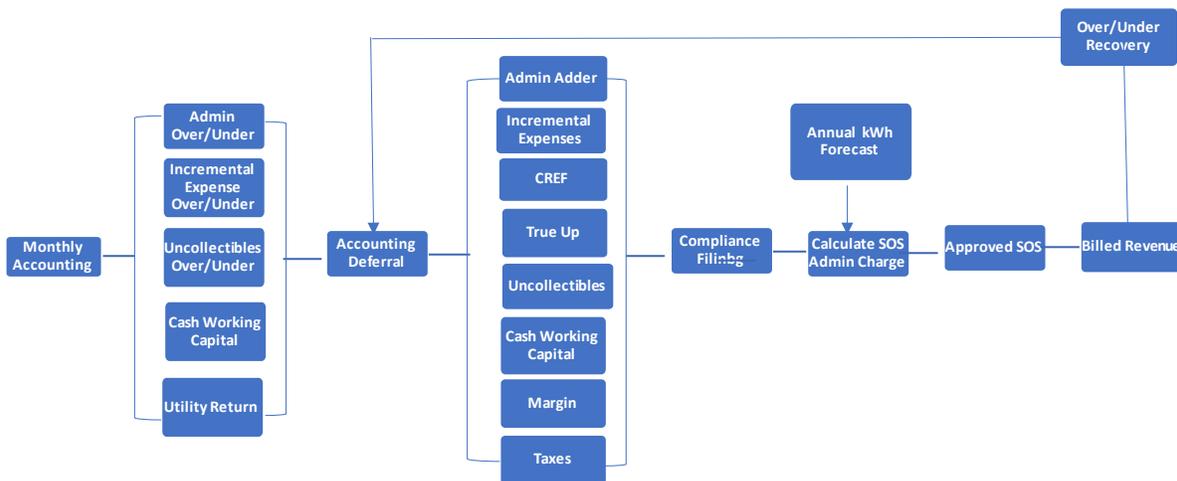
4. SOS Administrative Process and Key Controls

Before any control reviews or testing began, Atrium conducted face-to-face interviews with Pepco personnel responsible for the SOS Administrative Charge process to gain a better understanding of current processes and accompanying internal controls to determine whether they are adequate to mitigate errors in the annual SOS Administrative Charge calculations. The interviews involved speaking with personnel from the Energy Acquisition, Retail Rates, Applications Technology, Accounting and Revenue Requirements departments. Additionally, Atrium reviewed internal control documentation, regulatory filings, and responses to data requests, provided in response to Atrium's data requests, for additional understanding of current internal controls surrounding the SOS Administrative Charge processes.

4.1. Overview of Pepco’s SOS Administrative Charge Processes and Controls

In this section, Atrium will summarize the SOS Administrative processes and controls that it identified through interviews with Pepco staff or through Pepco’s responses to data requests. The Standard Offer Service program has three subcomponents: procurement, transmission and the administrative charge. The procurement involves the purchase of the commodity via bids in an auction. The transmission component reflects the delivery of electricity procured for Standard Offer Service over high load transmission lines. The Administrative Charge is comprised of incremental administrative expenses, uncollectible expenses, cash working capital, utility margin, and a slight adder. A schematic of the processes related to the calculation of the SOS Administrative Charge is shown in Figure 3, below. To the extent that controls were identified by Atrium in its interview process, those controls are bolded and bracketed in this section.

Figure 3: SOS Administrative Charge Schematic



Atrium has identified the following key departmental processes and controls surrounding the SOS Administrative Charge through our interviews and review of documentation provided by Pepco in furtherance of the audit.



4.1.1. Energy Acquisition

The Energy Acquisition group is responsible for a multifaceted wholesale auction process. This includes: the RFP process in September/October, the eligibility process, two auctions – one in December and one in January; and in June the Company undergoes a procurement improvement process. After the auction is concluded, substantial work follows in entering new suppliers and setting up contracts. There is also an RPS process that takes place in February/March for the wholesale suppliers. Any hours associated with administering the auction are charged to the SOS Administrative Charge as an incremental charge which the Accounting team will pick up in its Over/Under Deferral entry. Time that Pepco employees spend working on the DC procurement auction is charged to a specific charge code for the DC SOS Procurement auction. The Energy Acquisition team composes the filing that is submitted to the Commission.

The Energy Acquisition team also provides information to develop the expense lag for the cash working capital computation in the SOS Administrative Charge. The Energy Acquisition team keeps track of the lead - lag associated with the SOS program to be sure that they have sufficient cash on hand to run the program. Pepco pays its vendors weekly for power supply. They also factor the PJM payment schedule into the calculation of cash working capital.

4.1.2. Accounting

The Accounting team captures SOS revenues and expenses through Hyperion GL queries on the SOS Department ID, 76074. **[SOS Administrative Charges have their own project code which is different than department IDs for distribution or procurement, so duplication or misallocation of charges is unlikely to occur.]** Pepco has developed a “Deferral Model” that calculates the difference between revenues collected by the Company, and expenses paid by the Company for each component of SOS. The difference between revenues and expenses is deferred and recorded on the books on a monthly basis as either a deferred asset (under-collected) or a deferred liability (over-collected). Deferrals are calculated for Residential, Small Commercial, Large Commercial and Market Priced (MPS was discontinued effective September 1, 2021).¹⁶ The Administrative Deferral calculation has the following inputs:

- Administrative Charge Revenue - Return
- Administrative Charge Revenue – Cash Working Capital
- Administrative Charge Revenue - Administrative Incremental Costs
- Administrative Charge Revenue - Administrative Uncollectible
- Administrative Charge Revenue - Administrative Credit
- Actual Incremental Administrative Expenses
- Actual Incremental Uncollectible Expenses
- Administrative Credit Expense
- Under/Over Recovery

¹⁶ DC PSC Order No. 20775 (July 23, 2021).



The Administrative Charge is currently determined by forecasting the over/under recovered balance through the end of the upcoming SOS year and setting the rate to recover the forecasted over/under recovered balance. Due to the one-year lag, the over/under recovered calculation used for the Administrative Credit calculation described below, is utilized in forecasting over/under recovery through the end of the upcoming SOS year. The Adder is the residual between the SOS administrative cost components and the administrative rate that is set.

For each rate class (Residential, Small Commercial, and Large Commercial), if the total Administrative Charge revenue exceeds costs, including all cost components (Utility Return, Incremental Costs, Write Offs net of Late Payments, and Cash Working Capital), this would result in an over-recovered balance. The over-recovered amount is refunded to distribution customers through the Administrative Credit rate that is updated on a monthly basis.

The over-recovered balance is divided by the most recently available twelve months of actual Distribution kWhs to determine the Administrative Credit rate. In other words, the Administrative Credit is refunded to customers over a 12-month span. If it is an under-recovered balance, the Administrative Credit rate is set to zero. The Administrative Credit will never be a charge to distribution customers.

The over/under recovered balance is calculated on a monthly basis and is determined using the following methodology. Expenses for all cost components are subtracted from the Administrative Charge revenue to determine the amount available for the Administrative Credit. Then the Administrative Credit that has already been paid to customers is subtracted. The net total is the over/under recovered balance. The Adder component of the Administrative Charge revenue is not offset by expenses and essentially acts as a flow-through item collected from SOS customers and paid to Distribution customers through the Administrative Credit rate when each rate class is in an over recovered position.

Each month, the Accounting team prepares a Revenue File and Expense File for use in the SOS Accounting Deferral Model. Any activity related to SOS flow into Accounting's SOS Deferral Entry file. Accounting then completes an "Over/Under" file for the month, indicating the difference between the revenue files and expense files for each primary SOS Administrative category (Administrative Charge, Uncollectible Expenses, and Incremental Expenses). CREF expenses are pulled in as a component of Incremental Expenses. The Accounting team develops the Deferral Entry for the Over/Under for each of the primary SOS Administrative categories using the "Over/Under" file. **[Once the calculations are complete, the Accounting team reviews trends in the model, i.e., SOS sales, revenue, expenses, and over/under calculations by customer class. Significant spikes are flagged and investigated. Accounting does a final check by reviewing information pulled by the Department ID 76074 to ensure that revenues and expenses were captured in the Deferral entry.]**



The monthly Deferral Journal Entry is prepared and is provided for review to the Accounting Manager. The Journal Entry is accompanied by a **[checklist protocol for reviewing journal entries, so that the reviewer can sign off on the steps to complete the review process, helping to ensure that all inputs are properly entered.]** This checklist is filed with the Journal Entry. The Deferral Journal Entry is posted and approved in the system. **[A final check is performed once the Journal Entry is posted and secures signoff via email by the Accounting Manager.]**

Each year, Accounting gets the unbundled Administrative Charge rates from regulatory to break out the revenue into its individual components for recovery of the SOS Administrative Charge. Accounting calculates and records the Deferral each month. **[Every quarter, the Retail Rates team selects one month for control testing.]**

[Any change to the SOS Administrative Model is documented in a Conformance Memo for significant changes in the Mechanism or changes to the Model for developing the Deferral Entry. If this change was due to a Commission Order, the Accounting team would document the Order, when effective, and communications from regulatory and/or legal.] Any significant change to the SOS model would be accompanied by a Conformance Memo.

4.1.3. Retail Rates

Each year, the Retail Rates team prepares a Compliance Filing for Formal Case No. 1017, pursuant to Order 14573 for the Retail Rates Associated with Standard Offer Service. Attachment D of the Annual Filing shows the detailed calculation and explanation of the Administrative Charge and the true-up calculation. Also filed is Schedule B – Summary of SOS rates by supply auction; Schedule C – which summarizes monthly bill impacts for proposed rates; and Schedule E – forecasted return using pre-tax rate.

Schedule D of the Compliance Filing for SOS Administrative Charges is conducted for a lookback period, June through May, and the filings are submitted in late February to early March. Reconciliations are on a one-year lagged basis. The SOS Administrative Charge Model is comprised of the following components:

- The Adder - the residual between the Administrative Charge and each of the components of the Charge.
- Estimates for Other Incremental Costs - for the upcoming year are based on prior period actuals.
- CREF costs – are comprised of O&M related to CREF plus incremental O&M costs related to the implementation of a new billing system.
- Write-off expenses - are actual write offs net of late payment charges received.
- Cash working capital - is a rate that is set to recover the cash working capital lead - lag, so that Pepco has the necessary cash on hand to keep the program functioning.



- Margin – is the average of the prior three years return margin.
- Taxes – are calculated on the margin and cash working capital.

[Retail Rates team selects one month each quarter to test in depth – perform analytics to see if there is anything that is an outlier, 3-month trend or 11-month trend. If they find something, they follow up with Accounting to provide an explanation – if it doesn’t align with expectations. The Detailed Review is sent to Accounting and includes details of their analytics, and an accompanying write up].

[The Retail Rates team performs a review by comparing the Accounting Model to Hyperion balances – any differences are investigated and explained. Results of the Review are reported to Accounting and are included in an Annual reconciliation, which is also reviewed at the management level]

The Compliance Filing is submitted to the Commission in late February to early March and is followed by a Commission Order approving rates for the SOS Administrative Charge in time for rates to go in effect by June 1. The newly approved rates are sent to Applications Technology on a Rate Card. **[Retail Rates develops new rates with sign off by Rates Manager or designee. Once approved, the Rates team inputs rates into the Rate Card and sends to Applications Technology to move into the Billing System. Applications Technology provides Retail Rates with an Extract. Retail Rates performs an independent review to be sure that the rates in the billing system agree to what was submitted and approved by the Rates Team so that rates may go into effect June 1.]**

Any revenue collected from the Adder is returned to all distribution customers as a credit to their distribution rate. This credit is known as the Administrative Credit and is calculated by the Retail Rates team on a monthly basis. For each rate class, the balance is divided by forecasted 12 months of distribution kWh usage to determine the Administrative Credit rate.

4.1.4. Applications Technology

The Applications Technology (“AT”) team serves as the liaison between business teams, the Rates Team and the IT Team. AT’s focus is on system maintenance, enhancements, and functionality of the billing system and reporting. They ensure functionality between teams. AT is the link between the Regulatory and Accounting departments and what gets translated to IT for coding.

Applications Technology, in coordination with Retail Rate Administration, drives the Rate Card verification process. The process begins around the 22nd or 23rd of the month and generally takes 7 to 10 days. The DC SOS Administrative Charge rate changes once per year. The SOS Administrative Charge is part of the generation charge and does not have its own unique price key. **[The Rate Card is a spreadsheet which lists the different rates that are effective in each jurisdiction, making up 11 Cards in total. On a monthly basis, the Rate Card is reviewed for rates that are changing (indicated by highlighting on the Rate Card.) The Rate Card process is broken down as follows:**

At the beginning of each month, AT sends out fresh Rate Cards to the Regulatory and Rate teams to start the process for a new month. Each jurisdiction has its own Subject Matter Experts (“SMEs”).

Each Rate team will input updated Price Keys into the Rate Cards. AT will receive the new rate Price Key configurations in the Rate Cards and will reflect these changes in the Billing System. Applications Technology runs an “Old and New” report and verifies that the new prices agree to the Rate Card. AT initials new prices.

AT will then send system extracts from the SAP and Billing Expert Billing System and “Old and New” tests back to the Regulatory SMEs to review and verify the new prices key changes.

The Regulatory and Rates teams will then go through their review and approval process (verify changes and comparison to previous rates). Sign offs are required.]

Once Regulatory completes its review of the rate changes, an approval email is sent to AT. Approved rate changes are then moved into production in the Billing System by AT on the last billing day of the month, so they are in place for the first business day. According to the AT team, exceptions identified in the Rate Card verification process are very rare. The AT team also does a post validation check to ensure that new prices have moved to production. The AT team maintains a Table that presents how rates are presented on the customer’s bill.

4.1.5. Billing

The SOS Administrative Charge is part of the generation charge and is not separately broken out on the customer’s bill.

The Billing Team performs a final verification that rates are properly reflected on customer bills by performing a daily rate verification at the end of the monthly billing cycle. This control has been in place for approximately 15 years to ensure that the rates Pepco DC is billing customers are correct. This is a daily control that they try and complete as early in the day as possible to catch any errors before bills are mailed. **[Each month they ensure that they have reviewed one bill from each rate category. On each Wednesday and Thursday, a report of all bills generated during the prior night’s batch for Pepco DC is generated. From this list, one invoice per rate category is selected, with the highest usage in each class given priority. Each selected bill is assigned to be reviewed by a billing employee. That employee reviews each price factor and confirms that it matches the appropriate documentation (tariff or other rider sheet). If any mismatches are found, AT and Regulatory are alerted to determine the cause of the mismatch.]** If rate correction is needed, that is completed by the AT and Regulatory teams. In addition, in 2022, a specific monthly review of customer “First Bills” (the first bill after service was initiated) was implemented to catch rates which are specific to a customer’s first bill.

There is no materiality threshold for these reviews. A root cause and impact analysis are performed for exceptions. If an error impacts more than 100 bills, Pepco DC must report the error to the Commission.

4.1.6. Revenue Requirements

The Revenue Requirements team puts together the Jurisdictional Cost of Service Study (“JCOS”) to present the revenue requirement case and costs on a distribution basis. The Revenue Requirements team strips out anything not distribution related (costs and revenues), or that is recovered through other revenue mechanisms, including the SOS Administrative Charge. They do this by downloading the General Ledger and removing any non-distribution balances, including SOS-related charges, from the distribution revenue requirement on a quarterly basis.

With respect to the SOS Administrative Charge, since the bulk of SOS Administrative Charges are already set up as generation balances, these charges are automatically excluded from distribution charges as they are booked to non-distribution FERC accounts. However, there are two CREF IT projects and two time-charging code blocks that are booked to distribution FERC accounts and must be removed from the JCOS and the distribution revenue requirement calculation, i.e., one of which is the time associated with Green Power Connect team that administers the CREF program.

[The Revenue Requirements team creates a common report analyzing the charges it has removed related to SOS and CREF that is shared with Retail Rates. Each quarter, the Revenue Requirements team reviews the charges for outliers or out of trend activities.] Accounting separately pulls in incremental costs related to the DC CREF time block for the SOS Administrative Charge.



5. Substantive Testing

Atrium selected rate components for substantive testing based on a risk evaluation for the specific component. The risk evaluation was based on variability, magnitude and/or potential for duplication or misclassification in Pepco's retail rates. Atrium reviewed key controls around the calculation of the SOS Administrative Charge to determine whether they are adequate to mitigate errors in the calculation of the charge by customer class. Atrium also reviewed and tested controls to eliminate the potential for duplication or misclassification of charges. Atrium performed substantive testing to determine whether the Company is in compliance with the designed SOS Administrative Charge internal controls on a timely basis and that inputs to the SOS Administrative Charge are properly documented (with the right level of approvals) to reflect accurate SOS Administrative Charge rates in the billing system, as well as associated SOS Administrative Charge deferral balances in the accounting system. The substantive testing was also intended to identify any areas for internal control or process improvement, including any deficiencies in existing controls or the need for new controls. Specifically, Atrium's Scope of Work for testing and review of SOS Administrative Charge internal controls and processes is reflected in the Section below.

5.1. Audit Objective and Scope of Work for Substantive Testing of Internal Controls

The comprehensive review of the SOS Administrative Charge process, internal controls, and substantive testing provided in Atrium's Scope of Work included:

- Independently determine whether the SOS Administrative Charge is properly structured and calculated to achieve the objectives prescribed by the Commission; and is being executed properly and timely, with adequate controls to achieve accurate results and to prevent errors.
 - Atrium obtained and reviewed detailed calculations contained in "Attachment D" of Pepco's Annual Compliance Filings for SOS Retail Rates and performed year-over-year analyses of key components of the SOS Administrative Charge.
- Examine and evaluate Pepco's records and systems to determine whether the Company is correctly calculating the Administrative Charge over the audit period. Atrium also verified that the Administrative Charge is not duplicative to other charges in customer distribution rates or in the Procurement Cost Adjustment ("PCA"), as well as verified that charges were properly attributed to correct customer groups.
 - Substantive testing of the SOS Administrative Charge processes included a Comprehensive Review of "Attachment D" of Pepco's Annual Compliance Filings for SOS Retail Rates, at a minimum:
 - Tests of mechanical accuracy of such filings



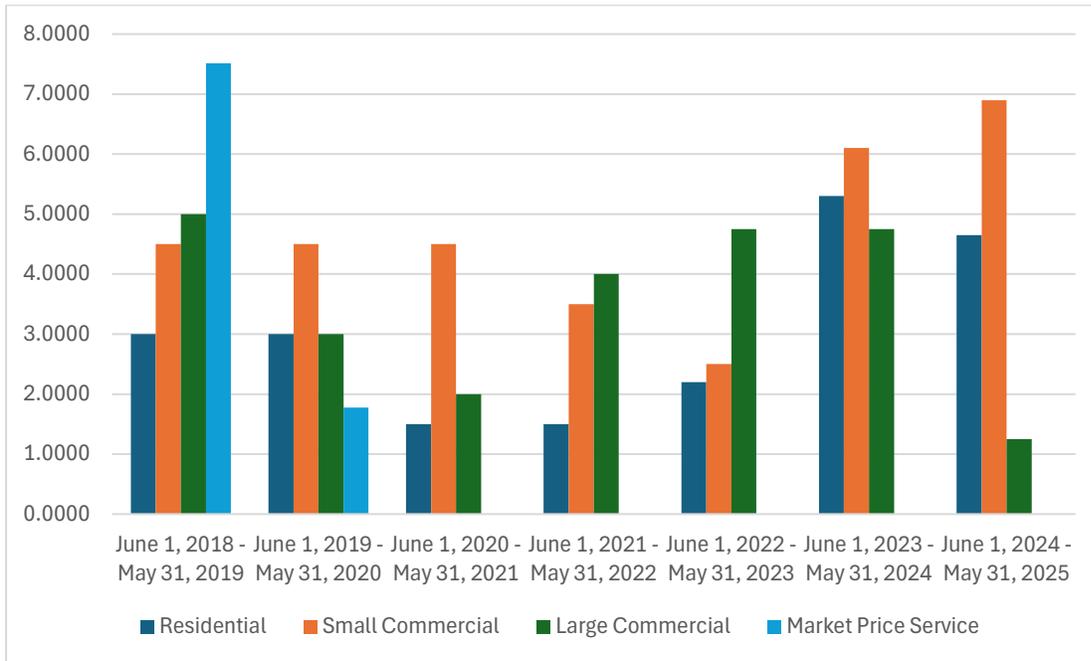
- Substantive testing of rate components from the compliance filings for the SOS Administrative Charge, including:
 - Validation of the agreement of the data in Attachment D of Pepco's Annual Compliance Filings to appropriate source documents.
 - Verification that the charges are appropriately allocated to the correct customer group.
 - Verification that the charges are not duplicated in other distribution rates or PCA charges.
 - Agreement of rates set out for the SOS Administrative Charge to published tariff rate schedules.
 - Sampling of SOS customer bills from each customer group over the audit period to validate appropriate rates were included in customer bills.
- To gain an understanding of the nature of SOS Administrative Charge calculation errors that have been made in the past, Atrium reviewed the Commission's consultant, Bates White, SOS Audit Reports to understand where exceptions have occurred in the past and to ensure that all errors were corrected by Pepco to the auditor's satisfaction.
- As part of the overall internal control review, Atrium reviewed and examined Pepco's currently designated Key Financial Controls ("KFCs") to determine whether they are adequate to mitigate errors during the SOS Administrative Charge calculation.
 - The review of Pepco's currently designed KFCs was performed by conducting interviews with Pepco personnel assigned to comply with the controls and approval processes as well as substantive testing to validate that those controls had been followed throughout the audit period.
 - Assess whether the Company is executing controls on a timely basis, and identify any areas for internal control improvement, including any deficiencies in existing controls or the need for new controls.

5.2. Variance Analysis

In accordance with Atrium's Scope of Work, it conducted a year-over-year variance analysis of the key components of the SOS Administrative Charge, explaining significant variances. Figure 4, below, shows the SOS Administrative Charge since June 2018.



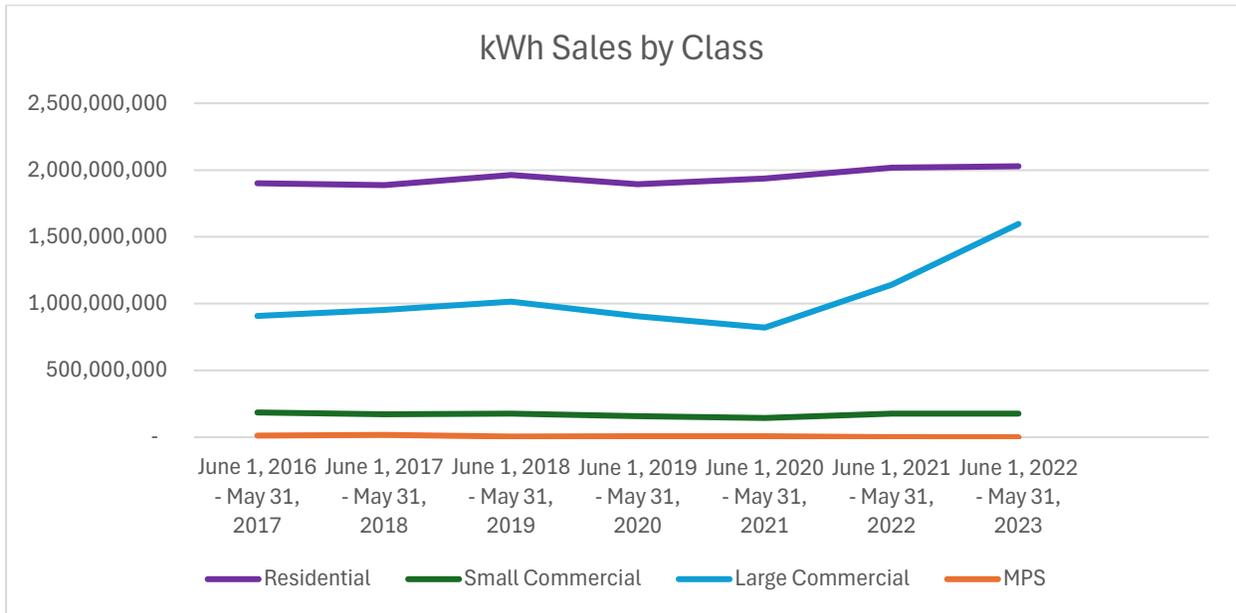
Figure 4: SOS Administrative Charge Annual Charge by Rate Class



As Figure 4 shows, the SOS Administrative Charge has been trending up for Small Commercial classes and trending down for Large Commercial Classes. The Residential Class has increased with the addition of CREF charges recovered through the SOS Administrative Charge in the period June 1, 2022 – May 31, 2023, and subsequent.

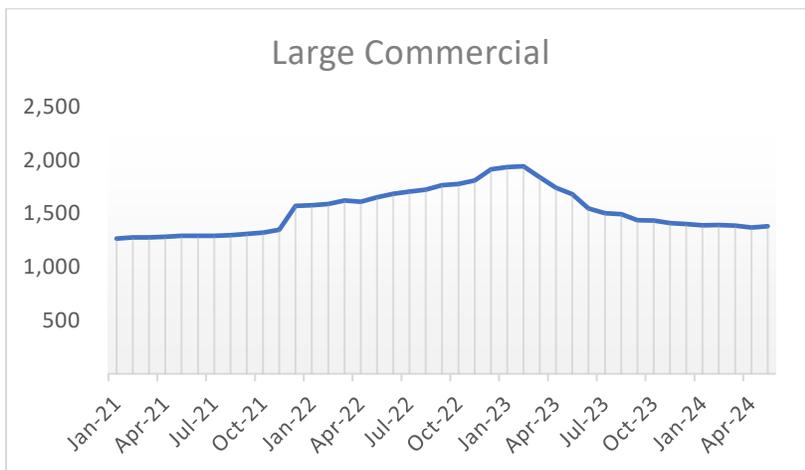
A similar analysis of kWh sales in Figure 5 below, shows that kWh sales for the Residential and Small Commercial classes have remained relatively stable over the 5-year audit period. However, Large Commercial sales significantly increased from June 1, 2020, to May 31, 2023, which may be indicative of an SOS Administrative Charge for Large Commercial customers that may provide more attractive overall pricing for Pepco SOS than that pricing from third party suppliers.

Figure 5: Annual Analysis of kWh Sales by Class



According to Pepco, the reason for this increase in Large Commercial SOS kWh sales was “primarily driven by customer count increases between June 2021 and May 2023;” and that “the customer counts peak[ed] in February 2023 then steadily [declined] and level[ed] out in 2024.”¹⁷ Pepco also provided the below monthly sales information for the Large Commercial class, showing that customer counts did indeed peak during the period June 2022- May 2023 and began to return to more normal levels.

Figure 6: Monthly Large Commercial kWh SOS Sales¹⁸



¹⁷ Pepco Response to Atrium DR Set 3, No. 4.

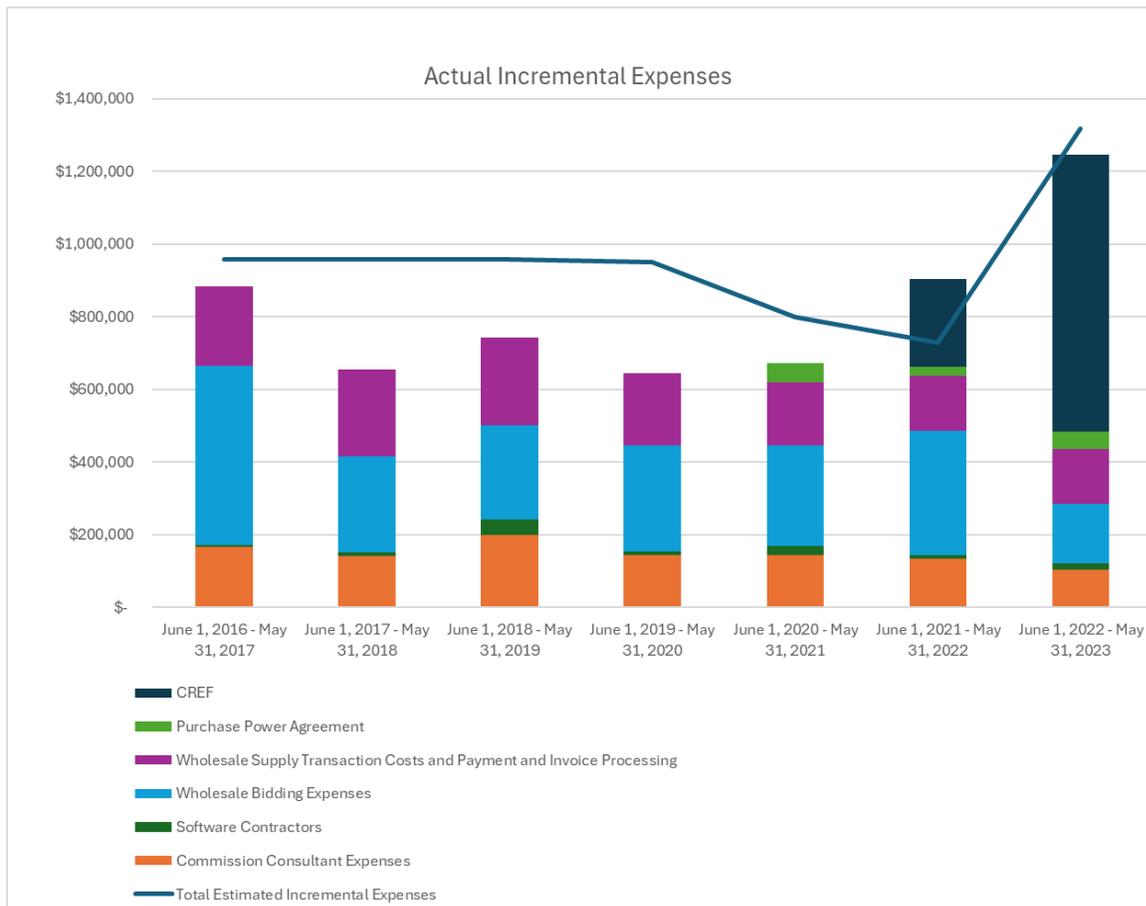
¹⁸ Pepco Response to Atrium DR Set 3, No. 4, Attachment 1



Though Atrium does not have access to historical third-party supply pricing for Large Commercial customers, it is possible that low SOS pricing may have contributed to the surge in Large Commercial customers taking SOS service from June 1, 2021, through May 31, 2023. As indicated later in this Report, Atrium has proposed that SOS pricing be more closely tied to competitive pricing of third-party suppliers as discussed in Finding and Recommendation 5.3(2).

From the year-over-year Variance analysis, in addition to the detailed substantive testing discussed in the following section, Atrium selected certain actual Incremental Cost items that have exhibited significant variability during the audit period to test calculations and proper classifications. The Estimated Incremental Costs and Actual Incremental Costs are trued up in the Annual SOS Administrative Charge filings found in Attachment D, for the prior period (a two-year lag from the period for which SOS charges will be recovered). For example, Pepco’s upcoming SOS filing will cover the period June 1, 2025, through May 31, 2026. The Annual Compliance filing was filed in March 2025 and is expected to be finalized in May 2025. That filing includes the Over/Under for the Estimated Incremental Costs versus the Actual Incremental Costs for the period covering June 1, 2023, to May 31, 2024. Details of Estimated Incremental Costs to Actual are shown below in Figure 7.

Figure 7: Actual Incremental Expenses Compared to Estimated Incremental Costs reflected in Annual SOS filings (on 2-yr. lag)



Atrium selected the following Actual Incremental Costs for detailed testing based on the largest year-over-year fluctuations for the cost category over the audit period; and traced a sample from each selected cost category and period to source documentation (i.e., journal entry, timecard, vendor invoice, allocation entry). The actual incremental cost categories tested were:

- Wholesale bidding expenses of \$492,948 for the period June 1, 2016 – May 31, 2017
- Wholesale bidding expenses of \$341,985 for the period June 1, 2021 - May 31, 2022
- Software Contractors expenses of \$42,517 for the period June 1, 2018 - May 31, 2019
- Purchase Power Agreement expenses of \$53,143, \$24,140, and \$46,392 for the periods June 2020-May 2021, June 2021-May 2022, and June 2022-May 2023, respectively
- CREF expenses of \$241,895 for the period June 1, 2021 - May 31, 2022
- CREF expenses of \$763,372.24 for the period June 1, 2022 - May 31, 2023

For each of the selected cost items detailed above, Atrium was able to reconcile to time allocation detail or vendor invoices, noting agreement of amount, that cost descriptions were appropriate for inclusion in the SOS Administrative Charge, and in cases where a corporate allocation was employed, that the allocation methodology and calculations were reasonable and appropriate and in accordance with Pepco's Cost Allocation Manual ("CAM"), Exhibit 1. Atrium also notes that Pepco's CAM was audited by SBC Certified Public Accountants and Business Advisors for the year ended December 31, 2023, finding that in all material respects, Pepco had complied with its policies and procedures of the CAM and that costs were charged to affiliates in accordance with the CAM.¹⁹ Atrium also verified that costs recovered through the SOS Administrative Charge were either recorded directly to a non-distribution FERC account or were manually removed from the distribution cost of service to avoid duplication of charges in distribution rates.

With respect to the CREF charges selected for detailed testing, Atrium notes that the Company began recovering administrative costs associated with CREF through its SOS Administrative Charge in January 2022, prior to which, CREF costs were recovered through base distribution rates. This treatment changed with the Commission's Order No. 21099 on January 14, 2022, where it found that recurring administrative costs associated with CREF could be recovered through the SOS Administrative Charge. From January 2022 onwards, those costs were no longer recovered in base distribution costs.²⁰

¹⁹ See Pepco response to DR 5-2, DR Follow Up 2, Attachment 4.

²⁰ Pepco SOS Administrative Charge Audit DR Response 5-1 (d).



In Order 21986, the Commission reviewed CREF charges for the period June 1, 2022 through May 31, 2023, the same \$763,372.24 that Atrium selected for testing. The Commission found that the charges were entirely for labor related to administrative responsibilities associated with the CREF program, including program oversight, subscription and subscriber organization management, billing support, and reporting. This is consistent with Atrium's review of the charges.

The Commission also reviewed *estimated* CREF costs for the period June 2024 through May 2025 of \$1,776,537, of which Pepco stated that \$775,000 was for the same labor costs as were incurred for the period 2022-2023 (i.e., forecasted labor costs related to productive time spent on program oversight, subscription and subscriber organization management, billing support and reporting); \$499,945.92 was due to forecast O&M costs related to implementation of the system to capture generation from CREF meters, made up of licensing fees, as well as maintenance and vendor operations for receiving, formatting, and managing meter data; and \$501,590.66 was due to the amortization of capital costs related to the development of an interim and permanent solution for integrating CREF meter data into Exelon systems to perform billing activities.²¹

The Commission found that the \$775,000.00 forecasted administrative costs and the \$499,945.92 forecasted recurring O&M costs related to the implementation of a system to capture generation from CREF meters were allowable for inclusion in the SOS Administrative Charge. The recurring O&M costs were made up licensing fees, as well as maintenance and vendor operations for receiving, formatting, and managing meter data.²² However, the Commission did not allow inclusion of the \$501,590.66 amortization of capital costs related to the development of a system for integrating CREF meter data into Exelon systems to perform billing activities on the basis that those costs should be recovered through a rate assessment of subscribers.²³ Pepco was also prohibited from including any costs in the Administrative Charge that related to reading, billing or removal of Pepco's installed meters at the CREF locations.²⁴

With respect to the CREF costs, Atrium notes that for the period under audit June 2018 through May 2024, there were no incremental charges for recurring O&M costs, nor any costs associated with capital cost recovery. Atrium reviewed the summary labor charges,²⁵ noting they all indicated they were allocated from the total labor costs of the Green Power Connection team and allocations appeared reasonable and agreed to the total CREF charges for the periods under review.

²¹ DC PSC Order No. 21986 at P 9-10.

²² Id at P10.

²³ Id at P11.

²⁴ Ibid.

²⁵ See Pepco Follow Up Response to DR 5-3 (b) Attachment 1, Question 3, response provided March 14, 2025.



Overall, Atrium’s variance analysis found that costs selected for testing were reasonable and appropriate, could be confirmed as to the nature of the charge and the amount of the charge by source detail (allocation detail, vendor invoices, journal entry detail). Atrium also noted that allocation methodologies appeared reasonable, correctly calculated and were consistently applied. Atrium verified that costs recovered through the SOS Administrative Charge were either recorded directly to a non-distribution FERC account or were manually removed from the distribution cost of service for purposes of setting distribution rates, with minor exceptions noted below. Detail with respect to this testing can be found in Appendix A. Atrium’s findings and recommendations are listed below.

VARIANCE ANALYSIS FINDINGS AND RECOMMENDATIONS

FR 5.2 (1) - Costs Recovered through SOS Administrative Charge and Included in Distribution Cost of Service in FC 1156

Atrium found that for the period June 2021 to May 2022, fringe benefits and payroll taxes associated with Wholesale Bidding Expenses²⁶ were recorded to a distribution account and would have been duplicated in the 2021 Distribution Cost of Service. These amounts totaled \$3,602.46 and this duplication error only occurred during 2021 and has since been corrected.

Recommendation:

Although these amounts are not significant, Atrium recommends that Pepco institute a process to view the mapping of all SOS Administrative Charge Incremental Expenses to verify that the account either directly maps to a non-distribution FERC account; or to flag charges that do map to distribution accounts so that the charges may be captured and removed from the distribution cost of service before undergoing a rate filing.

²⁶ Pepco SOS Administrative Charge Audit DR 3-2b Attachment 1



FR 5.2 (2) - Duplicate ICF charges recovered through SOS Administrative Charge of \$51,000

Atrium selected an ICF vendor invoice for testing from Purchase Power Agreement Expense for the period June 2020 to May 2021. Atrium also noted that a reconciling adjustment of \$93,000 was made to Wholesale Supply Transaction Costs for the period June 2022 to May 2023, which included the same ICF charges. Further review of the invoices supporting those charges, determined that \$51,000²⁷ of the \$93,000²⁸ charges had been recorded as part of Purchase Power Agreement expenses during the period June 2020 - May 2021. Therefore, the reconciling adjustment recorded to Wholesale Supply Transaction Costs is duplicative by \$51,000 of the ICF charges recorded to Purchase Power Agreement Expense for the period June 2020 to May 2021.

Recommendation:

Atrium proposes a correction for these duplicate charges in Pepco's next SOS Administrative Charge filing. Further, Atrium recommends that Pepco employ consistent classification of like charges from year to year. Atrium acknowledges that these subclassifications of the SOS Administrative Charge do not impact the SOS Administrative Charge calculation, which considers all Incremental Costs in aggregate. Consistent year-to-year classification will provide enhanced comparability and will eliminate a source of confusion with respect to what has or has not been included in the SOS Administrative Charge for a given period.

²⁷ Pepco SOS Administrative Charge Audit DR 5-4b Attachment 1

²⁸ Pepco SOS Administrative Charge Audit Email Follow up DR provided on March 25, 2025, Attachments 2, 3 and 4.



5.3. Substantive Testing of the SOS Administrative Charge Filings

In order to perform the substantive testing of the SOS Administration Charge for the audit period covering June 1, 2018 through May 31, 2024, Atrium requested the annual SOS Administrative Charge “Attachment D” compliance filing calculations, including all source documents to support the filing.

To evaluate the reasonableness of the SOS Administrative Charge components and mechanical processes and whether those processes are appropriate to achieve the objectives prescribed by the Commission through its associated orders, Atrium performed a detailed review of the SOS Administrative Charge filings for the period under audit.

Atrium first reviewed the Commission’s consultant, Bates White, audit reports to ensure that all previous audit findings related to the SOS Administrative Charge had been resolved to the satisfaction of Bates White. Atrium found that they had.

In order to ensure that the monthly SOS Administrative Charge balances supported and summed to the SOS Administrative Charge Annual Compliance filings amounts found in (Attachment D) for each period under audit, Atrium tested the mechanical accuracy of each filing during the audit period. Atrium confirmed that the calculations were appropriate and consistent across all Schedule D filings, that calculations agreed to GL Trend Reports, where applicable; and that rates set out in the Schedule D filings agreed with tariff rate schedules. Atrium also reviewed Pepco’s records showing the successive calculation of the SOS Monthly Administrative Charge deferral balances for the period under audit for each component of the SOS Administrative Charge.

In addition to the above tests of mechanical accuracy, Atrium selected two annual periods for in-depth detailed testing (June 2019 – May 2020 and June 2021 – May 2022), confirming each value to its respective source document and tracing a selection of charges to customer bills. Details of Atrium’s substantive testing of the SOS Administrative Charge filings can be found in Appendix A.

Though Atrium’s review found that in all material respects the Administrative Charge filings were mechanically accurate, consistent across filings and were properly reflected in customer bills, with one minor exception detailed below; Atrium did find that in some cases Pepco’s SOS Administrative Charge processes could be enhanced to better reflect the Commission’s guidance or the Company’s own previous statements with respect to the mechanics of the SOS Administrative Charge. Atrium has made several process improvement recommendations below to a) better align the SOS Administrative Charge processes with the goal of leveling the playing field with competition; or b) making the SOS mechanics with respect to the Adder and its ultimate return to customers more straight forward and better aligned with the Company’s previous guidance on how the Adder would be developed and how the Administrative Credit would be returned to customers.



In all other material respects, Atrium’s substantive testing and review of the SOS Administration Charge found that SOS filings were mechanically correct, consistently calculated over the audit period, were confirmed by source documentation, and were appropriately billed to customers. Atrium also verified that the Administrative Charge is not duplicative to other charges in customer distribution rates or in the Procurement Cost Adjustment (“PCA”). All of Atrium’s findings related to the mechanical accuracy of the SOS Administrative Charge Filings can be found in Appendix A.

SUBSTANTIVE TESTING FINDINGS AND RECOMMENDATIONS

FR 5.3 (1) - Sampling of Customer Bills

As part of Atrium’s substantive testing, we selected a sample of customer bills from each tariff class for the two periods selected for detailed testing (June 2019 – May 2020 and June 2021 – May 2022). Per review of a customer bill for the period of January 2022 from the Commercial GSLV class, Atrium noted that SOS charges were being excluded from the Customer Bill.

After follow-up on this customer bill selection and consulting with Pepco’s Application Technology Team and Billing Team, it has been confirmed this customer from the GSLV class was not being billed as an SOS customer. During a billing system conversion in the 2015/2016 timeframe, the flag within the billing system that allows supply charges to be printed on the customer’s bill was inadvertently unchecked. As a result, no supply charges appeared on the customer’s bill, which resulted in a lower bill.

Based on additional follow-up, Pepco conducted a thorough review of all customer contracts that had the SOS flag unchecked in the billing system and identified that this issue was limited to only 12 Pepco customers out of over 217,000 customer contracts. Except for these 12 customers, all other contracts where the flag was unchecked were with a third-party supplier and not SOS customers, therefore this was not a widespread issue.

Recommendation:

Given the minimal number of SOS customers (less than 1%) that were impacted by the exclusion of SOS billing rates noted above, Atrium agrees with Pepco that this was not a widespread issue. However, Atrium recommends that the Billing Team ensure that at least one customer from each class and any subgroups of each rate class be selected for monthly testing to ensure that all SOS customers are correctly receiving the approved SOS Administrative rate charge.

FR 5.3 (2) - The Adder

The Adder was initially installed to provide a component of the Administration Charge to level the playing field between Pepco and third-party energy suppliers so as not to impede competition or create an unfair cost advantage for Pepco. The justification for the Adder is that Pepco would not incur customer acquisition and customer care costs that the competitive electricity suppliers would incur.²⁹ The Adder equals the residual value between the fixed SOS Administrative Charge and the sum of Pepco's Incremental Costs to conduct the SOS bidding, Uncollectible Expenses, Cash Working Capital, the Margin and any True-ups. The Administrative Charge was originally set based on charges that were consistent with those that were going into effect in Pepco Maryland on July 1, 2004 of 4.0 mills/kWh, 5.5 mills/kWh, and 6.5 mills/kWh for residential, small commercial, and large commercial customers, respectively.³⁰

In Order 18829, the Adder came under fire with the Commission siding with OPC, AARP and Direct Energy who supported removing the Adder, since it is hypothetical in nature and merely serves to increase SOS costs and subsidizes distribution costs by return of the Adder through the Administrative Credit.³¹ The Commission also found that the incremental impact of the Adder was too small to help electricity suppliers compete more effectively with SOS and directed Pepco to remove the Adder from SOS rates beginning June 1, 2018 to May 31, 2019. However, In subsequent Order No. 19106, the Commission reconsidered the removal of the Adder and instead deferred the issue to the upcoming Biennial Review.³² In subsequent Order No. 19897, Paragraph 8, the Commission declined to eliminate the Adder due to absence of sufficient evidentiary support and analysis to justify its removal in the proceeding.³³ Accordingly, the Adder remains today.

However, today, Pepco goes through a circular process whereby the Administrative Charge is determined by first forecasting the over/under recovered balance through the end of the upcoming SOS year and setting the rate to recover the forecasted over/under recovered balance. Due to the one-year lag, the over/under recovered calculation used for the Administrative Credit calculation is utilized in forecasting over/under recovery through the end of the upcoming SOS year. The Adder is the residual between the cost components and the administrative rate that is set, and since it is set to eliminate any over or under recovered balance, the Adder would as a result be quite small and inconsequential; and the SOS Administrative Charge may not necessarily be representative of what is required to place SOS service on a level playing field with third-party suppliers.

²⁹ DC PSC Order No. 13268 (August 19, 2004) at P73.

³⁰ Direct Testimony, Witness Browning, FC1017 (April 8, 2004) at p.4.

³¹ DC PSC Order No. 18829 (July 7, 2017) P126.

³² DC PSC Order No. 19106 (September 13, 2017) at P6.

³³ DC PSC Order No. 19897 (April 12, 2019) P8.



The Adder provides an important function in ensuring a level, competitive playing field in Washington DC for electric supply. But, as the SOS Administrative Charge and the Adder are currently derived, there is very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself. The Adder portion of the SOS Administrative Charge is currently the residual that attempts to fully collect any over/under recoveries of SOS Administrative Costs as closely as possible and is not tied to or verified against third party electric supply quotes. Atrium recommends a potential enhancement to Pepco's process so that the SOS Administrative Charge and Adder may be tied to or verified against third-party quotes to ensure that the Adder does not undercut competition.

Recommendation:

Atrium proposes a potential enhancement to Pepco's SOS process so that the Administrative Charge is set such that it is tied more closely to competitive third-party supply pricing. For example, it could be set such that the SOS rate would equal the higher of i) the highest 12-month electric supply quote as published for the upcoming 12-month period, as can be found on search.dcpowerconnect.com/search-offers and filtered for a 12-month contract length (or other more comprehensive resource for third party supply quotes), or ii) actual incremental SOS Administrative costs, i.e., Incremental Costs, Uncollectible Expenses, Cash Working Capital, Margin, and Taxes. In i) above, the Administrative Charge would be the residual of the highest quoted third-party supply rate, less Pepco's SOS generation charge and the SOS transmission charge. The Adder should then be calculated as the residual between the Administrative Charge and SOS's incremental SOS costs. This would truly place the SOS rate on an equal playing field with third-party electric suppliers. In situations where Pepco's SOS incremental administrative costs exceed the otherwise calculated SOS Administrative Charge, the SOS Administrative Charge would exactly equal the sum of Pepco's incremental SOS Administrative costs, and the Adder would be zero.



FR 5-3 (3) - When Incremental SOS Costs Exceed the SOS Administrative Charge

When originally proposed, witness Browning, who introduced Pepco's proposal for the SOS Administrative Charge, explained the process for determining the Administrative Credit in situations where the Incremental Costs, Uncollectible Expenses, and the Margin exceed the fixed Administrative Charge. Witness Browning stated, "If the amounts required for (a) the incremental costs, (b) the SOS uncollectible expense and (c) the margin to shareholders exceed the amounts collected by the fixed Administrative Charges that I have proposed, then pursuant to Rules 2953.4 and 2957, the Administrative Charges should be increased to the level required to fully collect these three cost components."³⁴ However, in practice, when the Incremental Costs, Uncollectible Expenses, True-Up, and the Margin exceed to the fixed Administrative Charge, Pepco merely sets the calculated Adder for the class to zero since the Administrative Credit cannot result in a charge to distribution customers. Atrium notes in the SOS Administrative Charge Filing for Years 14, 15, and 16 (June 1, 2018 – May 31, 2019, June 1, 2019 – May 31, 2020, and June 1, 2020 – May 31, 2021, respectively) for the Small Commercial class, the Adder was manually forced to zero, rather than increasing the SOS Administrative Charge for the Small Commercial class to eliminate the negative Adder.

Recommendation:

If it is determined that the Pepco's SOS Administrative Costs exceed its SOS Administrative Charge for any given rate class, it should increase the fixed Administrative Charge to equal the sum of the Administrative Cost components such that the Adder would be zero and no negative Administrative Credit rate would result.

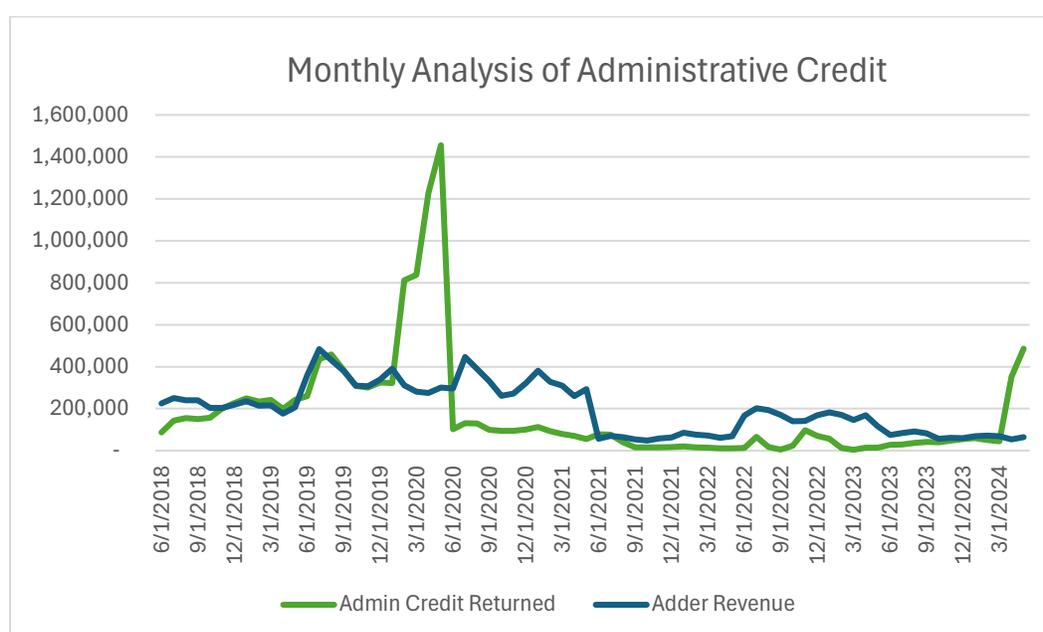
³⁴ Direct Testimony, Witness Browning, FC1017 (April 8, 2004) at pp. 15-16.



FR 5-3 (4) - Return of SOS Administrative Costs to Distribution Customers

Pepco initially proposed to return the net monies collected from the Adder to all customers on a near contemporaneous basis through a rolling monthly Administrative Credit.³⁵ However, Atrium notes that Pepco’s current practice is to return the Administrative Credit to allow all revenues and expenses to flow through the revenue deferral account and return the adder on a prospective twelve-month basis, in effect providing reimbursement to distribution customers on a one-year lag on a forward projected kWh basis of all over/under costs in the revenue deferral account including the Adder. The Chart below illustrates the timing differences between recording the revenue associated with the Adder versus when it is credited to distribution customers.

Figure 8: Adder Revenue and Administrative Credit Returned



Recommendation:

The Administrative Credit should be remitted to customers on a dollar-for-dollar contemporaneous basis such that it is immediately passed through to distribution customers as a volumetric credit, set annually, on distribution customers’ bills at the same time it is charged to SOS customers. The credit would be calculated contemporaneous with adder charges to SOS customers and for the same total amount over the 12-month forecast period based on projected kWh throughput for distribution customers. At the end of the 12-month period, differences in recovery of adder revenue or in the refund of such charges to distribution customers from amounts initially targeted (due to volumetric differences) would be included and recovered through an annual true-up mechanism, which would factor into the succeeding period’s SOS Administrative Charge. Atrium believes this recommendation is more closely aligned with the contemporaneous return of the Adder promised at the onset of the SOS Administrative Charge and offers a more straightforward methodology, avoids any commingling of over/under recoveries of costs between SOS customers and distribution customers, and maintains a closer connection between the Adder charges to SOS customers and the amounts credited to distribution customers in both timing and amount.



5.4. Testing of Key Financial Controls

Atrium evaluated Key Financial Controls (“KFC”) surrounding the SOS Administrative Charge and selected for review the attributes for each KFC to ensure that controls are being properly performed and monitored by Pepco to mitigate the risk of errors in the SOS Administrative Charge calculation, and to provide assurance of detection should an error arise that affects the SOS Administrative Charge. The KFCs and audit testing performed are described in detail in Appendix A and are summarized below.

The KFCs are established to mitigate risks, such as:

- Deferrals being calculated using inaccurate or incomplete data
- Incorrect classification of regulatory assets and liabilities between current and non-current and inappropriate netting of regulatory assets and liabilities
- Changes in base case orders are not appropriately interpreted and implemented, operationally and financially
- New regulatory orders or new transactions are not appropriately identified, communicated, considered, and applied
- Accurate rate adjustments for each customer class are not being calculated and communicated to the billing staff

Atrium’s KFC review as it relates to the SOS Administrative Charge involved the following KFCs. A full listing of the KFCs evaluated can be found at Appendix B.

- KFC S.REG.02.02 – Conformance Memo
- KFC S.REG.02.12 – Deferral Calculation
- KFC S.REG.02.18 – Regulatory Review of the SOS
- KFC S.REG.02.25 – Regulatory Reconciliation to the SOS Filing
- KFC S.REG.03.07 – Rate Card Review
- KFC S.REG.03.98 – Bill Rate Adjustments

For each of the above listed KFCs, Atrium performed testing over the audit period to validate whether the KFCs were followed throughout the audit period and whether they were adequate to mitigate errors during the SOS Administrative Charge calculation.

³⁵ Ibid.

Overall, Atrium found that except as noted below, the Company is executing controls on a timely basis and that controls are sufficient to detect and mitigate errors in the annual SOS Administrative Charge calculation. Atrium has identified one area for internal control improvement in substantive testing finding and recommendation 5.3 (1), which proposes that existing controls be enhanced to include the testing of at least one customer from each class and any subgroups of each rate class be selected for monthly testing to ensure that all SOS customers are correctly receiving the approved SOS Administrative rate charge.

KEY FINANCIAL CONTROL FINDINGS AND RECOMMENDATIONS

FR 5.4 (1) Conformance Memo

Atrium notes that according to Pepco, no conformance memos have been produced related to the SOS Administrative Charge for the period under audit; and that there were no changes requiring creation of a conformance memo during the requesting period.³⁶ However, per Order No. 21099 (January 14, 2022), the Commission allowed recurring incremental costs for purchase of electric supply from CREF and incremental CREF billing process expenses to be recovered through the SOS Administrative Charge. Additionally, per Order 21986 (May 1, 2024) the Commission emphasizes that the capital costs of developing a system for CREFs should not be recovered through the Administrative Charge, but rather Pepco should recover through a rate assessment to subscribers. The Order further clarifies that costs related to reading, billing, or removal of Pepco's installed meters at the CREF locations from June 1, 2022, onwards should not be included in SOS Administrative Charges. Atrium considers these changes to significantly impact the SOS Administrative Charge and warrant a Conformance Memo to memorialize Pepco's understanding of which CREF charges are includable in the SOS Administrative Charge and which charges are explicitly excluded.

Recommendation:

Atrium recommends a written conformance memo be produced to document the procedure for properly capturing allowable CREF-related incremental expenses as part of the SOS Administrative Charge. This will ensure proper expense capture as well as ensuring duplication or misclassification of expenses does not occur.

³⁶ Pepco DR Response 2-3(b)



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Appendix A – Substantive Testing Results

Variance Analysis Testing

Wholesale bidding expenses of \$492,948 for the period June 1, 2016 - May 31, 2017, as reflected in Exhibit D of the annual SOS filing for the period June 1, 2018 - May 31, 2019, Actual Incremental Expenses.

Wholesale bidding expenses are made up of SOS Procurement Administrative expenses (including labor and office space in Baltimore to conduct the SOS procurement auctions), SOS Regulatory Administrative expenses (labor charges for time spent by the regulatory team on the DC SOS filings and activities), and allocations from Pepco Holdings Inc. Service Company (“PHISCO”) for Business Group Support and Power Procurement Services. The allocated costs come from the PHISCO PHI Power Procurement department to provide SOS services. PHISCO costs are allocated in accordance with the PHI Service Agreement, Exhibit 1 of the Cost Allocation Manual on the basis of kWh purchased and generated by the Client Company divided by the total number of kWh purchased and generated by all Client Companies. The journal entries supporting these allocations predate Pepco’s 7-year records retention period and could not be verified. Atrium noted that the supporting detail provided by Pepco summed to the \$492,948 in question. Atrium was unable to confirm the selected charges to supporting time entries due to archival of such data from a previous time entry system. However, Atrium was able to review the allocation methodology and the Hyperion General Ledger detail, noting that the allocation appeared reasonable, and that the General Ledger detail agreed to the Wholesale Bidding Expenses amount in question.



Wholesale bidding expenses of \$341,985 for the period June 1, 2021 - May 31, 2022, as reflected in Exhibit D of the annual SOS filing for the period June 1, 2023 - May 31, 2024, Actual Incremental Expenses.

Wholesale bidding expenses are made up of SOS Power Procurement Administrative expenses and allocations from Pepco Holdings Inc. Service Company (“PHISCO”) power procurement department. Atrium noted that the supporting detail provided by Pepco summed to the \$341,985 in question. \$48,257.40 of costs were allocated to the SOS Administrative Charge on a kWh basis in accordance with the Company’s Corporate Allocation Methodology.³⁷ The allocation methodology sums SOS Tracking and Power Procurement costs for ACE, DPL and Pepco for three Project IDs: AJ16OL041 (ACE), DX16OL041 (DPL), and PX16OL041 (Pepco). The costs charged to these Project IDs represent labor and overhead costs incurred by the PHI Power Procurement department. This department is responsible for the wholesale procurement process and running the SOS and Basic Generation Service (BGS) auctions for all of PHI.³⁸ An allocation percentage is applied to the summed total based on its relative kWh output. Atrium verified that the sum of the Pepco MD and Pepco DC charges agreed to the total Pepco charges before the allocation with only minor differences and appear reasonable. The remaining \$293,727.86 charged to wholesale bidding expense for the period were for labor and benefits associated with DC’s SOS and for DC’s SOS-related maintenance expenses; and for time spent on DC’s renewable PPA negotiations. Atrium reviewed the nature of the charges, the allocation methodology and the allocation journal entries for twelve individual charges, selected from the SOS Power Procurement Administrative expenses, noting that each charge selected originated from an allocation of labor, fringe benefits, incentive compensation, pension, payroll tax and paid time off. Atrium was able to reconcile the selected charges to allocation detail³⁹, noting no exceptions. Atrium also notes that Pepco’s Corporate Allocation Methodology was recently reviewed by SBC Certified Public Accountants and Business Advisors for the year ended December 31, 2023⁴⁰, with no exceptions noted. Atrium also reviewed the mapping of costs to FERC accounts to verify that the charges either were recorded directly to a non-distribution FERC account or were manually removed from the distribution cost of service for purposes of setting distribution rates, noting that minor fringe benefit and tax charges had been included in both the SOS Administrative Charge and in the distribution rate filing, as detailed below.

³⁷ See Pepco Response to Atrium Audit DR 5-3(b).

³⁸ See Pepco Follow Up Response to DR 5-8 (b) Attachment 1, Question 9, response provided March 14, 2025.

³⁹ See Pepco Follow Up Response to DR 5-2, Question 2, Attachment response provided March 14, 2025 and March 18, 2025.

⁴⁰ See Pepco Follow Up Response to DR 5-2, Question 2, Attachment 4, response provided March 19, 2025.



Costs Recovered through SOS Administrative Charge and Included in Distribution Cost of Service in FC 1156

Atrium found that for the period June 2021 to May 2022, fringe benefits and payroll taxes associated with Wholesale Bidding Expenses were recorded to a distribution account and would have been duplicated in the 2021 Distribution Cost of Service. These amounts totaled \$3,602.46 and this duplication error only occurred during 2021 and has since been corrected.⁴¹

Recommendation:

Although these amounts are not significant, Atrium recommends that Pepco institute a process to view the mapping of all SOS Administrative Charge Incremental Expenses to verify that the account either directly maps to a non-distribution FERC account; or to flag charges that do map to distribution accounts so that the charges may be captured and removed from the distribution cost of service before undergoing a rate filing.

Software Contractors expenses of \$42,517 for the period June 1, 2018 - May 31, 2019, as reflected in Exhibit D of the annual SOS filing for the period June 1, 2020 - May 31, 2021, Actual Incremental Expenses.

Software Contractor expenses for the period in question reflect costs from contractor invoices (Appian, Architect, and Ariba) related to auction platforms where suppliers submit bids for SOS supply during SOS auctions for Pepco DC. Pepco's current software platform, Ariba, is operated through a contract with SAP. This platform is used by Pepco to upload data and information that wholesale suppliers need to participate in the DC SOS auction. Suppliers also use this platform to submit bids. These expenses are charged to SOS Administration as they are directly related to the administration of SOS service. In addition, costs may be allocated on the basis of kWh from PHISCO.⁴² Atrium reviewed vendor invoices for the software contractor expenses selected for testing with no exceptions and found that these charges are appropriately charged to SOS Administration.

Atrium also reviewed the mapping of these charges to FERC accounts to verify that the charges either were recorded directly to a non-distribution FERC account or were manually removed from the distribution cost of service for purposes of setting distribution rates, noting that all charges mapped to the non-distribution FERC account 557, Other Power Generation – Other Expenses and would have been excluded from the distribution cost of service by default.

Purchase Power Agreement expenses of \$53,143, \$24,140, and \$46,392 for the periods June 2020-May 2021, June 2021-May 2022, and June 2022-May 2023, respectively. Amounts as reflected in Exhibit D of the annual SOS filings for the periods June 2022 - May 2023, June 2023 - May 2024 and June 2024 - May 2025.

⁴¹ See Pepco Response to DR 3.2 (b) Attachment 1

⁴² See Pepco Follow Up Response to DR 5-3 (a) and DR 5-3 (d), Question 4, response provided March 14, 2025.



Atrium verified that the detail provided by Pepco summed to the amounts in question. Atrium reviewed the nature of the charges and the source documentation for ten individual charges spread between the three periods. Atrium noted that the sample included allocation entries from PHISCO and a vendor invoice from ICF for providing monthly PJM Market Price Projections and forward monthly hub prices utilizing solar, wind, or solar/wind with storage for the 20-year outlook for use in bid evaluation of long-term renewable PPAs for SOS supply. Atrium reviewed the ICF Scope of Work and proposal related to the charges, noting that the charges appeared to reflect administrative costs of conducting bid evaluation in the PJM market and were appropriately included in the SOS Administrative Charge. Atrium also noted that a reconciling adjustment of \$93,000 for similar charges from ICF was recorded in the June 2022 to May 2023 actual incremental costs in the SOS Schedule D filing. The charges included in the \$93,000 adjustment were classified differently, as Wholesale Supply Transaction Costs, and not Purchase Power Agreement expenses. However, this categorization does not affect the Administrative Charges, as only the total overall incremental costs (and not the subclassifications) impact the Administrative Charge calculation. Further review of the invoices supporting those charges, however, determined that \$51,000 of the \$93,000 charges had been recorded as part of Purchase Power Agreement expenses during the period June 2020 - May 2021. Therefore, the adjustment is duplicative by \$51,000. Atrium proposes a correction for these duplicate charges in Pepco's next SOS Administrative Charge filing.

Duplicate ICF charges recovered through SOS Administrative Charge of \$51,000

Atrium selected an ICF vendor invoice for testing from Purchase Power Agreement Expense for the period June 2020 to May 2021. Atrium also noted that a reconciling adjustment of \$93,000 was made to Wholesale Supply Transaction Costs for the period June 2022 to May 2023, which included similar ICF charges. Further review of the invoices supporting those charges, determined that \$51,000⁴³ of the \$93,000⁴⁴ charges had been recorded as part of Purchase Power Agreement expenses during the period June 2020 - May 2021. Therefore, the reconciling adjustment recorded to Wholesale Supply Transaction Costs is duplicative by \$51,000 of the ICF charges recorded to Purchase Power Agreement Expense for the period June 2020 to May 2021.

Recommendation:

Atrium proposes a correction for these duplicate charges in Pepco's 2025 – 2026 SOS Administrative Charge filing. Further, Atrium recommends that Pepco employ consistent classification of like charges from year to year. Atrium acknowledges that these subclassifications of the SOS Administrative Charge do not impact the SOS Administrative Charge calculation, which considers all Incremental Costs in aggregate. Consistent year-to-year classification will provide enhanced comparability and will eliminate a source of confusion with respect to what has or has not been included in the SOS Administrative Charge for a given period.

⁴³ Pepco SOS Administrative Charge Audit DR 5-4b Attachment 1____.5

⁴⁴ Pepco SOS Administrative Charge Audit Email Follow up DR provided on March 25, 2025, Attachments 2, 3 and 4.



In addition, one charge selected for testing was an incorrectly coded credit of bid proposal fees totaling \$45,000 in January 2021.⁴⁵ The charge had been assigned to a default FERC Error Revenue Account which maps to SOS Administrative PPA charges and was reclassified in the same month to the correct account, determined to be 456000 (Other Electric Revenue). The Accounting team has a quarterly process in place to identify activity in the default FERC account and reclassify to the appropriate FERC account. The remaining eight charges selected for testing from Purchase Power Agreement expense were allocations from PHISCO. Atrium reviewed the nature of the charges and the allocation detail for the eight individual charges, noting that each charge selected originated from an allocation from PHISCO of rents & leases, BSC Services other than IT, payroll, fringe benefits, incentive compensation, pension, payroll tax and paid time off. Atrium was able to reconcile the selected charges to the allocation detail⁴⁶, noting no exceptions. Atrium also notes that Pepco's Corporate Allocation Methodology was recently reviewed by SBC Certified Public Accountants and Business Advisors for the year ended December 31, 2023⁴⁷, with no exceptions noted. Atrium reviewed the detail of charges to ensure that they would not have been included in the distribution revenue requirement. Atrium verified that all charges were either recorded to FERC account 557, Other Power Supply Expenses, a non-distribution FERC account, or were recorded to Department ID 76074, which are specifically excluded from the distribution revenue requirement, with no exceptions.

CREF expenses of \$241,895 for the period June 1, 2021 - May 31, 2022, as reflected in Exhibit D of the annual SOS filing for the period June 1, 2023 - May 31, 2024.

The Company began recovering administrative costs associated with CREF through its SOS Administrative Charge in January 2022, prior to which, CREF costs were recovered through base distribution rates. This treatment changed with the Commission's Order No. 21099 on January 14, 2022, where it found that recurring administrative costs associated with CREF could be recovered through the SOS Administrative Charge. From January 2022 onwards, those costs were no longer recovered in base distribution costs.⁴⁸ The five charges selected for substantive testing from the period June 1, 2021 – May 31, 2022, appropriately carve out the period from June 1, 2021 – December 31, 2021, from the SOS Administrative Charge filing so as not to duplicate amounts already included in base rates through the end of December 2021.

⁴⁵ See Pepco Follow Up Response to DR 5-4 (b), Question 6, response provided March 14, 2025.

⁴⁶ See Pepco Follow Up Response to DR 5-2, Question 2, Attachment 3 response provided March 19, 2025.

⁴⁷ See Pepco Follow Up Response to DR 5-2, Question 2, Attachment 4, response provided March 19, 2025.

⁴⁸ Pepco SOS Administrative Charge Audit DR Response 5-1 (d).

The charges selected for testing for the period June 1, 2021 – May 31, 2022, were all for labor incurred by the Green Power Connection team for time spent on administrative responsibilities for DC CREF. The Green Power Connection (“GPC”) team manages the subscription process for Community Solar Programs across the Pepco Holdings Inc. footprint. This includes supporting Community Solar Programs in the District of Columbia (Pepco), Maryland (Pepco and Delmarva Power), Delaware (Delmarva Power), and New Jersey (Atlantic City Electric). The GPC team is also the customer interface for Distributed Energy Resource (“DER”) interconnections at the distribution level - this includes small solar generators, battery storage, combined heat and power, and fuel cells. The allocated charges included time for oversight, subscriptions and subscriber organization management, billing support, and reporting. These charges all originated as time sheet entries and are subject to allocation between CREF and other areas of responsibility.⁴⁹

The allocations were determined by finding the percentage of time that GPC employees spent on CREF activities, generally between 50% and 100%. The allocation of each employee to CREF is determined by the leaders of the GPC team, who plan the workload responsibilities for their team. This allocation is updated at least annually and is applied to the labor and benefits costs of those employees to obtain fully loaded CREF costs. This is divided into the total labor and benefits for the Green Power Connection employees to obtain a blended allocation factor for the employees. This allocation factor is divided into the applicable charges for the period to determine the portion of administrative incremental costs incurred by Green Power Connection that are appropriately assigned to CREF.⁵⁰ This allocated amount is reduced by a production labor factor which accounts for the actual time worked by employees as opposed to taking time off for vacation, holidays and sick leave. The factor is calculated based on a 3-year average to determine the percentage. This factor is applied to the CREF charges to ensure that only productive time spent on CREF related activities is included in the SOS Administrative Charge.⁵¹ Atrium reviewed the summary labor charges, noting they all indicated they were from the Green Power Connection team and allocations appeared reasonable and agreed to the total CREF charges for the period under review. Atrium also notes that since October 2023, the allocation process, described above, has been discontinued and the teams have transitioned to billing to a dedicated DC CREF code block rather than the general Green Power Connection code block, which required allocation to CREF.

Atrium observed how CREF charges were removed from the Formal Case No. 1176 distribution revenue requirement to ensure no duplication between costs included in SOS Administrative Charges and the distribution cost of service used to set distribution rates.

⁴⁹ Pepco SOS Administrative Charge Audit DR Response 5-1 (a).

⁵⁰ Pepco SOS Administrative Charge Audit DR Response 5-1 (b).

⁵¹ Pepco SOS Administrative Charge Audit DR Response 5-1 (c).

CREF expenses of \$763,372.24 for the period June 1, 2022 - May 31, 2023, as reflected in Exhibit D of the annual SOS filing for the period June 1, 2024 - May 31, 2025.

As indicated above, the Company began recovering administrative costs associated with CREF through its SOS Administrative Charge in January 2022, prior to which, CREF costs were recovered through base distribution rates.⁵² The five charges selected for substantive testing from the period June 1, 2022 – May 31, 2023 were for labor incurred by the Green Power Connection team for time spent on administrative responsibilities for DC CREF, which included time for oversight, subscriptions and subscriber organization management, billing support, and reporting. These charges all originated as time sheet entries and are subject to allocation between CREF and other areas of responsibility.⁵³ The allocations were determined in accordance with the same methodology employed in the prior periods testing of CREF Incremental Costs (above).

Atrium reviewed the summary labor charges,⁵⁴ noting they all indicated they were from the Green Power Connection team and allocations appeared reasonable and agreed to the total CREF charges for the period under review.

Atrium observed how CREF charges were removed from the Formal Case No. 1176 distribution revenue requirement to ensure no duplication between costs included in SOS Administrative Charges and the distribution cost of service used to set distribution rates.

Tests of Mechanical Accuracy of Annual Compliance Filings

In order to ensure that the monthly SOS Administrative Charge balances support and sum to the SOS Administrative Charge Annual Compliance filings amounts found in (Attachment D) for each period under audit. Atrium first reviewed the Commission’s consultant, Bates White, audit reports to ensure that all previous audit findings related to the SOS Administrative Charge had been resolved to the satisfaction of Bates White. Atrium noted that they had.

Atrium performed tests of mechanical accuracy for each filing during the audit period, including the following:

- 1) Verified consistency of calculations across all Schedule D filings.
- 2) Where possible traced each value in Schedule D to Hyperion GL Trend Reports covering the applicable period.
- 3) Agreed rates set out for the SOS Administrative Charge to published tariff rate schedules.

⁵² Pepco SOS Administrative Charge Audit DR Response 5-1 (d).

⁵³ Pepco SOS Administrative Charge Audit DR Response 5-1 (a).

⁵⁴ See Pepco Follow Up Response to DR 5-3 (b) Attachment 1, Question 3, response provided March 14, 2025.

Atrium's review of Schedule D filings and its testing of mechanical accuracy of such filings led to the following observations and recommendations related to the SOS Administrative Charge.

The Adder

The Adder was initially installed to provide a component of the Administration Charge to level the playing field between Pepco and third-party energy suppliers so as not to impede competition or create an unfair cost advantage for Pepco. The justification for the Adder is that Pepco would not incur customer acquisition and customer care costs that the competitive electricity suppliers would incur.⁵⁵ The Adder equals the residual value between the fixed SOS Administrative Charge and the sum of Pepco's Incremental Costs to conduct the SOS bidding, Uncollectible Expenses, Cash Working Capital, the Margin and any True-ups. The Administrative Charge was originally set based on charges that were consistent with those that were going into effect in Pepco Maryland on July 1, 2004 of 4.0 mills/kWh, 5.5 mills/kWh, and 6.5 mills/kWh for residential, small commercial, and large commercial customers, respectively.⁵⁶

In Order 18829, the Adder came under fire, with the Commission siding with OPC, AARP and Direct Energy who supported removing the Adder, since it is hypothetical in nature and merely serves to increase SOS costs and subsidizes distribution costs by return of the Adder through the Administrative Credit.⁵⁷ The Commission also found that the incremental impact of the Adder was too small to help electricity suppliers compete more effectively with SOS and directed Pepco to remove the Adder from SOS rates beginning June 1, 2018 to May 31, 2019. However, In subsequent Order No. 19106, the Commission reconsidered the removal of the Adder and instead deferred the issue to the upcoming Biennial Review.⁵⁸ In subsequent Order No. 19897, Paragraph 8, the Commission declined to eliminate the Adder due to absence of sufficient evidentiary support and analysis to justify its removal in the proceeding.⁵⁹ Accordingly, the Adder remains today.

However, today, Pepco goes through a circular process whereby the Administrative Charge is determined by first forecasting the over/under recovered balance through the end of the upcoming SOS year and setting the Administrative Charge rate to recover the forecasted over/under recovered balance. Due to the one-year lag, the over/under recovered calculation used for the Administrative Credit calculation described below, is utilized in forecasting over/under recovery through the end of the upcoming SOS year. The Adder is the residual between the cost components and the administrative rate that is set, and since it is set to eliminate any over or under recovered balance, the Adder would as a result be quite small and inconsequential; and the SOS Administrative Charge may not necessarily be representative of what is required to place SOS service on a level playing field with third-party suppliers.

⁵⁵ DC PSC Order No. 13268 (August 19, 2004) at P73.

⁵⁶ Direct Testimony, Witness Browning, FC1017 (April 8, 2004) at p.4.

⁵⁷ DC PSC Order No. 18829 (July 7, 2017) P126.

⁵⁸ DC PSC Order No. 19216 () at P6.

⁵⁹ DC PSC Order No. 19897 (April 12, 2019) P8.

The Adder provides an important function in ensuring a level, competitive playing field in Washington DC for electric supply. But, as the SOS Administrative Charge and the Adder are currently derived, there is very little association between the third-party marketing costs, for which the Adder is established as a proxy, and the Adder itself. The Adder portion of the SOS Administrative Charge is currently the residual that attempts to fully collect any over/under recoveries of SOS Administrative Costs as closely as possible and is not tied to or verified against third party electric supply quotes. Atrium recommends a potential enhancement to Pepco's process so that the SOS Administrative Charge and Adder may be tied to or verified against third-party quotes to ensure that the Adder does not undercut competition.

Recommendation:

Atrium proposes a potential enhancement to Pepco's SOS process so that the Administrative Charge is set such that it is tied more closely to competitive third-party supply pricing. For example, it could be set such that the SOS rate would equal the higher of i) the highest 12-month electric supply quote as published for the upcoming 12-month period, as can be found on search.dcpowerconnect.com/search-offers and filtered for a 12-month contract length (or other more comprehensive resource for third party supply quotes), or ii) actual incremental SOS Administrative costs, i.e., Incremental Costs, Uncollectible Expenses, Cash Working Capital, Margin, and Taxes. In i) above, the Administrative Charge would be the residual of the highest quoted third-party supply rate, less Pepco's SOS generation charge and the SOS transmission charge. The Adder should then be calculated as the residual between the Administrative Charge and SOS's incremental SOS costs. This would truly place the SOS rate on an equal playing field with third-party electric suppliers. In situations where Pepco's SOS incremental administrative costs exceed the otherwise calculated SOS Administrative Charge, the SOS Administrative Charge would exactly equal the sum of Pepco's incremental SOS Administrative costs, and the Adder would be zero.

When Incremental SOS Costs Exceed the SOS Administrative Charge

When originally proposed, witness Browning, who introduced Pepco’s proposal for the SOS Administrative Charge, explained the process for determining the Administrative Credit in situations where the Incremental Costs, Uncollectible Expenses, and the Margin exceed the fixed Administrative Charge. Witness Browning stated, “If the amounts required for (a) the incremental costs, (b) the SOS uncollectible expense and (c) the margin to shareholders exceed the amounts collected by the fixed Administrative Charges that I have proposed, then pursuant to Rules 2953.4 and 2957, the Administrative Charges should be increased to the level required to fully collect these three cost components.”⁶⁰ However, in practice, when the Incremental Costs, Uncollectible Expenses, True-Up, and the Margin exceed to the fixed Administrative Charge, Pepco merely sets the calculated Adder for the class to zero since the Administrative Credit cannot result in a charge to distribution customers. Atrium notes in the SOS Administrative Charge Filing for Years 14, 15, and 16 (June 1, 2018 – May 31, 2019, June 1, 2019 – May 31, 2020, and June 1, 2020 – May 31, 2021, respectively) for the Small Commercial class, the Adder was manually forced to zero, rather than increasing the SOS Administrative Charge for the Small Commercial class to eliminate the negative Adder.

Recommendation:

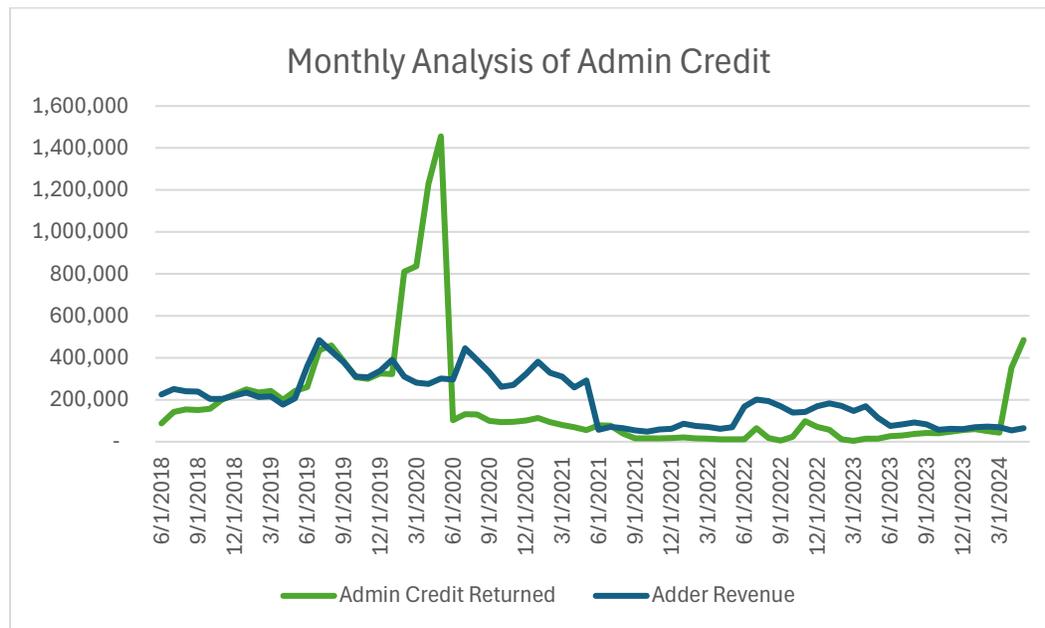
If it is determined that the Pepco’s SOS Administrative Costs exceed its SOS Administrative Charge for any given rate class, it should increase the fixed Administrative Charge to equal the sum of the Administrative Cost components such that the Adder would be zero and no negative Administrative Credit rate would result.

⁶⁰ Id. at pp. 15-16.

Return of SOS Administrative Costs to Distribution Customers

Pepco initially proposed to return the net monies collected from the Adder to all customers on a near contemporaneous basis through a rolling monthly Administrative Credit.⁶¹ However, Atrium notes that Pepco’s current practice is to return the Administrative Credit to allow all revenues and expenses to flow through the revenue deferral account and return the net adder to distribution customers on a prospective twelve-month basis, in effect providing reimbursement to distribution customers on a one-year lag on a forward projected kWh basis. The Chart below illustrates the timing differences between recording the revenue associated with the Adder versus when it is credited to distribution customers.

Figure 9: Adder Revenue and Administrative Credit Returned



Recommendation:

The Administrative Credit should be remitted to customers on a dollar-for-dollar contemporaneous basis such that it is immediately passed through to distribution customers as a volumetric credit, set annually, on distribution customers’ bills at the same time it is charged to SOS customers. The credit would be calculated contemporaneous with adder charges to SOS customers and for the same total amount over the 12-month forecast period based on projected kWh throughput for distribution customers. At the end of the 12-month period, differences in recovery of adder revenue or in the refund of such charges to distribution customers from amounts initially targeted (due to volumetric differences) would be included and recovered through the annual true-up mechanism, which would factor into the succeeding period’s SOS Administrative Charge. Atrium believes this recommendation is more closely aligned with the contemporaneous return of the Adder promised at the onset of the SOS Administrative Charge and offers a more straightforward methodology, avoids any commingling of over/under recoveries of costs between SOS customers and distribution customers, and maintains a closer connection between the Adder charges to SOS customers and the amounts credited to distribution customers in both timing and amount.



OTHER MINOR SUBSTANTIVE TESTING FINDINGS

Noted kWh Differences used to determine Class Allocations

In order to ensure that the monthly SOS Administrative Charge balances support and sum to the SOS Administrative Charge Annual Compliance filings amounts found in (Attachment D) for each period under audit, Atrium performed tests of mechanical accuracy for each filing during the audit period, including the following:

- 1) Verified consistency of calculations across all Schedule D filings.
- 2) Where possible traced each value in Schedule D to Hyperion GL Trend Reports and source documents covering the applicable period.

As part of our mechanical accuracy testing of the SOS Administrative Charge Annual Filing Attachment D, Atrium noted minor differences between the SOS kWh data provided via the Hyperion GL Trend Reports (received in DR 2-1a) and the SOS kWh data reported in Attachment D.

Figure 10: kWh Differences

	Per Attachment D - Year 17 SOS (June 1, 2021 - May 31, 2022)	Per Trends File (DR 2-1a) FYE 2020 Trends File	Diff.
Pepco's Forecast - Margin Before Taxes & Taxes - June 2021 - May 2022	Forecasted kWh (1)		
Residential	1,878,180,764	1,878,272,410	(91,646)
Small Commercial	144,117,429	144,020,018	97,411
Large Commercial and MPS	820,533,076	820,538,838	(5,762)
Total Margin Before Taxes	2,842,831,269	2,842,831,266	3
(1) Based on 12 months ended December 31, 2020.			

⁶¹ Ibid.



	Per Attachment D - Year 18 SOS (June 1, 2022 - May 31, 2023)	Per Trends File (DR 2-1a)	
Actual SOS kWh	06/01/20-05/31/21	06/01/20-05/31/21	Diff.
Residential	1,936,866,923	1,936,958,569	(91,646)
Small Commercial	144,160,496	144,063,085	97,411
Large Commercial	820,850,005	820,855,735	(5,730)
Market Price	7,259,387	7,259,419	(32)
Total kWh	2,909,136,811	2,909,136,808	3

Per discussion with Pepco for differences noted above, during the period June 2020 to September 2020, the Accounting team was implementing PowerQuery and conducting parallel testing with the old methodology, resulting in slight variances. The data provided in the trends file (DR 2-1a) comes from files based on the old methodology (recorded in the general ledger), while the data used in the regulatory filing was from the PowerQuery trends file, which explains the minor variances. Atrium agrees with Pepco’s response, no exceptions noted.

	Per Attachment D - Year 18 SOS (June 1, 2022 - May 31, 2023)	Per Trends File (DR 2-1a)	
Pepco's Forecast - Margin Before Taxes & Taxes - June 2022 - May 2023	Forecasted kWh (2)	FYE 2021 Trends File	Diff.
Residential	1,974,864,451	1,974,864,451	-
Small Commercial	163,250,522	163,178,602	71,920
Large Commercial	919,692,603	919,764,523	(71,920)
Total Margin Before Taxes	3,057,807,576	3,057,807,576	-

(2) Based on 12 months ended December 31, 2021.

Atrium reviewed and discussed the difference above with Pepco and notes that the Market Price Service (MPS) activity was allocated between Small Commercial and Large Commercial as a result of MPS being discontinued⁶². The transfer of customers to Small Commercial and Large Commercial were noted in the footnotes as part of the Year 18 (June 1, 2022 – May 31, 2023) Filing in Attachment D, Atrium notes no for further issues.

⁶² Market Price Service Tariff was discontinued effective September 1, 2021 based on Order No. 20775



Substantive Testing of Rate Components

In addition to the above tests of mechanical accuracy, Atrium reviewed Pepco's records showing the successive calculation of the SOS Monthly Administrative Charge deferral balances for the period under audit, including review of each component. For the two periods selected for detailed testing (June 2019 – May 2020 and June 2021 – May 2022) Atrium confirmed each value to its respective source document or workpaper, including the following:

- 1) Traced Class kWh Sales and Class Forecasted kWh Sales to appropriate source documentation.
- 2) Traced Other Incremental Costs to source documentation
 - a. Selected Actual Incremental Costs for substantive testing based on the largest cost drivers for the account over the two annual periods selected for detailed testing; and traced each selected account and period to source documentation (i.e., journal entry, timecard, vendor invoice, allocation entry).
 - b. Reviewed the nature and classification of costs to ensure reasonableness for inclusion in the SOS Administrative Charge.
- 3) True-Up Amount – verified accuracy of calculation.
- 4) Traced Net Write-Off Expense to source documentation (Write-off and Late Payments).
- 5) Traced Pre-tax Cash Working Capital (“CWC”) to source documentation (lag days on energy).
- 6) Verified that charges are appropriately allocated to the correct customer group.
- 7) Selected a sample of customer bills from each tariff class to validate appropriate rates were included in customer bills in the correct months.
- 8) Verified that the charges were excluded from distribution rates or Procurement charges.
 - a. Verified that charges were properly coded to DC SOS Administrative Charge by tracing underlying Hyperion General Ledger Detail to SOS Department ID and/or DC SOS specific Project IDs.
 - b. For charges that were included in filing via allocation, ensured that allocations were appropriate and agreed to Company Charge Allocation Methodology. (see also 5.1.1 for review of Corporate Allocation Methodology).



- c. Atrium participated in a walkthrough of the process the Revenue Requirements team underwent to ensure that all SOS charges were removed from the revenue requirement for purposes of distribution rate setting in its most recent rate case, FC 1176. Atrium noted that typically SOS charges are coded to a “Generation” FERC account and would automatically be excluded from the distribution revenue requirement. However, there are two CREF IT projects and two time-charging code blocks that are booked to distribution FERC accounts and must be removed from the JCOS and the distribution revenue requirement calculation. Atrium confirmed that the two CREF-related IT projects were not forecast in the distribution revenue requirement for FC 1176 and therefore were not included in distribution rates. Atrium also observed the removal of CREF hours booked to the distribution FERC account from the distribution revenue requirement.

Sampling of Customer Bills

As part of Atrium’s substantive testing, we selected a sample of customer bills from each tariff class for the two periods selected for detailed testing (June 2019 – May 2020 and June 2021 – May 2022). Per review of a customer bill for the period of January 2022 from the Commercial GSLV class, Atrium noted that SOS charges were being excluded from the Customer Bill.

After follow-up on this customer bill selection and consulting with Pepco’s Application Technology Team and Billing Team, it has been confirmed this customer from the GSLV class was not being billed as an SOS customer. During a billing system conversion in the 2015/2016 timeframe, the flag within the billing system that allows supply charges to be printed on the customer’s bill was inadvertently unchecked. As a result, no supply charges appeared on the customer’s bill, which resulted in a lower bill.

Based on additional follow-up, Pepco conducted a thorough review of all customer contracts that had the SOS flag unchecked in the billing system and identified that this issue was limited to only 12 Pepco customers out of over 217,000 customer contracts. Except for these 12 customers, all other contracts where the flag was unchecked were with a third-party supplier and not SOS customers, therefore this was not a widespread issue.

Recommendation:

Given the minimal number of SOS customers (less than 1%) that were impacted by the exclusion of SOS billing rates noted above, Atrium agrees with Pepco that this was not a widespread issue. However, Atrium recommends that the Billing Team ensure that at least one customer from each class and any subgroups of each rate class be selected for monthly testing to ensure that all SOS customers are correctly receiving the approved SOS Administrative rate charge.

Testing of Key Financial Controls

Atrium evaluated Key Financial Controls (“KFC”) surrounding the SOS Administrative Charge and selected for review the attributes for each KFC to ensure that controls are being properly performed and monitored by Pepco to mitigate the risk of errors in the SOS Administrative Charge calculation, and to provide assurance of detection should an error arise that affects the SOS Administrative Charge. The KFCs and audit testing performed are described below.

The KFCs identified below as they relate to the SOS, mitigate appropriate risks, such as:

- Deferrals being calculated using inaccurate or incomplete data
- Risk of inaccurate classification of regulatory assets and liabilities between current and non-current and inappropriate netting of regulatory assets and liabilities
- Changes as a result of the base case orders are not appropriately interpreted and implemented, operationally and financially
- All new regulatory orders or new transactions are not appropriately identified, communicated, considered and applied

- Accurate rate adjustments for each customer class are not being calculated and communicated to the billing staff
- Risk of inaccurate classification of regulatory assets and liabilities between current and non-current and inappropriate netting of regulatory assets and liabilities

KFC S.REG.02.02 – CONFORMANCE MEMO

When a new regulatory asset/regulatory liability (“RA/RL”) is required due to Public Service Commission (PSC) or Federal Energy Regulatory Commission (FERC) order, event, settlement, etc., an accounting Conformance Memo is prepared documenting the new RA/RL.

The accounting conclusions to support the creation of the new RA/RL Approval is denoted via sign-off on the Conformance Memo.

- Atrium requested copies of any Conformance Memos for the period under audit that documented a process change in the SOS Administrative Charge monthly deferral mechanism or model. Atrium found that Pepco had not developed any Conformance Memos related to the SOS Administrative Charge for the audit period, resulting in the below finding.

Conformance Memo

Atrium notes that according to Pepco, no conformance memos have been produced related to the SOS Administrative Charge for the period under audit; and that there were no changes requiring creation of a conformance memo during the requesting period.⁶³ However, per Order No. 21099 (January 14, 2022), the Commission allowed recurring incremental costs for purchase of electric supply from CREF and incremental CREF billing process expenses to be recovered through the SOS Administrative Charge. Additionally, per Order 21986 (May 1, 2024) the Commission emphasizes that costs of developing a system for CREFs should not be recovered through the Administrative Charge, but rather Pepco should recover through a rate assessment to subscribers. The Order further clarifies that costs related to reading, billing, or removal of Pepco’s installed meters at the CREF locations from June 1, 2022, onwards should not be included in SOS Administrative Charges. Atrium considers these changes to significantly impact the SOS Administrative Charge and warrant a Conformance Memo to memorialize Pepco’s understanding of which CREF charges are includable in the SOS Administrative Charge and which charges are explicitly excluded.

Recommendation:

Atrium recommends a written conformance memo be produced to document the procedure for properly capturing allowable CREF-related incremental expenses as part of the SOS Administrative Charge. This will ensure proper expense capture as well as ensuring duplication or misclassification of expenses does not occur.

⁶³ Pepco DR Response 2-3(b)

KFC S.REG.02.12 – DEFERRAL CALCULATION

On a monthly basis, the monthly calculation and journal entry for each deferral (over/under recovery calculation) is reviewed by the Revenue Accounting Manager or designee for completeness, accuracy, and validity.

- Atrium obtained evidence of the monthly review of the deferral (over/under calculation) for the months of November 2019, May 2020, June 2021, September 2021 and March 2022, with no exceptions.

KFC S.REG.02.18 – REGULATORY REVIEW OF THE SOS

Each quarter, the Regulatory Manager or designee performs a detailed review of Revenue Accounting's deferral calculations and sends the results of this review to Revenue Accounting via email. The Regulatory Compliance Manager or designee receives a copy of this correspondence as evidence of Regulatory's review.

The Revenue Accounting Manager or designee ensures that the checklist has been completed by the Revenue Accountant. The checklist ensures that the review is being completed for each quarter selected in a timely manner, responsible party for review, any follow-up questions, responses, and related conclusion. The review will be completed within 2 months after month-end.

- Atrium requested supporting documentation and evidence of the review and analysis of Revenue Accounting's deferral calculation performed once per quarter. Ensured evidence of variance analysis performed including results and follow-up. Atrium selected 10 months for testing throughout the period under audit, with no exceptions noted.

S.REG.02.25 – REGULATORY RECONCILIATION TO THE SOS FILING

Annually, Regulatory will perform a reconciliation of the SOS deferral accounts to the SOS annual filings. The results from each reconciliation are communicated to Revenue Accounting.

- Atrium tested KFC S.REG.02.25 by reviewing annual reconciliations for the period under audit to ensure regulatory assets and liabilities related to the SOS are complete, accurate and recorded in the correct period with evidence of review, sign-off and agreement to source data. No exceptions were noted.

S.REG.03.07 – RATE CARD REVIEW

Each month, upon occurrence of a rate change, the Rate Analyst will input rates into the Master Rate Card for the current month and prepare related support. This is reviewed by a Peer and a Manager or Designee, which attest to the completeness and accuracy of the rate entries.

For non-monthly rate changes, review approval is obtained from the Jurisdictional Manager or Designee.

Once the Rate Card is through review, the final Master Rate Card is emailed to the Rate Change Group which includes the Application Technology Team (AT). AT will input the rates into the SAP and Billing Expert (BE) billing systems and produce rate extracts from the systems.

The rate extracts are made available to the Regulatory Team to review, and this is compared against the Master Rate Card by a Rate Analyst and is reviewed by a Manager or Designee.

Once reviewed, the Rate Analyst will email the Rate Change Group approving the rate extract.

- Atrium reviewed Rate Cards from months selected to verify review and sign-off by key personnel. For months that have rate changes as it relates to the SOS Administrative Charge as a result of a Commission Order and resulting tariff, Atrium ensured that the appropriate level of documentation was utilized to input rates in the system followed by appropriate evidence of review and approval, with no exceptions noted.

S.REG.03.98 – BILL RATE ADJUSTMENTS

Each month, the Regulatory Department receives the SOS deferral balance from Revenue Accounting. The Rate Analyst reviews the deferral model and inputs the balances into a spreadsheet to calculate the rate adjustment by customer class for the next month based on the over/under collection and a forecast of kWhs.

The Regulatory Manager/Director reviews the rate adjustment calculation for reasonableness and ensures that the inputs tie to supporting documents (i.e. deferral calculation, approved kWhs, etc.).

The reviewer also verifies the notes and comments written by the Rate Analyst to ensure they are valid.

The Regulatory Manager or designee will reference the quarterly meetings with Revenue Accounting and the topics that were discussed to ensure that previously discussed issues are being reflected in the deferral models.

- Atrium obtained supporting documentation for the monthly Bill Rate Adjustments ensuring evidence of monthly review and sign-off for the months of November 2019, May 2020, June 2021, September 2021 and March 2022. No exceptions were noted.

Appendix B – Key Financial Controls

Key Financial Control	Description	Risks Covered/Objective of Control	Frequency
S.REG.02.02 - Conformance Memo	When a new material regulatory asset/regulatory liability (RA/RL) is required (due to Public Service Commission (PSC) or Federal Energy Regulatory Commission (FERC) order, event, settlement, etc.), an accounting conformance memo is prepared documenting the new RA/RL, and the accounting conclusions to support the creation of the new RA/RL. Approval is denoted via sign-off on the conformance memo. Additionally, for RAs/RLs that are accounted for using tracker mechanisms, the initial set-up of the mechanism (including inputs and accounting for over/under recovery) and any subsequent changes to the mechanism due to new/revised regulatory orders are reviewed and approved by Regulatory for conformance with regulatory orders/tariffs.	Risks Covered by Control: 1. Regulatory assets and liabilities do not qualify for recognition under ASC 980 2. All new regulatory orders or new transactions are not appropriately identified, communicated, considered and applied 3. Revenue does not qualify for recognition as an alternative revenue program 4. Risk of inaccurate classification of regulatory assets and liabilities between current and non-current and inappropriate netting regulatory assets and liabilities.	As needed
S.REG.02.18 – Regulatory Review	Each quarter, Regulatory Manager or designee performs a detailed review of Revenue Accounting’s deferral calculations and sends the results of this review to Revenue Accounting via email. Regulatory Compliance Manager or designee receives a copy of this correspondence as evidence of Regulatory’s review. The review will be completed prior to Accounting’s monthly close of the 2nd preceding month (i.e. if the month selected is January, the review is due by the last day of Accounting’s monthly close of March). The month chosen for the quarterly detailed review will be selected by Regulatory Management. This control is effective for the following deferrals: Pepco MD SOS, Pepco DC SOS, DPL DE SOS, DPL MD SOS, DE RPS, and DPL GCR.	The objective of the control is to confirm ongoing accounting for existing regulatory assets and liabilities including amortization and adjustments for over/under recovery are calculated accurately and completely. This includes ensuring amortization expenses, regulatory assets and regulatory liabilities related to the SOS/GCR/RPS mechanisms are complete, accurate and recorded in the correct period and supported with documentation. Specifically, the objective of the control is for Regulatory Affairs to review Revenue Accounting’s monthly deferral calculations for SOS, GCR and RPS deferral mechanisms.	Qtrly
S.REG.02.12 - Deferral Calculation	On a monthly basis, the Manager (PECO) or designee (PHI)/ Senior Manager (ComEd & BGE) reviews the over / under recovery calculation for material tracker mechanisms for accuracy and reasonableness.	The objective of the control is to confirm ongoing accounting for existing regulatory assets and liabilities (including amortization and adjustments for over/under recovery) are calculated accurately and completely. This includes ensuring adjustments, amortization expenses, regulatory assets and regulatory liabilities are complete, accurate, recorded in the correct period and supported with documentation. This also ensures accurate classification of regulatory assets and liabilities between current and non-current and netting of regulatory assets and liabilities.	Monthly
S.REG.02.25 - Regulatory Reconciliation to SOS Filings (Annual)	Annually, Regulatory will perform a reconciliation of the SOS deferral accounts to the SOS annual filings. The results from each reconciliation will be communicated to Revenue Accounting. This control is effective for the following SOS deferrals/Filings: DPL Delaware and Maryland, PEPCO Maryland and DC. Regulatory Manager or designee maintains a file of all email correspondence. The email from Regulatory Affairs to Revenue Accounting acknowledging review and sign-off of the reconciliation serves as management’s evidence of review.	The objective of the control is to confirm amortization expenses, regulatory assets and regulatory liabilities related to the SOS/RPS mechanisms are complete, accurate and recorded in the correct period and supported with documentation. This ensures ongoing accounting for existing regulatory assets and liabilities including amortization and adjustments for over/under recovery are calculated accurately and completely.	Annual
S.REG.03.07 - Rate Card Review	Upon occurrence of a rate change, the Subject Matter Experts (SMEs) update the Master rate cards for changes. Review approvals are obtained from the SMEs’ Managers or designee, which attest to the completeness and accuracy of the rate entries, prior to forwarding the master rate card to Application Technology (AT) group. For non-monthly rate changes, review approvals are also obtained from the Jurisdictional managers or designee. (For rates based on legislation, as opposed to a Commission order, notification of rate updates is received from Government and External Affairs.) Once AT group receives the master rate card, AT will provide either a pre-production report extract from the billing system to the SMEs or a billing extract report to the SME within 1 day of entering the new rates into production. SMEs will confirm requested rate changes have occurred and send approval of billing extract report to AT.	The objective of this control is to review and communicate rate changes resulting from the base cases orders to ensure that these changes are appropriately interpreted and implemented, operationally and financially.	Monthly
S.REG.03.98 - Bill Rate Adjustments - SOS and BSA	SOS and BSA Regulatory calculates SOS and BSA rate adjustments by customer class for customers subsequent bill based upon the deferral balance and a forecast of kwh. After Regulatory Manager’s or designee’s review, the rates are distributed by the Regulatory Group via email in accordance with the Rate Card process designated in control S.REG.03.07. Regulatory Manager or designee maintains a file of all email correspondence.	To ensure that the accurate rate adjustments (i.e., PCA, AC and Ancillary) for each customer class is being calculated and communicated to the billing staff.	Monthly

