

PECO ENERGY COMPANY (“PECO”)

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

2025 FORMULA RATE UPDATE Docket No. ER17-1519

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January 26, 2026

PAIEUG in accordance with PECO Energy Company’s (“PECO” or “Company”) Formula Rate Implementation Protocols set forth in its Attachment H-7C, the Philadelphia Area Industrial Energy Users Group (“PAIEUG”) hereby submits its Preliminary Challenges pertaining to PECO’s May 29, 2025 Informational Filing of its 2025 Formula Rate Annual Update in FERC Docket No. ER17-1519 (“2025 Update”).

These Preliminary Challenges are divided into two sections. In Section A, PAIEUG describes items that PAIEUG understands have been resolved by way of PECO’s responses to certain of PAIEUG’s discovery requests. PAIEUG requests confirmation that PECO agrees those items are resolved as described below. To the extent PECO disagrees that those items are resolved, PAIEUG asserts its challenge to them. In Section B, PAIEUG describes issues to which it raises challenges with respect to PECO’s 2025 Update.

A. RESOLVED ISSUES

PAIEUG PC-1 Distribution-related Materials & Supplies in Transmission

In reference to PECO’s response to PAIEUG-1-2, PECO agreed to make the following correction: “PECO identified Distribution-related Materials & Supplies averaging \$2,188,386 in the Transmission 13-month average. PECO will incorporate the impact of this revision, which is a \$212,051 decrease to the 2024 revenue requirement, in the next Annual Update with interest.”

PAIEUG PC-2 Excess Costs Recorded to FERC Account 107

In reference to PECO’s response to PAIEUG 1-40, PECO agreed to make the following correction: “PECO will reverse excess costs recorded to FERC Account 107 and record them in FERC A&G accounts in 2025. The Transmission portion of the A&G in the 2025 journal entry will be included in the 2025 ATRR to be submitted in 2026 (without interest charged to the formula rate), and PECO does not propose an adjustment to the 2024 ATRR, as this only reflects an immaterial timing difference. Note that FERC Account 107 does not impact the ATRR.”

PAIEUG PC-3 Items booked to Account 228.2-Accumulated Provision for Injuries and Damages

In reference to PECO’s response to PAIEUG 1-60, PECO agreed to make the following correction: “Note that \$2,000,000 of the \$44,985,026 charged to FERC account 228.2 in March 2024 was inadvertently excluded from the 2024 Transmission Formula Rate, specifically related to Long Term Public Claims. PECO will incorporate the impact of this revision, which is a \$1,524 decrease to the 2024 revenue requirement, in the next Annual Update with interest.”

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PAIEUG PC-4 Expenditures for lobbying and other civic, political, and related activities in A&G Accounts 920-935 and O&M Accounts 560-573 in 2024.

In reference to PECO’s response to PAIEUG 1-79, PECO agreed to make the following correction: “PECO identified \$36,539 of lobbying expenses that were inadvertently recorded above the line. PECO will incorporate the impact of this revision, which is a \$3,940 decrease to the 2024 revenue requirement, in the next Annual Update with interest. With respect to subpart e., payments made to social and service organizations were recorded in A&G Account 930.2 and not included in PECO’s Formula Rate Update.”

B. UNRESOLVED ISSUES

PAIEUG PC-5 Inclusion of Depreciation Expenses from Service Company on PECO’s Books

In reference to PECO’s response to data requests PAIEUG-1-17, PAIEUG-1-18, PAIEUG-1-19, and PAIEUG-3-4 with regard to the amounts recorded in Account 403-403.1 (Depreciation Expense) and Account 404-405 (Amortization Expense) in the Q4-2023 Form 60 of EBSC, the data requests asked PECO to provide the complete calculation of the reported amounts for depreciation expense and amortization expense for 2024 on the most detailed account basis available. The data requests also asked for a year-over-year calculation of each service company’s Account 108 and Account 111 for each of the past three years, and PHISCO and EBSC depreciation expense amounts allocated to PECO and recorded in 2024, by FERC account. In addition, PAIEUG requested supporting documentation as to how the amounts were derived, including any assumptions or allocations utilized. PECO responded that “Given that this request pertains to the Form 60 and addresses Service Company depreciation and amortization, this information is beyond the scope of PECO’s Annual Formula Rate Update.” PAIEUG challenges these amounts given the fact that PECO responded that it has recorded this depreciation on its books, and PAIEUG believes it is unreasonable to claim that this request is beyond the scope of the rate filing when the expenses are charged through the transmission rate. PAIEUG requests that PECO provide the source of the depreciation rates, if reported anywhere, and how those rates were calculated, including parameters (i.e., life, net salvage) and depreciation technique used (i.e. remaining life, whole life).

PAIEUG PC-6 Improper Recording of Amounts to A&G Accounts Instead of the Proper Operating Unit Activity

Attachment PAIEUG 3-3(a) includes \$96,364 identified as "G&A Alloc only - gas expense" directly assignable to Gas operations.

Even though A&G costs are allocable, they are also directly assignable as demonstrated on 5B - A&G Account 928. Allocation of directly assignable Gas costs inflates cost

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recovery in the transmission formula rate and, overall, in electric rates, and creates cost subsidization of a non-electric business unit.

For the foregoing reasons, PAIEUG challenges the \$96,364 of gas-related expenses included in Account 920 as they are not related to electric operations and therefore, should be excluded from the 2025 Update.

PAIEUG PC-7 Unfunded Reserves for “Non-Pension PostRetire BenfObl”

In response to PAIEUG 1-61 and in the “Confidential Attachment PAIEUG 1-60(a)” Excel rows 13 - 17, PECO lists the various components/items of FERC Account 228.3 for the thirteen months 12/31/2023 - 12/31/2024 and the 13-month average of each. PECO has not included any of the “Non-Pension PostRetire BenfObl” amounts as being Unfunded Reserves. In footnote A of the attachment, PECO claims these amounts are in a restricted account, but these amounts appear to be the amounts retained by the Company before moving them to a restricted account; therefore, they should be included as offsets to rate base until they have been transferred. PAIEUG challenges PECO’s exclusion of this balance from the Unfunded Reserves in rate base in the 2025 Update. (See also PAIEUG 1-86 and PAIEUG 2-63)

PAIEUG PC-8 Unfunded Reserves for “Account Payable Other”

In response to PAIEUG 1-62 and in the “Confidential Attachment PAIEUG 1-60(a)” Excel rows 21 - 24, PECO lists the various components/items of FERC Account 228.4 for the thirteen months 12/31/2023 - 12/31/2024 and the 13-month average of each. PECO has not included any of the component “Account Payable Other” as an Unfunded Reserve. In footnote C of PECO’s attachment, PECO states that “Account Payable Other within 228.4 include invoiced amounts that are paid out in the near term.” However, it is unclear why these amounts are being included in a long-term account if they are paid out in the near term. PAIEUG requests further clarification on the cycle in which these amounts are accrued and paid out, along with an identification as to whether there are any long-term amounts included in this balance. (See also PAIEUG-1-86 and PAIEUG-2-63)

PAIEUG PC-9 Distribution Assets Improperly Included as Transmission Plant

In reference to PECO’s responses to PAIEUG-1-82 and “Attachment PAIEUG-1-82(a),” based on the voltage level of this asset, it appears that it should be considered a distribution switchyard. For the foregoing reasons, PAIEUG challenges inclusion of this asset in transmission as it should be considered distribution. In addition, there appears to be general plant assets (e.g. trailers) that should be recorded to Account 392 – Transportation Equipment. To the extent that PECO disagrees with PAIEUG, PAIEUG

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requests that PECO provide a one-line diagram and identify on the diagram where the work being performed relates in order to support the Company’s position.

- a. [27GPLSNON] - PLYMOUTH SB Non Routine in the amount of \$18,867.08
- b. [27GPLTNON] - Plymouth Trailers Non Routine in the amount of \$4,147.45
- c. [27GPLYMTR] - PLYMOUTH TRAILERS in the amount of \$9,526.40
- d. [ECLAEEXP0] - Civic Switchyard; Land Acq O&M in the amount of \$942,486.37
- e. [ETS6637E2] - Civic 6637 UGT Line Reconduct in the amount of \$104,127.79

PAIEUG PC-10 PECO’s Treatment of Capitalized Labor

In reference to PECO’s responses to PAIEUG-1-75 related to PECO’s treatment of capitalized labor, PECO stated, “PECO objects to the question (and various subparts) as unduly burdensome and beyond the scope of the annual update. The questions are not directly related to whether the Company’s 2025 Formula Rate has been properly applied.” PAIEUG challenges this response on the basis that this information is relevant to the 2025 Annual Update, as PECO has capitalized labor and included amounts in plant accounts charged through the transmission formula rate. For reference, the FERC’s audits of ComEd and FirstEnergy determined that the overstatement of capitalized labor resulted in an over-collected return from transmission ratepayers.^{1, 2}

From FA19-1-000:

"Audit staff’s recommendations to remedy the audit findings are listed below. “Details are in Section IV. Audit staff recommends that FirstEnergy:...9. Submit a refund analysis to DAA that explains and details the following: (1) calculation of refunds that result from correcting the overstatement of transmission plant due to the improperly capitalized labor costs, as determined by the labor time study, plus interest; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) refunds will be made.”

¹ Letter order issued to FirstEnergy Corporation approving the final audit report covering the period January 1, 2015, to September 30, 2021, under Docket No. FA19-1-000.

² Letter order issued to Commonwealth Edison Company approving the final audit report covering the period of January 1, 2017 through August 31, 2022, under Docket No. FA21-5-000.

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From FA21-5-000:

“DAA recommends that ComEd...13. Retain an independent third-party entity to conduct a representative labor-time study for allocation of overhead costs incurred in 2023, and to assist with the development of procedures ComEd shall use after 2023 to periodically determine the allocation of overhead labor and labor-related costs capitalized by ComEd into the cost of construction...19. Submit a refund analysis to DAA that explains and details the following: (1) calculation of refunds, plus interest, that result from correction of the overstatement of electric plant in service due to the improper capitalization of labor costs, as determined by the labor time study conducted in response to Recommendation No. 13, from January 1, 2021 to the present; (2) determinative components of the refund; (3) refund method; (4) wholesale transmission customers to receive refunds; and (5) period(s) in which refunds will be made...21. Refund amounts disclosed in the refund report to wholesale transmission customers, with interest calculated in accordance with section 35.19a of the Commission’s regulations”

Based on the analysis provided by FERC, there were impacts related to the improper capitalization of labor on the transmission formula rate. Therefore, PAIEUG’s inquiries are relevant to PECO’s Annual Update.

Additionally, in PECO’s response to PAIEUG 3-11, PECO reiterated its objection that PAIEUG’s request is “unduly burdensome and beyond the scope of reasonable discovery. There is no one source of data for this request and the Company is not required to produce information that is not readily available or would be overly burdensome to produce.”

It is unclear to PAIEUG how it can be overly burdensome for PECO to confirm it has not capitalized labor in its 2025 Annual Update and to identify the extent that PECO has included capitalized labor in its 2025 Annual Update. PAIEUG is also unclear as to how it is overly burdensome for PECO to provide an explanation as to how the capitalization rates, which are then applied to labor and included in rate base, do not apply to the 2025 Annual Update, as well as explain how the customers are not being charged for capitalized labor.

Furthermore, FERC’s General Instructions pertaining to records states:

General Instruction 2. Records.

A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as

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to be able to furnish readily full information as to any item included in any account.

Moreover, PECO’s Protocols in ER17-1519 specify in Section III. Information Exchange Procedures Each Annual Update and projected net revenue requirement shall be subject to the following information exchange procedures:

4. the accuracy of data and consistency with the Formula Rate of the calculations shown in the Annual Update and projected net revenue requirement;
5. the prudence of actual costs and expenditures;
7. any other information that may reasonably have substantive effect on the calculation of the charge pursuant to the Formula Rate.

Based on PECO’s Protocols, the information requested is a reasonable attempt to ascertain the accuracy of the data, consistency of application and the substantive effect of the calculation of the charge pursuant to the formula rate. The Protocols do not specify a limitation on the type, quantity, or burden of providing such information. In other words, PAIEUG’s requested information is not beyond the scope of reasonable discovery.

For the foregoing reasons, PAIEUG challenges the inclusion of all capitalized labor until the requested information in PAIEUG-1-75 and PAIEUG-3-11 is provided.

PAIEUG PC-11 Missing Affiliate Reimbursements to Offset Expenses Included in the Transmission Formula Rate

In reference to PECO’s response to PAIEUG 2-59 and based on “Attachment PAIEUG 2-59(a),” PECO states that it has included the reimbursements for Accounts 408.1, 920 and 926 based on a W&S allocator but it is unclear how those reimbursements are being treated. PAIEUG challenges PECO’s treatment until PECO clarifies whether these reimbursements are offset to each account or whether they are being included as a revenue credit. PECO must also identify where in the formula rate template these revenues are included.

PAIEUG PC-12 Potential Impermissible Gas Operations Expenses Included in Account 923

In reference to PECO’s response to PAIEUG 2-76, “Attachment PAIEUG-2-76(a)” Column FERC ID entries in Account 923 under the Column “Proj – Descr” that state “EU GIS Elec/Gas Impl O&M” in the amount of \$92,229, to the extent that PECO has included the portion related to Gas Operations expenses, PAIEUG challenges the

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inclusion of such expenses in the 2025 Update, as the expenses associated with these activities are impermissible to be included in wholesale transmission rates.

PAIEUG PC-13 Exelon Way Severance Expenses Inappropriately Recorded in Account 923

In reference to PECO’s response to PAIEUG 2-76, “Attachment PAIEUG-2-76(a)” Column FERC ID entries in Account 923 under the Column “Proj – Descr” that states “Exelon Way Severance” in the amount of \$544,429, it appears this amount may be associated with severance packages as a result of the divestiture of Exelon Generation and should be excluded from the formula rate template in accordance with the Hold Harmless Commitment. For the foregoing reasons, PAIEUG challenges the inclusion of this expense in the 2025 Update as PECO customers should be held harmless.

PAIEUG PC-14 Non-responsive Data for Account 921 – Office Supplies and Expenses

In reference to PECO’s response to PAIEUG 1-83, “Attachment PAIEUG-1-83(a)” PECO did not provide the detailed journal entries as requested. The lack of data provided did not allow PAIEUG to fully review these expenses. (See PECO’s response to 2021 ATRR’s PAIEUG I-97 for an example of a more detailed response.) Therefore, PAIEUG challenges the expenses included in this account until this detail is provided.

PAIEUG PC-15 Impermissible Lobbying, Political or Civic Type Expenses Included in Account 921

In reference to PECO’s response to PAIEUG 1-83, “Attachment PAIEUG-1-83(a)” Column Project, PECO has included expenses associated with “[GOVAFOTHR] Misc. costs-Governm. Affairs” in the amount of \$130,375 in Account 921. These expenses appear to be related to lobbying, political or civic expenses that should be recorded to Account 426.4 - Expenditures for Certain Civic, Political and Related Activities. For the foregoing reasons, PAIEUG challenges the inclusion of these types of expenses in the 2025 Update.

PAIEUG PC-16 Impermissible Social, Charitable or Community Welfare Expenses Recorded in Account 921

In reference to PECO’s response to PAIEUG 1-83, “Attachment PAIEUG-1-83(a),” Column Project, PECO has included expenses associated with “[EXRLVOLUN] Corp Relations Volunteer Costs” in the amount of \$46,473 in Account 921. These costs appear to be related to charitable or civic activities that should be recorded below the line to Account 426 (e.g. Account 426.4). Furthermore, it is unclear whether any of these costs include grant money or other funds to support charitable or civic organizations. For the foregoing reasons, PAIEUG challenges the inclusion of these costs in the transmission formula rate.

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PAIEUG PC-17 Impermissible Advertising Expenses in Account 921

In reference to PECO’s response to PAIEUG 1-83, “Attachment PAIEUG-1-83(a),” Column Project, PECO has included the following marketing and advertising type expenses in Account 921. These expenses should be recorded Account 930.1, General Advertising Expenses, per the FERC USofA. For the foregoing reasons, PAIEUG challenges the inclusion of the following expenses in the 2025 Update as they appear to be advertising or corporate image-related expenses.

- a. [EXRLPSCTB] Public Relations Services in the amount of \$2,817
- b. [EXRLPSEXP] Explorers Public Relations in the amount of \$3,894

PAIEUG PC-18 Impermissible Donations, Civic or Goodwill Activities Recorded in Account 921

In reference to PECO’s response to PAIEUG 1-83, “Attachment PAIEUG-1-83(a),” Column Project, the following expenses have been recorded in Account 921 but should have been recorded to a below the line 426 Account as these costs are goodwill/civic in nature.

- a. “[EXRLUNITE] Corp Relations United Way Cost” in the amount of \$10,408. It appears that these costs are related to education programs in school grades 3-12, which, according to these programs, include cash grants.
- b. “[INNOVATE1] PECO INNOVATION PROGRAM” in the total amount of \$83,984. It appears that these costs are goodwill/civic in nature to assist education programs in school grades 3-12.³

PAIEUG PC-19 Non-responsive Data Provided for Account 923

In PAIEUG 1-84, PAIEUG requested “In reference to PECO’s 2024 FERC Form 1 Pages 320-323 (Electric Operation and Maintenance Expenses), Line 184, Account 923 - Outside Services Employed, please provide a detailed tabulation (Excel format) of every entry booked to this account during 2024 in the amounts \$110,618,554, including name, description of category or type, detail journal entries and associated amounts. This detail should not be summary level and should be taken directly from the accounting system or if initially charged from the service company should demonstrate the detail of what the original cost represents including detailed journal entries of the work being performed.” In response to PAIEUG 1-84, PECO provided high-level summary data for Account 923. This data does not provide the detailed information requested (i.e. detailed journal entries which would have included vendor names and detailed project descriptions). PAIEUG

³ <https://www.need.org/programs/peco/>

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challenges the expenses included in Account 923 until this information is provided (See PECO’s response example in 2022 Annual Update discovery request PAIEUG I-123).

PAIEUG PC-20 Advertising Expenses in Account 923

In reference to PECO’s response to PAIEUG 1-84, “Attachment PAIEUG-1-84(a),” the following expense appears to be for advertising and public relations services that are general advertising expenses aimed at promoting PECO’s image and, therefore, should have been recorded to Account 930.1.

- a. Excel Row 52 - [514071] Advertising Services in the amount \$292,090

For the foregoing reasons, PAIEUG challenges this expense being included in Account 923, as it should have been included in Account 930.1 and removed from the 2025 Update.

PAIEUG PC-21 SPP Charges Inappropriately Included in Account 923

In reference to PECO’s response to PAIEUG 1-84, “Attachment PAIEUG-1-84(a),” Excel 90 - [BITA673P] SPP Market Event in the amount of \$77,630, the SPP charge appears to be coming through PECO, however, PECO participates in the PJM RTO. PAIEUG challenges this charge on the basis that PECO is not a member of the SPP RTO. For the foregoing reasons, PAIEUG challenges this expense as being included in Account 923 as it do not appear to provide a benefit to PECO’ transmission customers.

PAIEUG PC-22 Improper Inclusion of Mutual Assistance Expenses in the Transmission Formula Rate

In response to PAIEUG 2-44, PECO states, “With respect to mutual assistance with affiliates, PECO’s expenses and revenues are charged to FERC Accounts 588 miscellaneous distribution expenses and 456 other electric revenue.”. However, in PECO’s response to PAIEUG 2-59 and the attachments provided, PECO included \$9,720 in Account 926 and \$6.,132 in Account 408.1 associated with mutual assistance. Therefore, it does not appear that PECO has properly removed all of the mutual assistance expenses from the 2025 Update. For the foregoing reasons, PAIEUG challenges the inclusion of amounts included in Account 926 and Account 408.1 in the 2025 Update in the transmission formula rate.

PAIEUG PC-23 Financial and Communication Services Included in Account 924 – Property Insurance

In reference to PECO’s response to PAIEUG 2-51 and the attachment provided, the response does not show what type of insurance/vendor name has been recorded to this account. It appears that, based on the information provided, this insurance is related to

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financial services that are not associated with property insurance. For the foregoing reasons, PAIEUG challenges the inclusion of the amounts included in Account 924 until further information can be provided by PECO as originally requested by PAIEUG.

PAIEUG PC-24 Executive Incentive Compensation Included in Transmission Rate

In reference to PECO’s response to PAIEUG 1-15, PECO appears to include the executive incentive compensation related to EPS in the 2025 Update. The EPS target benefits shareholders, not ratepayers, and should be excluded.

PAIEUG PC-25 Non-Electric ADIT Included in the Formula Rate

In reference to PECO’s response to PAIEUG 2-66, the Environmental Liab – Superfund in the amount of \$380,289 represents the ADIT associated with unfunded environmental liabilities included in rate base. This ADIT is related to environmental remediation of a Manufactured Gas Plant (FERC Form 1, Notes to FS - Environmental Remediation Matters).

The environmental remediation ADIT is not related to electric operations and should be excluded from the 2025 Update.

PAIEUG PC-26 Affiliate Amortization Included in Account 923

In reference to PECO’s response to PAIEUG 1-20 and PAIEUG 3-5, EBSC allocated \$1,278,244 of amortization to PECO, stating that the software capitalized at EBSC supports the IT infrastructure portfolio, which supports the corporate network and related operating systems. PECO further states that \$1,278,244 was recorded to FERC Account 923.

General Instruction 14. Transactions With Associated Companies (Major Utility) states, in part, that “[t]ransactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature.” Ergo, the affiliate is treated as a department of the company, not as an outside service.

PAIEUG challenges the inclusion of \$1,278,244 related to amortization of affiliate assets in Account 923, as the \$1,278,244 should be moved to Account 404.

PAIEUG PC-27 Inclusion of Grants in Account 566

In reference to PECO’s responses to PAIEUG 1-82 and PAIEUG 3-12, PECO states that \$225,975.56 of “[DOEIIJAGR] DOE IJJA Grant” expense is associated with activities funded under the Department of Energy’s Infrastructure Investment and Jobs Act (IJJA) Grant. The grant supports initiatives aimed at strengthening energy infrastructure, enhancing grid reliability, and meeting federal objectives for modernization and

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resilience. These costs reflect PECO’s participation in federally sponsored programs to improve transmission capabilities.

PAIEUG challenges the inclusion of \$225,975.56 in grant expenditures included in Account 566 with no offsetting grant receipts. PAIEUG requests further information on the amount of the grant received, when such grant amounts were received, and where such grant amounts were recorded upon receipt.