DUQUESNE LIGHT COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION

Evaluating the Implementation of Selected Recommendations from the 2013 Focused Management and Operations Audit Report

**Prepared by the
Pennsylvania Public Utility Commission
Bureau of Audits**

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PENNSYLVANIA PUC
PUBLIC UTILITY COMMISSION

DUQUESNE LIGHT COMPANY
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I. INTRODUCTION

A. Background

In January 2012, the Management Audit Division (Audit Staff) of the Pennsylvania Public Utility Commission's (PUC or Commission) Bureau of Audits initiated a Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company). The Audit Staff subsequently completed its work and, in February 2013, issued a final report containing ten recommendations for improvement. Duquesne Light submitted its Implementation Plan on February 19, 2013, indicating acceptance of all recommendations. On March 14, 2013, at D-2011-2269361, the Commission made both the audit report and Implementation Plan public and directed the Company to:

- Proceed with its February 19, 2013 Implementation Plan.

- Submit progress reports on the implementation annually, by March 1, for the next three years.

Since February 2013, Duquesne Light has submitted two Implementation Plan updates as requested by the Commission to ascertain the Company's progress in implementing the recommendations from the management audit report. Based on a review of these updates, the Audit Staff elected to conduct a Management Efficiency Investigation (MEI) of Duquesne Light's progress in implementing all ten of the original recommendations.

B. Objective and Scope

The objective of this MEI was to review and evaluate the effectiveness of Duquesne Light's efforts to implement the recommendations contained in the Focused Management and Operations Audit Report released in March 2013. The scope of this evaluation was limited to the Company's efforts in implementing all ten prior management audit recommendations in the functional areas of:

- Corporate Governance
- Executive Management
- Financial Management
- Affiliated Interests
- Transmission & Distribution
- Customer Service

In addition, the Audit Staff performed an updated review of the Emergency Preparedness functional area.

C. Approach

This MEI was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). Actual field work began on February 17, 2015 and continued through April 23, 2015. The fact gathering process included:

- Interviews with Duquesne Light personnel.

- Analysis of selected Company records, documents, reports, and other information for the period 2010 through February 2015.

II. SUMMARY OF MANAGEMENT EFFECTIVENESS AND OPERATIONAL EFFICIENCY

The Audit Staff found that Duquesne Light has effectively or substantially implemented nine of the ten prior Management Audit recommendations reviewed and has taken some action on the remaining recommendation. Among the more notable improvements achieved by the management of the Company are:

- Duquesne Light established a procedure in which it requires the external auditor to present its staff rotation policy to Duquesne Light's Audit Committee for review and approval on an annual basis.

- Duquesne Light completed an assessment of its management structure and spans of control, and adjusted reporting relationships, where appropriate, to eliminate unjustified low or high spans of control.

- Duquesne Light provided a detailed written explanation within 30 days of public release of the Management Audit report for dividend payments that exceeded 85% of net income in 2010 and 2011, and indicated that it would provide advance notice and explanation to the Commission for future annual dividend payments which exceed 85% of net income.

- Duquesne Light initiated an internal audit of its cost allocation process in March 2015.

- Duquesne Light developed a cost allocation manual (CAM) that follows National Association of Regulatory Utility Commissioners (NARUC) Guidelines.

- Duquesne Light completed a comprehensive staffing study and identified the major drivers for overtime.

- The Company now actively tracks and monitors third-party damages and claims via an improved database.

- Duquesne Light reduced overall customer arrearages and compares more favorably with a panel of other Pennsylvania electric distribution companies (EDCs).

- Duquesne Light significantly improved its average response time to residential consumer complaints and payment agreement requests (PARs) in 2013.

While these accomplishments are commendable, the Audit Staff has identified further improvement opportunities in certain areas. In particular, Duquesne Light needs to:

- Identify all options for ensuring proper staffing levels for field operations craft workers while additionally striving to limit the number of employees working excessive amounts of overtime.

- Create new and/or modify existing safety programs and awareness efforts in order to meet the internally established Occupational Safety and Health Administration (OSHA) goals.

- Establish goals for collection agency performance based upon the percentage of net dollars collected.

- Include all local emergency service and PUC contacts in the Emergency Operations Plan and update at least annually.

Exhibit II-1 summarizes the 10 prior recommendations reviewed and the Audit Staff's follow-up findings, conclusions, and recommendations.

DUQUESNE LIGHT COMPANY
MANAGEMENT EFFICIENCY INVESTIGATION
SUMMARY OF FEBRUARY 2013 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Prior MA Recommendations	MEI Follow-up Findings And Conclusions	MEI Follow-up Recommendations
III. CORPORATE GOVERNANCE		
Rotate the external audit firm on a periodic basis or, at a minimum, ensure the external audit firm has established a policy to periodically assure rotation of its audit manager and audit teams.	III-1 - Duquesne Light has established a procedure in which it requires the external auditor to present its staff rotation policy to Duquesne Light's Audit Committee for review and approval on an annual basis.	None
IV. EXECUTIVE MANAGEMENT		
Examine the overall management structure of Duquesne Light periodically and adjust reporting relationships, where appropriate, to eliminate unjustified low or high spans of control.	IV-1 - Duquesne Light completed an assessment of its management structure and spans of control, and adjusted reporting relationships, where appropriate, to eliminate unjustified low or high spans of control.	None
V. FINANCIAL MANAGEMENT		
Submit a detailed, written explanation for each dividend payment exceeding 85% of net income to the Commission within 30 days after public release of this audit report, and ensure that advance notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.	V-1 - Duquesne Light provided a detailed written explanation within 30 days of public release of the Management Audit report for dividend payments exceeding 85% of net income in 2010 and 2011, and indicated that it would provide advance notice and explanation to the Commission for future annual dividend payments which exceed 85% of net income.	None

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SUMMARY OF FEBRUARY 2013 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Prior MA Recommendations	MEI Follow-up Findings And Conclusions	MEI Follow-up Recommendations
VI. AFFILIATED INTERESTS		
Conduct periodic internal audits of the entire cost allocation process.	VI-1 - An internal audit of the cost allocation process was initiated in March 2015.	None
Develop a comprehensive cost allocation manual (CAM) to provide step by step guidance in processing cost allocations and help ensure uniformity in the handling of affiliate transactions.	VI-2 - A CAM has been developed at Duquesne Light that follows National Association of Regulatory Utility Commissioners (NARUC) Guidelines.	None
VII. TRANSMISSION & DISTRIBUTION		
Conduct a staffing study to analyze the costs and benefits of reducing overtime through various practices such as adjusting levels of shift work, relocating personnel between districts, hiring additional craft workers, and/or using more outside contractor hours.	VII-1 - The Company completed a comprehensive staffing study and identified major drivers for overtime.	None
	VII-2 - Individual employees have incurred excessive amounts of overtime.	Identify all options for ensuring proper staffing levels for field operations craft workers while additionally striving to limit the number of employees working excessive amounts of overtime.

DUQUESNE LIGHT COMPANY
MANAGEMENT EFFICIENCY INVESTIGATION
SUMMARY OF FEBRUARY 2013 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Prior MA Recommendations	MEI Follow-up Findings And Conclusions	MEI Follow-up Recommendations
VII. TRANSMISSION & DISTRIBUTION (CONT.)		
Expand the databases used to track and monitor third-party damage and claims to include all pertinent information regarding types of damages, names of parties, invoiced amounts, settled amounts and settlement reason in order to better identify the causes of and control of third-party damages.	VII-3 - The Company actively tracks and monitors third-party damages and claims through the creation of an improved database.	None
Strive to achieve average or better Occupation Safety and Health Administration (OSHA) recordable incident rates by monitoring and continually modifying safety programs to address safety programs to address the most current safety issues at the Company.	VII-4 - Duquesne Light has lowered its OSHA Recordable Rate but has not reached its internal goal.	Create new and/or modify existing safety programs and awareness efforts in order to meet the internal OSHA goals.
VIII. CUSTOMER SERVICE		
Enhance current measures to reduce residential customer arrearages.	VIII-1 - Duquesne Light has reduced overall customer arrearages and compares more favorably with a panel of other Pennsylvania electric distribution companies (EDCs).	None

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SUMMARY OF FEBRUARY 2013 MANAGEMENT AUDIT RECOMMENDATIONS AND STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Prior MA Recommendations	MEI Follow-up Findings And Conclusions	MEI Follow-up Recommendations
VIII. CUSTOMER SERVICE (CONT.)		
Examine potential policy, procedure, and staffing level changes that may be necessary to efficiently respond to the increasing levels of customer complaints and Payment Arrangement Requests with the PUC's Bureau of Consumer Services.	VIII-2 - Duquesne Light's average response time to residential consumer complaints and payment arrangement requests (PARs) in 2013 has improved significantly.	None
	VIII-3 - Collection agency performance is incentivized on a gross collection basis instead of a net collection basis.	Establish goals for collection agency performance based upon the percentage of net dollars collected.
IX. EMERGENCY PREPAREDNESS		
	IX-1 - The Emergency Operations Plan does not contain local municipal police, fire, and emergency medical service contacts nor does it contain PUC contacts.	Include all local emergency service and PUC contacts in the Emergency Operations Plan and update at least annually.

III. CORPORATE GOVERNANCE

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361, contained one recommendation within the Corporate Governance chapter. The Audit Staff rated this functional area as needing minor improvement. In this chapter, the prior recommendation and prior situation are reviewed and one follow-up finding is presented.

Prior Recommendation – Rotate the external audit firm on a periodic basis or, at a minimum, ensure the external audit firm has established a policy to periodically assure rotation of its audit manager and audit teams.

Prior Situation – Duquesne Light had used Deloitte & Touche LLP for its annual external audits since it was formed via merger in 1990 and predecessor firms of Deloitte & Touche LLP since at least 1961. The Audit Staff asserted that it was a best practice to periodically rotate the external auditor every five to ten years in order to avoid the complacency which can develop when the same external audit firm is used for an extended number of years, thereby lessening the objectivity of the audit. The Audit Staff also suggested that an alternative to audit firm rotation would be for the external audit firm to follow a policy which assures the periodic rotation of the audit manager and entire audit team assigned to perform the audit. This alternative to audit firm rotation would be in addition to Duquesne Light's policy of assuring the external audit firm rotates its engagement partner on every seven years. Such actions would show a willingness of Duquesne Light to promote auditor independence in a manner similar with publicly owned companies who must abide by the Sarbanes-Oxley Act of 2002 (SOX) and the corporate governance rules of the New York Stock Exchange (NYSE).

Follow-up Finding and Conclusion No. III-1 – Duquesne Light has established a procedure in which it requires the external auditor to present its staff rotation policy to Duquesne Light's Audit Committee for review and approval on an annual basis.

Duquesne Light surveyed peer utilities in the fourth quarter of 2013 through the Edison Electric Institute (EEI) Accounting Standards Committee to garner electric utility industry perspectives related to audit firm rotation. Organized in 1933, EEI is an association that represents its members (which are 70 U.S. investor-owned electric utilities) and provides public leadership, strategic business intelligence, and essential conferences and forums. Questions included in the survey were as follows:

a. Do any companies have a formal external audit firm rotation policy? If so, please describe the policy.
b. How long has your current external audit firm been engaged at your company?

The Company received responses from seven peer utilities in the fourth quarter of 2013. The results of the survey showed that all seven utilities responding had no formal external audit firm rotation policy. In addition, the range of years for which external audit firms have been engaged ranged from one year to greater than 80 years.

The Company presented Deloitte & Touche's audit staff rotation policy to the Duquesne Light Audit Committee at its November 2013 meeting for review and approval. In addition, Duquesne Light established an internal policy in November 2014 to annually present the external audit firm's staff rotation policy to Duquesne Light's Audit Committee. Deloitte & Touche's audit staff rotation policy as of November 2014 for its clients (including Duquesne Light) is as follows:

- Audit Engagement Partner, Other Audit Partners – seven years, although exception may be granted to extend to ten years (there is a two year time-out period after a term has been served).
- Engagement Quality Control Reviewers – not subject to rotation.
- Senior Manager, Manager, Accountant In-Charge, Field Senior Auditor – seven years in each position, although exception may be granted to extend to ten years.

Historically, Duquesne Light has performed a competitive bid process for external audit services every three years as a means to obtain competitive fees and consider audit firm rotation. In 2014, the Company submitted a request for proposal (RFP) to Deloitte & Touche LLP (the incumbent) and three other large accounting firms. Proposals were received from three of the four firms. One of the firms did not bid due to a conflict of interest (i.e., a Board member of DQE Holdings, LLC was associated with the firm). Each firm was required to complete a questionnaire in regards to team qualifications, experience and market share, other clients, methodology, technology and training, independence, quality, transition, and collaboration. In addition, the three year external audit fee was requested. Responses to the questionnaire were scored "blindly" by members of management and this information was provided to the Audit Committee along with a recommendation inviting Deloitte & Touche and one of the other bidding firms to make oral presentations to the Audit Committee and management team in June 2014. Subsequent to the oral presentations, the Audit Committee decided to continue with Deloitte & Touche as the Company's external audit firm. Several other accounting firms were considered during the RFP process but Duquesne Light elected not to invite these firms to bid after reviewing their qualifications.

<u>Staff's Follow-up Recommendation</u> – None.

IV. EXECUTIVE MANAGEMENT

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361, contained one recommendation within the Executive Management chapter. The Audit Staff rated this functional area as needing minor improvement. In this chapter, the prior recommendation and prior situation are reviewed and one follow-up finding is presented.

Prior Recommendation – Examine the overall management structure of Duquesne Light periodically and adjust reporting relationships, where appropriate, to eliminate unjustified low or high spans of control.

Prior Situation – As part of the review of Duquesne Light's organizational structure, the Audit Staff reviewed the appropriateness of spans of control at various key levels of management. Span of control refers to the number of subordinates a manager or supervisor directly supervises in an organization. Factors affecting span of control in an organization include:

- Nature of work,
- Similarity of work functions,
- Control practices followed,
- Geographic proximity,
- Degree of supervisory coordination needed,
- Operational assistance available to the manager,
- Effectiveness of communication,
- Capacity of subordinates,
- Ability of the executive, and
- Time available for supervision.

A significant number of reporting relationships were found to be outside of the commonly accepted span of control range of 1:4 to 1:9. Approximately 48% of the reporting relationships had a span of control of 1:3 or less, while approximately 18% had a span of control of 1:10 or higher.

To maximize organizational efficiency and effectiveness, the Company should ideally aim for spans of control in the range of 1:4 to 1:9 to control layers of management and maintain effective communications. Overly narrow spans of control are considered inefficient because they can result in inefficient communications, micro-management, a larger number of supervisors, and higher than necessary compensation costs. Spans of control that are too wide can result in poor performance due to a lack of effective management oversight and control. The Audit Staff recognized there can be situations where it may be appropriate for a supervisor to have a span of control outside the range of 1:4 to 1:9. For example, certain types of functions may require a position of authority to manage the function as opposed to managing employees (i.e., low spans of control), while other positions may manage a pool of employees that routinely perform a repetitive task (i.e., high spans of control).

The Audit Staff indicated that reporting relationships should be periodically reviewed as part of an organization study designed to achieve and maintain the most effective and efficient organization structure. As the Company had anticipated a significant number of retirements in supervisory positions in field operations and transmission and distribution departments, it was also suggested that Duquesne Light integrate the review of reporting relationships with its strategies and action plans for meeting the future workforce needs of the Company.

<u>Follow-up Finding and Conclusion No. IV-1</u> – Duquesne Light completed an assessment of its management structure and spans of control, and adjusted reporting relationships, where appropriate, to eliminate unjustified low or high spans of control.

An assessment of the management structure of Duquesne Light was completed in the fourth quarter of 2014 and the report was issued in February 2015. Since January 2012, the Company has undergone significant organizational change and realignment to address business needs. In addition, there has been an effort to address future workforce staffing in anticipation of approximately 48% of the Company's employees becoming eligible for retirement within the next five years. These anticipated retirements include almost the entire occupational skill set of the Company (i.e., both union and exempt employees). Duquesne Light also completed a succession planning review in 2014 to identify internal personnel with potential to fill key business leadership positions and identify those employees who are considered "critical knowledge holders." Since 2012, employee headcount increased from 1,222 to 1,375 (union represented headcount increased by 69 while non-union headcount increased by 84).

The Audit Staff reviewed all organizational reporting relationships to analyze span-of-control data as of February 2015. Of the 176 executive, director, manager, and supervisory reporting relationships identified, 34.1% had a span-of-control of 1:3 or less, 31.2% had a span-of-control in the range of 1:4 to 1:9, and 34.7% had a span-of-control of 1:10 or higher. It is important to note that the data used to analyze the spans of control as of February 2015 included reporting relationships between supervisors and union covered positions while the data used in the prior management audit was not as detailed and did not include all reporting relationships between supervisors and union covered positions. The Information Technology organization was excluded from this review as it is currently under reorganization.

The Company conducted a thorough analysis of its management spans of control. The analysis was very detailed and documented the rationale for positions with a low or high span of control. Consequently, the Company adjusted reporting relationships in which certain positions were found to have a high or low span of control. Subsequent to this review, the Company plans to review its organization structure and reporting relationships at least every three years and will consider spans of control as a factor when making future changes to departments or groups throughout the organization. As a result of this review, Duquesne Light has established a process to periodically assess its management structure and spans of control, and document its rationale for positions with a high or low span of control. This process will help ensure to control layers of management and maintain effective communications.

Staff's Follow-up Recommendation – None.

V. FINANCIAL MANAGEMENT

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361, contained one recommendation within the Financial Management chapter. The Audit Staff rated this functional area as needing minor improvement. In this chapter, the prior recommendation and prior situation are reviewed and one follow-up finding is presented.

Prior Recommendation – Submit a detailed, written explanation for each dividend payment exceeding 85% of net income to the Commission within 30 days after public release of this audit report, and ensure that advance notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.

Prior Situation – Over the period 2009 to 2011, Duquesne Light's dividend payments as a percentage of net income were 66.8%, 110.0%, and 88.0%, respectively, an average of 88.7% of net income over this period. In general, it is not a sound business practice to pay an annual dividend to a parent company that is more than 75% to 85% of the utility's net income on a consistent or long-term basis. The timing and amount of dividend payments was determined by the Company's Chief Financial Officer after considering the following factors:

- The level of current period earnings.
- The cash reserves necessary to fulfill the Company's obligations and maintain system reliability.
- The forecasted cash and liquidity requirements of the Company.
- Maintaining an equity capitalization structure of between 52% and 56%.
- Any other limitations as indicated by Pennsylvania law and corporate documents.

During the course of the audit, the Audit Staff did not find evidence to indicate that Duquesne Light's financial strength, service/reliability and/or safety had been impacted by the relatively high dividend payouts that had occurred over the period 2009 to 2011. Nevertheless, the question arose as to whether or not Duquesne Light and its Pennsylvania customers could have benefited from retaining a portion of those earnings for uses such as system reliability improvements, deferred borrowing for capital improvement, pension plan funding, etc. The PUC is charged with regulation and oversight of all public utilities doing business within Pennsylvania and therefore has an obligation to ensure that a public utility's dividend practices do not harm service or reliability. Therefore, it was recommended that Duquesne Light provide an explanation to the PUC describing the circumstances warranting the dividend payments that exceeded 85% of annual net income in 2010 and 2011. It was also recommended that, going forward, Duquesne Light provide advance notice of, and an explanation for, annual dividend payments in excess of 85% of net income as circumstances warrant.

Follow-up Finding and Conclusion No. V-1 – Duquesne Light provided a detailed written explanation within 30 days of public release of the Management Audit report for dividend payments exceeding 85% of net income in 2010 and 2011, and indicated that it would provide advance notice and explanation to the Commission for future annual dividend payments which exceed 85% of net income.

In response to the prior recommendation, Duquesne Light filed a confidential letter to the Commission dated April 10, 2013 referencing the prior recommendation on dividend payouts found in the Focused Management and Operations Audit at Docket No. D-2011-2269361. In the letter, the Company detailed the reasons dividends exceeded 85% of net income during the years 2010 and 2011. As is the case with many utilities, Duquesne Light used the dividends to achieve its target levels for maintaining an equity capitalization structure of between 52% and 56%. In turn, the parent of Duquesne Light reinvested 100% of the dividend proceeds back into the Company in the form of intercompany loans used to fund its capital expenditures. The written explanation submitted to the Commission also stated that Duquesne Light would provide advance notice and explanation to the Commission if future annual dividend payments were to exceed 85% of net income. Dividends paid in the years 2012 through 2014 were below the 85% threshold; therefore, circumstances did not warrant any explanation to the Commission for those years.

Staff's Follow-up Recommendation – None.

VI. AFFILIATED INTERESTS

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361 contained two recommendations within the Affiliated Interests chapter. The Audit Staff rated this functional area as needing moderate improvement. In this chapter, two prior recommendations and prior situations are reviewed and two follow-up findings are presented.

Prior Recommendation – Conduct periodic internal audits of the entire cost allocation process.

Prior Situation – The Audit Staff reviewed copies of internal audit reports issued from 2007-2011 and found none related to affiliate transactions and the allocation of costs amongst affiliates. The Company indicated that it developed its internal audit plan by performing risk assessments for approximately 150 potential risk areas. These risk assessments are then prioritized, with the highest risks being included in the Internal Audit Plan. Also, certain core audit areas such as payroll or expense reporting are included in the Internal Audit Plan. Reportedly, this process had not identified a material risk with affiliate transactions and the allocation of costs amongst affiliates. The Company's Implementation Plan Progress Reports to the Commission stated that a cost allocation audit was scheduled as part of the 2014 Internal Audit Plan.

Periodic internal audits of affiliate transactions and cost allocations should be performed in order to assess the accuracy of, and the consistency in the application of, the cost allocation process. Such audits are recommended by the National Association of Regulatory Utility Commissioners (NARUC). While the accuracy of cost allocations among affiliates are often not identified as a material risk for overall corporate financial reporting purposes that would impact the external audit firm's annual audit, nonetheless they often have a sizeable impact for regulatory purposes. Therefore, periodic internal audits (i.e., at least every three years) of affiliate transactions and related cost allocation calculations are recommended by NARUC and are a sound business practice for regulated utilities with sizeable affiliated transactions such as those occurring among Duquesne Light, its affiliates and subsidiaries. Inaccurate or inconsistently applied cost allocations could result in the cross-subsidization of non-regulated activities by Duquesne Light and its ratepayers.

Follow-up Finding and Conclusion No. VI-1 – An internal audit of the cost allocation process was initiated in March 2015.

An internal audit of cost allocations and the cost allocation manual (CAM) was included as part of the Internal Audit Plan for 2014. The internal audit plan year at Duquesne Light runs from April 1 to March 31. The field work for the internal audit of the cost allocation process began at the beginning of March 2015 as part of the 2014 internal audit year. As of the end of April 2015, Duquesne Light expected field work to conclude in the second quarter of 2015 with the issuance of the related internal audit report to occur by the end of the second quarter of 2015.

Staff's Follow-up Recommendation – None.

Prior Recommendation – Develop a comprehensive CAM to provide step by step guidance in processing cost allocations and help ensure uniformity in the handling of affiliate transactions.

Prior Situation – During the Management Audit, it was discovered that several general accounting policies and procedures were included in the DQE Holdings LLC Finance Policy and Procedure Manual; however, the procedures had not been incorporated into a CAM to ensure uniformity in the handling of affiliate transactions. The Intercompany Allocations policy described the allocation process for administrative services, accounting and treasury costs, individual departments (e.g., Human Resources), labor and the system used to track an employee's time, etc. The Intercompany Receivables policy described the process for handling the recording and settlement of intercompany accounts receivable. The Intercompany Revenues policy described the billing and invoicing procedures for non-regulated, affiliated customer revenues (e.g., Duquesne Power recorded generation revenue with Duquesne Light under the Provider of Last Resort agreement, while Duquesne Light recorded generation expense).

In the absence of a CAM, Duquesne Light and its affiliates had been relying on the DQE Holdings LLC Finance Policy and Procedure Manual for guidance in processing affiliate transactions. The probability of cross-subsidization of non-regulated services or products to Duquesne Light would be minimized if a formal detailed CAM was developed. In addition, a CAM would help to ensure uniformity in the handling of affiliate transactions as personnel and work assignments change.

The NARUC Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of the NARUC Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. Each entity that provides regulated and non-regulated services or products should maintain a CAM or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The NARUC Guidelines further state that the determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. As recommended by NARUC and dictated by sound business practices, at a minimum, a utility's CAM should contain the following:

- An organization chart of the holding company, depicting all affiliates, and regulated entities.
- A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.
- A description of all assets, services and products provided by the regulated entity to non-affiliates.
- Detailed descriptions of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

Follow-up Finding and Conclusion No. VI-2 – A CAM has been developed at Duquesne Light that follows NARUC Guidelines.

Duquesne Light's CAM includes the following:

- DQE Holdings LLC Organization Chart
- Administrative Services Agreement
- Shared Service and Cost Descriptions
- Description of Allocation Factors

CAM training was presented to all employees who provide shared services within DQE Holdings LLC. The CAM training presentation that was provided in live employee sessions during September of 2013 was reviewed by the Audit Staff and appeared adequate. The CAM and the CAM training presentation were also placed on the Company's Intranet for reference or for mandatory review for employees who could not make the scheduled live employee sessions. The Audit Staff also reviewed an e-mail correspondence regarding mandatory training that was sent to all eTime users. The eTime users were determined to be any employees who allocate time to affiliates throughout DQE Holdings LLC.

Staff's Follow-up Recommendation – None.

VII. TRANSMISSION AND DISTRIBUTION

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361, contained three recommendations within the Transmission and Distribution functional area. The Audit Staff rated this functional area as needing moderate improvement. In this chapter, the three prior recommendations and prior situations are reviewed and four follow-up findings and two follow-up recommendations are presented.

Prior Recommendation – Conduct a staffing study to analyze the costs and benefits of reducing overtime through various practices such as adjusting levels of shift work, relocating personnel between districts, hiring additional craft workers, and/or using more outside contractor hours.

Prior Situation – Duquesne Light's craft workers had incurred excessive levels of annual overtime during the five-year period 2007 through 2011. Duquesne Light's craft workers were organized into four functional groups: overhead, underground, substation and operations center, with troubleshooters and travelling operators working out of the operations center. Exhibit VII-1 displays, by year, the number of craft workers, the overtime percentages (calculated by dividing overtime hours by straight time hours), and the shift schedules used by each group. This analysis revealed that, in general, substation craft workers experienced the highest average overtime levels over the period 2007 to 2011 ranging from 31.5% to 34.2%. From 2007 to 2011, total staffing levels for the combined groups increased slightly, by 3.1%; but over the same period overtime levels increased by 26.3%. The annual overtime levels varied between 22.8% and 33.1% of regular or straight time hours during the period 2007 through 2011. The Audit Staff had seen historical overtime levels for craft workers at other EDCs ranging from 15% to 20% of straight time hours. Overtime levels that exceed this range can often indicate a need to increase staffing levels and/or adjust the work shifts of existing staff to accomplish the work activities while reducing overtime levels.

Due to the potentially hazardous nature of working with high voltage lines, excessive amounts of overtime for individual craft workers can result in fatigue and reduced awareness which could compromise the safety of employees and/or customers and result in unnecessary damage to Company facilities and customer property. Consequently, the Audit Staff also reviewed the amount of overtime individual craft workers incurred annually for the same period. Many of the Field Operations employees exceeded 1,040 hours (or approximately 50% of straight time) of overtime for any given year and even reached levels as high as 1,635 overtime hours (or approximately 78.6% of straight time). These levels of overtime for individual craft workers were considered to be a safety concern by the Audit Staff.

Exhibit VII - 1
Duquesne Light Company
Craft Worker Staffing and Overtime Levels
For The Years 2007 Through 2011

		2007	2008	2009	2010	2011	Percentage Change 2007 - 2011
Underground	**No. of Craft Workers**	55	54	58	58	56	1.8%
	Straight Time Hours	123,851	119,555	114,774	108,891	108,646	-12.3%
	Overtime Hours	22,004	19,968	18,955	23,538	25,971	18.0%
	Overtime %	17.8%	16.7%	16.5%	21.6%	23.9%	34.3%
	Shift(s) -	Monday - Friday 7:30am - 4:00pm Sunday - Thursday 10:00pm - 6:00am (6-8 EE)					
Overhead	**No. of Craft Workers**	244	259	253	261	252	3.3%
	Straight Time Hours	447,552	404,172	399,626	453,879	443,964	-0.8%
	Overtime Hours	78,251	98,125	81,118	164,960	121,958	55.9%
	Overtime %	17.5%	24.3%	20.3%	36.3%	27.5%	57.1%
	Shift(s) -	Monday - Friday 7:00am - 3:30pm Monday - Friday 3:00pm - 1:00am (Min. 10 EE)					
Substation	**No. of Craft Workers**	67	64	64	67	65	-3.0%
	Straight Time Hours	149,820	135,294	135,649	141,009	139,567	-6.8%
	Overtime Hours	50,929	46,180	45,491	44,484	47,674	-6.4%
	Overtime %	34.0%	34.1%	33.5%	31.5%	34.2%	0.6%
	Shift(s) -	Monday - Friday 7:30am - 4:00pm					
Operations Center	**No. of Craft Workers**	55	58	61	61	61	10.9%
	Straight Time Hours	145,409	120,867	107,719	130,059	129,234	-11.1%
	Overtime Hours	46,707	46,328	30,151	43,318	41,341	-11.5%
	Overtime %	32.1%	38.3%	28.0%	33.3%	32.0%	-0.4%
	Shift(s) -	Monday - Sunday 7:00am - 3:00pm Monday - Sunday 3:00pm - 11:00pm (12 EE) Monday - Sunday 11:00pm - 7:00am (7 EE)					
ALL	**No. of Craft Workers**	421	435	436	447	434	3.1%
	Straight Time Hours	866,632	779,888	757,768	833,838	821,411	-5.2%
	Overtime Hours	197,891	210,601	175,715	276,300	236,944	19.7%
	Overtime %	22.8%	27.0%	23.2%	33.1%	28.8%	26.3%

Source: 2013 Management Audit Exhibit VII-4

Furthermore, the Field Operation Department's budgeted overtime hours as a percentage of budgeted straight time hours consistently exceeded 50% for two (i.e., Restoration of Service, 2007 to 2011, and system improvements, 2010 to 2011) of its six cost centers as shown in Exhibit VII-2. The overtime percentages in red indicate where a cost center was budgeted for overtime levels above 20% of regular time. Although Restoration of Service activity is unpredictable because storm frequency, timing and extent of impact varies significantly from year to year, Duquesne Light consistently budgeted overtime levels in excess of 55% of regular hours over the five year period. This practice of consistently budgeting for excessive levels of overtime was deemed to indicate a staffing issue.

Exhibit VII – 2
Duquesne Light Company
Field Operation Budgeted Hours
For The Years 2007 Through 2011

	2007	2008	2009	2010	2011
Restoration of Service					
Straight Hrs	111,220	108,281	111,557	109,534	116,520
Overtime Hrs	62,541	61,467	69,831	63,842	67,985
% OT/ST	**56.2%**	**56.8%**	**62.6%**	**58.3%**	**58.3%**
Customer Commits					
Straight Hrs	135,618	172,573	148,416	141,745	140,823
Overtime Hrs	24,284	31,347	30,902	32,121	26,267
% OT/ST	**17.9%**	**18.2%**	**20.8%**	**22.7%**	**18.7%**
System Maintenance					
Straight Hrs	75,180	76,048	88,141	79,609	73,529
Overtime Hrs	14,632	25,041	23,979	22,313	15,076
% OT/ST	**19.5%**	**32.9%**	**27.2%**	**28.0%**	**20.5%**
System Improvements					
Straight Hrs	259,829	146,976	151,612	169,117	171,893
Overtime Hrs	40,970	45,385	49,541	101,134	111,765
% OT/ST	**15.8%**	**30.9%**	**32.7%**	**59.8%**	**65.0%**
Non-Productive					
Straight Hrs	196,944	171,794	164,580	138,740	170,268
Overtime Hrs	N/A	N/A	N/A	N/A	N/A
% OT/ST	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Operations Center					
Straight Hrs	131,544	129,936	126,888	126,952	126,952
Overtime Hrs	26,668	23,060	24,408	35,552	39,541
% OT/ST	**20.3%**	**17.7%**	**19.2%**	**28.0%**	**31.1%**
TOTALS					
Straight Hrs	910,335	805,608	791,194	765,697	799,985
Overtime Hrs	169,095	186,300	198,661	254,962	260,634
% OT/ST	**18.6%**	**23.1%**	**25.1%**	**33.3%**	**32.6%**

OT – Overtime, ST – Straight Time
Source: 2013 Management Audit Exhibit VII-6

Based on both projected and actual results during the 2007-2011 period, it appeared that Duquesne Light was overdue to perform a detailed examination of its craft worker staffing levels, policies and procedures to ensure proper staffing in appropriate shifts and locations to avoid incurring excessive overtime levels (which increased overall for craft workers by 39.9% from 2007 to 2011) while adequately accomplishing the work activities that needed to be performed. Furthermore, from 2008 to 2011, budgeted straight time hours remained relatively constant while budgeted overtime hours rose by almost 40% from 186,300 hours to 260,634 hours as seen in Exhibit VII-2. The increase in budgeted overtime hours for that period were attributed to the additional hours required to accomplish activities related to System Improvements and Restoration of Service. A detailed staffing study for craft workers would enable the Company to assess the cost and benefits of employing the best use of work shifts, relocating personnel between districts, hiring additional craft workers, and use of outside contractors.

In addition to reducing safety concerns related to craft workers working excessive levels of overtime, the Audit Staff estimated that the Company could have saved, on average, a net annual savings of approximately $1.45 million during the five year period by hiring more craft workers to reduce overtime to levels averaging no more than 20% of straight time. This estimate was based on different factors such as the average hourly rate of pay for craft workers, overtime rate, overhead rate, and costs of hiring and training additional craft workers to reduce overtime hours.

Follow-up Finding and Conclusion No. VII-1 – The Company completed a comprehensive staffing study and identified major drivers for overtime.

In the third quarter of 2013, the Company performed a staffing study in order to identify the drivers of its overtime. The staffing study was performed by Operations Budgeting and Planning and was used to analyze the 2014 calendar year. Upon completion, the study identified the following as factors contributing to overtime levels:

- Collective Bargaining Agreement
- Increasing capital spend without increasing headcount
- Instability of forecasted budgets and workloads

In response to the staffing study, Duquesne Light created the Efficient Use of Overtime Business Improvement Project (BIP) team in April 2014. The team includes members from various departments across the Company:

- Director, Operations Center
- Manager, Operations Planning and Budgeting
- Assistant General Counsel
- Manager, Employee and Labor Relations
- Supervisor, Residential Customer Care

The goal of the BIP team is to reduce annual overtime costs by managing overtime hours per employee without compromising safety, quality, reliability and service to employees and customers. The team focused its review on the overall overtime incurred in the aforementioned Transmission and Distribution functional groups of overhead, underground, substations, and the operations center. The team reviewed root causes and prioritized them based on the impacts to overtime. BIP then began implementing the following solutions in late 2014, which are currently ongoing:

- Overtime Approval Process: All discretionary overtime requires approval by the Vice President of Operations to ensure overtime is being used appropriately and prudently.
- Add Underground Backshift Field Inspector: An afternoon underground backshift field inspector shift has been added to proactively reduce the number of call outs due to emergency line locates.

- Eliminate Unnecessary Overhead and Underground Holiday Coverage: The previous practice of scheduling crews on holidays regardless of weather conditions has been discontinued to ensure overtime is being used appropriately.
- 2015 Work Plan Review: A review of the 2015 Work Plan was conducted to reduce non-essential overtime and to ensure overtime is preplanned appropriately.
- Revise Overhead Backshift Schedule: The overhead backshift schedule was reduced from five line workers at five service centers to seven line workers at three service centers to decrease the number of shifts that need to be backfilled when overtime is needed.
- Strategy to Attract and Retain Shift Positions: Working to modify the Collective Bargaining Agreement (CBA) to accommodate 12-hour schedules for union dispatchers that will enable the Company to attract and retain staffing.

As depicted in Exhibit VII–3, Duquesne Light had overtimes levels of 26.6%, 34.1% and 23.8%, respectively for 2012 through 2014. Substation and Operations Center craft workers consistently experienced overtime levels of or around 30%. The Company aims to keep overtime levels at a target of 25% or 500 hours per employee. The Audit Staff has seen historical overtime levels for craft workers at other EDCs that ranged from 15% to 20% of straight time. Overtime levels that exceed this range can often indicate a need to increase staffing levels and/or adjust the existing staffing levels to other shifts to accomplish the work activities while reducing overtime levels.

As of the conclusion of the Audit Staff's field work in April 2015, it is too soon to determine the impact of the Company's implementation efforts that resulted from its staffing study. Although Duquesne Light asserts that material changes have been implemented to address future overtime levels, the Audit Staff has identified excessive levels of overtime for individual field operations personnel for 2012 through 2014 (see Follow-up Finding and Conclusion No. VII-2).

Staff's Recommendation – None.

Exhibit VII – 3
Duquesne Light Company
Craft Worker Staffing and Overtime Levels
For the Years 2012 Through 2014

		2012	2013	2014	Percentage of Increase (+) or Decrease (-) Over Period
Underground	**No. of Craft Workers**	52	49	46	-11.5%
	Straight hrs	107,958	101,839	96,315	-10.8%
	Overtime hrs	24,151	31,404	26,420	9.4%
	Overtime %	22.4%	30.8%	27.4%	22.6%
Overhead	**No. of Craft Workers**	207	212	213	2.9%
	Straight hrs	430,220	440,174	442,226	2.8%
	Overtime hrs	106,440	160,075	85,337	-19.8%
	Overtime %	24.7%	36.4%	19.3%	-22.0%
Substation	**No. of Craft Workers**	66	63	58	-12.1%
	Straight hrs	137,076	130,519	121,796	-11.1%
	Overtime hrs	45,103	43,772	38,604	-14.4%
	Overtime %	32.9%	33.5%	31.7%	-3.7%
	Shift(s) -	Monday - Friday from 7:30am - 4:00pm			
Operations Center	**No. of Craft Workers**	61	58	57	-6.6%
	Straight hrs	127,758	120,839	119,521	-6.4%
	Overtime hrs	38,020	34,925	35,124	-7.6%
	Overtime %	29.8%	28.9%	29.4%	-1.3%
ALL	**No. of Craft Workers**	386	382	374	-3.1%
	Straight hrs	803,012	793,371	779,858	-2.9%
	Overtime hrs	213,714	270,176	185,485	-13.2%
	Overtime %	26.6%	34.1%	23.8%	-10.6%

Source: Data Request TD-24 and Auditor Analysis

<u>Follow-up Finding and Conclusion No. VII-2</u> – Individual employees have incurred excessive amounts of overtime.

As previously stated, due to the potentially hazardous nature of working excessive amounts of overtime with high voltage lines, the Audit Staff reviewed the amount of overtime individual craft workers incurred annually for the same period. Individual employee overtime levels for these groups were reviewed by the Audit Staff and Exhibit VII-4 shows the ten employees with the highest overtime levels by year. Many of the Field Operations employees have exceeded 1,040 hours of overtime (or approximately 50% of straight time) for any given year and one craft worker has reached as high as 1,614 hours of overtime (or approximately 77.6% of straight time) in 2014.

Exhibit VII - 4
Duquesne Light Company
Highest Individual Overtime Levels for Craft Workers
For the Years 2012 Through 2014

2012			2013			2014		
	OT Hrs	%OT		OT Hrs	%OT		OT Hrs	%OT
Journey Lineworker	1,487	71.5	Sr. Electric Equipment Tech	1,345	64.7	Senior Operator	1,614	77.6
Troubleshooter 1-c	1,375	66.1	Apprentice T+D	1,313	63.1	Senior Operator	1,483	71.3
Senior Operator	1,360	65.4	Troubleshooter 1-c	1,224	58.8	Senior Operator	1,249	60.0
Senior Operator	1,260	60.6	Journey Linework	1,221	58.7	Sr. Elec Equipment Tech	1,232	59.2
Sr. Electric Equipment Tech	1,224	58.8	Apprentice T+D	1,216	58.5	Electronic Equipment 1-c	1,224	58.8
Troubleshooter	1,175	56.5	Electronic Technician 1-c	1,208	58.1	Journey Lineworker	1,213	58.3
Journey Lineworker	1,131	54.4	Senior Operator	1,201	57.7	Senior Operator	1,209	58.1
Journey Lineworker	1,106	53.2	Journey UG Splicer	1,159	55.7	Traveling Operator 1-c	1,099	52.8
Sr. Lineworker	1,098	52.8	Sr. Lineworker	1,156	55.6	Journey Lineworker	1,077	51.8
Traveling Operator 1-c	1,082	52.0	Senior Operator	1,141	54.9	Electronic Equipment 1-c	1,041	50.0

Source: Data Request TD-04

In addition to reducing safety concerns related to craft workers working excessive levels of overtime, Duquesne Light could also realize cost savings by hiring more craft workers to reduce overtime levels. In accordance with its union contract, craft workers get paid time and a half for any overtime work performed. The Audit Staff's analysis as shown on Exhibit VII-5 demonstrates the potential cost savings that could have been achieved during the period 2012-2014 by increasing field operations staff levels to accomplish an average overtime level of 20% to 25% of straight time. Based on different factors such as the average hourly rate of pay for craft workers, overtime rate, overhead rate, and hiring additional craft workers to reduce overtime hours, the Audit

Staff estimates that Duquesne Light could have saved on average between approximately $1.82 million to $2.96 million annually during the three-year period. However, in recognition that new hires would take approximate 2-3 years to be fully qualified with classroom and on-the-job training; to be conservative the Audit Staff adjusted the practical estimate of net annual savings to be about 50% of the three-year average or approximately $607,000 to $1.48 million annually. In order to properly evaluate the adequacy of future staffing levels, the Company will need to examine all options for reducing overtime levels, including the potential of adjusting overtime clauses included in their CBA with the local union.

Exhibit VII - 5
Duquesne Light Company
Potential Savings – Overtime Reduction
For the Years 2012 Through 2014

	2012	2013	2014	Average
No. of Craft Workers	386	382	374	**381**
Overtime Hours	213,714	270,176	185,485	**223,125**
Overtime as % Straight Time	26.6%	34.1%	23.8%	**28.2%**
Reduce Overtime to 20%	6.6%	14.1%	3.8%	**8.2%**
Total Man Hours	53,112	111,502	29,513	**64,709**
Potential Hires	26	54	14	**31**
Reduce Overtime to 25%	1.6%	9.1%	N/A	**5.3%**
Total Man Hours	12,961	71,833	N/A	**42,397**
Potential Hires	6	35	N/A	**20**
Actual Overtime Cost	$12,211,747	$15,463,699	$10,574,125	**$12,749,857**
Cost of 20% Overtime	$9,783,984	$10,356,286	$9,228,964	**$9,789,745**
Potential Savings	$2,427,763	$5,107,412	$1,345,161	**$2,960,112**
Cost of 25% Overtime	$11,656,328	$12,378,594	N/A	**$12,017,461**
Potential Savings	$555,419	$3,085,105	N/A	**$1,213,508**

*Cost = Average Salary * Current No. of Lineworkers * Overtime Rate * Overhead Rate *Overtime %*
*Average Salary = Average Hourly Rate ($30/hr) * Work Year (2,080 hrs)*
N/A = Not Applicable
Source: Data Request TD-15, TD-24 and Auditor Analysis

<u>Staff's Recommendation</u> – Identify all options for ensuring proper staffing levels for field operations craft workers while additionally striving to limit the number of employees working excessive amounts of overtime.

<u>Prior Recommendation</u> – Expand the databases used to track and monitor third-party damage and claims to include all pertinent information regarding types of damages, names of parties, invoiced amounts, settled amounts and settlement reason in order to better identify the causes of and control of third-party damages.

<u>Prior Situation</u> – Duquesne Light was unable to extract specific causes to third-party damages and related information from its database. Consequently, the Audit Staff was unable to assess the reasonableness of third-party statistics as well as damage collection efforts. Pole damages accounted for the majority of third-party hits; however, more specific information related to damage causes was not tracked via its database in order for the Company to identify better approaches to preventing similar damages in the future and enhancing its damage prevention program. Because Duquesne Light's database lacked sufficient information to adequately report the collection amounts invoiced for third-party damages, it was difficult for the Audit Staff to measure the Company's collection performance.

Follow-up Finding and Conclusion No. VII-3 – The Company actively tracks and monitors third-party damages and claims through the creation of an improved database.

Duquesne Light enhanced its third-party database to include pertinent information needed to properly track damages and claims. The newly designed database was implemented for the start of the 2012 calendar year. The database expanded its categories of data collection to include damages by type and settlement reason. Furthermore, damages can be separated into multiple types including subtypes; copper theft, dig in, property, guy wires, meter, unidentified, pole – business, pole – government, pole – personal, transformer, vehicle and wire. In doing so, the Company is able to identify areas of concern and create or modify any damage prevention initiatives. Additionally, when there is an amount collected below 95% invoiced, a reason code is used to explain why underpayment has occurred (e.g., bankruptcy discharge, property damage limits, insufficient evidence, mismarked one call, rotted pole, etc.). For the years 2012-2014, the Company submitted invoices for approximately $8.6 million in damages while collecting approximately $5.7 million. Approximately 83% of the $2.9 million in uncollected damages has been charged off by Duquesne Light because the damages were from an unknown cause or pole hits which did not have police reports (therefore the third-party could not be identified).

The Company's Litigation Department has a Claims Specialist that is dedicated to entering and updating third-party damage data on a daily basis. Furthermore, a report called "Review of Duplicate Damagers" is produced from the database on a quarterly basis. A quarterly review is completed with the Assistant General Counsel to decide whether additional legal action is required against any repeat offenders. The report includes information for any contractor and/or organization that has damaged Company infrastructure more than once since the database was created in 2012. Information tracked includes date reviewed, repeat offenders, date of damage, litigation status, and recovery efforts.

Staff's Recommendation – None.

Prior Recommendation – Strive to achieve average or better Occupation Safety and Health Administration recordable incident rates by monitoring and continually modifying safety programs to address safety programs to address the most current safety issues at the Company.

Prior Situation - The annual Occupational Safety and Health Administration (OSHA) recordable incident rate (Recordable Rate) represents the number of injuries and illnesses per 100 full time workers (i.e., a lower rate indicates a better performance). Duquesne Light's Recordable Rate was higher than the industry average and exceeded its own internal goal in four of the six years, indicated in red, from 2006 through 2011 as shown in Exhibit VII-6.

Exhibit VII – 6
Duquesne Light Company
Occupational Safety and Health Administration Recordable Rates
For the Years 2006 Through 2011

Year	OSHA Recordable Rate	Industry Average Recordable Rate*	Duquesne Internal Goal
2006	**5.54**	4.80	N/A
2007	**4.92**	4.90	4.2
2008	**5.34**	4.00	4.2
2009	3.90	3.90	4.2
2010	**4.49**	3.40	3.76
2011	3.25	3.70	3.76

* - North American Industry Classification System (NAICS) code 22112, Electric power transmission, control and distribution
N/A – Not Available

Source: 2013 Management Audit Data Exhibit VII-10

Follow-up Finding and Conclusion No. VII-4 – Duquesne Light has lowered its OSHA Recordable Rate but has not reached its internal goal.

Most OSHA recordable incidents are likely preventable with repeated and proper training, preparation, ergonomic equipment, and attention to vehicle surroundings when parked. To address safety concerns, Duquesne Light provided its safety programs and initiatives for the years 2013 and 2014, and those planned for 2015. The programs and initiatives are summarized as follows:

- **2013** -
  - Duquesne Light partnered with Caterpillar Safety Service to provide Supervisors and Union Leadership safety training. The Supervisory Training and Accountability and Recognition Techniques workshops were designed to help foster an environment where safety is an integrated process equal to quality, production, and delivery.
  - Duquesne Light craft workers attended the "Stop Think Act Review" human performance training class, which helps an individual to focus attention on the appropriate component or activity, intended actions, and expected outcomes before acting and verify results after the action.

- Key Performance Indicators were established to track leading and lagging safety performance indicators. The following metrics were communicated to safety leadership, union employees and management:
  - OSHA Recordable and Lost Time Accident Rates
  - Number of near miss incidents reported and investigated
  - Number of safe/unsafe observations and jobsite inspections conducted
  - Motor vehicle accident rate
- Duquesne Light partnered with Occupational Athletics to launch an overall injury prevention program with an educational and motivational behavior modification training seminar.
- The Safe Driver Program continued in 2013 providing training to employees of safe driving practices. A safety team member visited departments to deliver presentations on driving policies and safe vehicle operation.
- The Near Miss Reporting Program reported and investigated 32 near miss incidents. These incidents were reported to and investigated by Safety and Workshop Development with results communicated company-wide and posted to the Company's intranet site.

- **2014** –
  - Safety Culture Improvement Initiatives which include teams consisting of union and non-union employees working on specific safety related improvement projects:
    - Evaluate the safety meeting process to improve on the frequency, content and effectiveness of safety meetings; a seminar was held for Field Operation supervisors.
    - Evaluate the job briefing process, revised Overhead Job Briefing Form and created a Job Briefing Form for Operations troubleshooters; added process provides a mechanism for employees to report safety issues identified in the field
    - Held 15 Safety Culture Excellence Workshop sessions
      - Insight to effective safety cultures by reviewing traditional incident reaction cycle, why injuries happen, safety excellence and maturity grid
      - Strategies for safety accountability
      - Zero-incident performance process
  - Updated existing procedures to meet new OSHA requirements under 29 CFR 1910.269[1]. A regulatory steering committee was developed to oversee these efforts and created the sub-committees to manage the following:
    - Minimum approach distance and incident energy calculations
    - Arch flash protection
    - Fall protection

[1] Title 29 Department of Labor, Code of Federal Regulations, Part 1910, 1910.269 Electric Power Generation, Transmission, and Distribution.

- The Safe Driver Program continued in 2014 by conducting driving evaluations for new employees, employees transferred from non-driving positions, and employees involved in preventable vehicle accidents.
- Duquesne Light craft workers attending OSHA compliance training on human performance and reviewed five basic principles:
  - People are fallible, even the best make mistakes.
  - Error-likely situations are predictable, manageable, and preventable.
  - Individual behavior is influenced by organizational processes and values.
  - People achieve high levels of performance based largely on encouragement and reinforcement received from leaders, peers, and subordinates.
  - Events can be avoided by understanding the reason errors occur and applying the lessons learned from past events.
- The Near Miss Reporting Program reported and investigated 17 near miss incidents; incidents reported to and investigated by Safety and Workshop Development with results communicated company-wide and posted to intranet site.

- **2015** –
  - Duquesne Light created and filled a new position of Director of Safety and Workplace Development to increase the Company's focus on safety in the workplace.
  - Supervisors and managers were trained on the use and expectations around the Company's newly revised Corporate Safety Handbook. Hard copies were given to all employees.
  - Duquesne Light is enhancing the Safe Driver Program by creating a Driving Excellence Team who will focus on identifying motor vehicle trends and opportunities for improvement.

The implementation of new and modification of existing safety programs have permitted the Company to lower its recordable incidents. Recordable incidents have dropped approximately 45% from 2006 through 2014; especially Sprains\Strains which were the largest contributor. Exhibit VII-7 demonstrates the decrease in total recordable incidents as well as the number of reported Sprains\Strains.

Duquesne Light has set internal OSHA goals that are practical and obtainable for the utility. Goals are based on historical numbers while always striving to achieve the lowest OSHA recordable rate possible. In Exhibit VII-8, it can be observed that the Company has been able to lower its OSHA rates, while maintaining such levels than years previously examined. However, Duquesne Light has not been able to reach its internal goals for 2012 through 2014.

Exhibit VII – 7
Duquesne Light Company
Occupational Safety and Health Administration Recordable Incidents
For Years 2006 Through 2014

Year	Recordable Incidents	Sprain/Strain
2006	84	33
2007	63	33
2008	66	36
2009	50	16
2010	59	13
2011	46	17
2012	42	6
2013	45	5
2014	46	6

Source: Data Requests TD-22 and TD-33

Exhibit VII – 8
Duquesne Light Company
Occupational Safety and Health Administration Recordable Rates
For the Years 2012 Through 2014

Year	OSHA Recordable Rate	Industry Average Recordable Rate*	Duquesne Internal Goal
2012	**3.12**	3.20	3.00
2013	**3.17**	2.20	3.00
2014	**3.20**	NA	3.00

NA – Not Available
Source: Data Request TD-12

Staff's Recommendation – Create new and/or modify existing safety programs and awareness efforts in order to meet the internal OSHA goals.

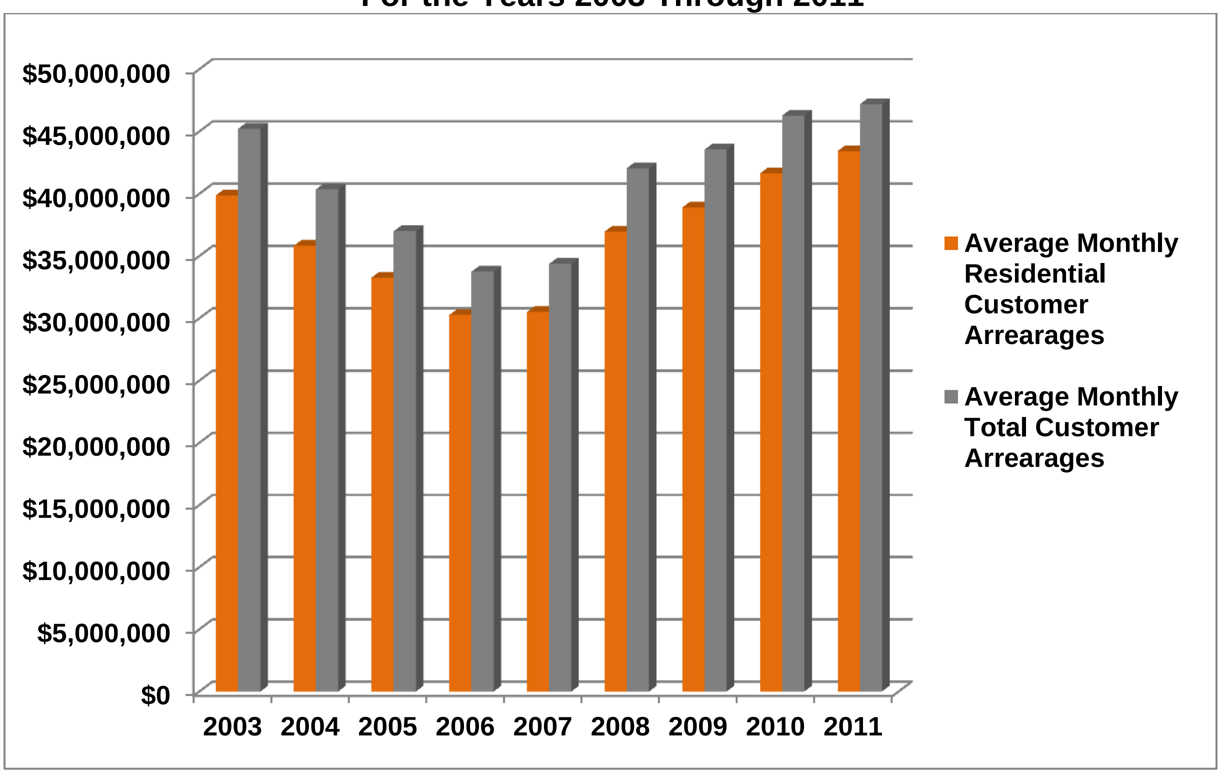
VIII. CUSTOMER SERVICE

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361 contained two recommendations within the Customer Service chapter. The Audit Staff rated this functional area as needing moderate improvement. In this chapter, two prior recommendations and prior situations are reviewed and three follow-up findings and two follow-up recommendations are presented.

Prior Recommendation – Enhance current measures to reduce residential customer arrearages.

Prior Situation – Duquesne Light had excessive residential customer arrearages. Exhibit VIII-1 shows the Company's average monthly residential and total customer arrearages for 2003-2011. From 2003 to 2007, Duquesne Light reduced total delinquencies from approximately $45.2 million to approximately $34.4 million. However, in subsequent years this trend reversed and total delinquencies eventually surpassed the previous high, reaching approximately $47.2 million in 2011.

Exhibit VIII-1
Duquesne Light Company
Average Monthly Residential and Total Customer Arrearages
For the Years 2003 Through 2011



Source: 2013 Management Audit Exhibit VIII-5

Duquesne Light's average monthly customer arrearages, by customer class and in total, for the years 2007-2011 are shown in Exhibit VIII-2. Total customer arrearages increased from approximately $34.4 million in 2007 to approximately $47.2 million in 2011, an increase of approximately $12.8 million or 37.3 %. This increase was attributed almost exclusively to residential customer arrearages. Residential customer arrearages, as a percentage of total customer arrearages, increased from 88.7% in 2007 to 92.1% in 2011.

Exhibit VIII-2
Duquesne Light Company
Average Monthly Customer Arrearages by Customer Class
For the Years 2007 Through 2011

	Total	% Total
2007		
Residential	**$30,508,152**	88.7%
Commercial	**$3,500,922**	10.2%
Industrial	**$369,246**	1.1%
Totals	**$34,378,320**	**100.0%**
2008		
Residential	**$36,968,009**	87.9%
Commercial	**$4,541,048**	10.8%
Industrial	**$544,514**	1.3%
Totals	**$42,053,571**	**100.0%**
2009		
Residential	**$38,900,120**	89.3%
Commercial	**$4,117,024**	9.5%
Industrial	**$523,807**	1.2%
Totals	**$43,540,952**	**100.0%**
2010		
Residential	**$41,634,080**	90.0%
Commercial	**$3,885,596**	8.4%
Industrial	**$753,119**	1.6%
Totals	**$46,272,794**	**100.0%**
2011		
Residential	**$43,424,642**	92.1%
Commercial	**$3,252,876**	6.9%
Industrial	**$496,481**	1.1%
Totals	**$47,174,000**	**100.0%**

Source: 2013 Management Audit Exhibit VIII-6

The Audit Staff also reviewed Duquesne Light's performance relative to other Pennsylvania electric distribution companies (EDCs) for the period 2007-2011. As shown in Exhibit VIII-3, the Company's average annual residential arrearage per customer increased by approximately 33.2% from $382 in 2007 to $509 in 2011, while the Pennsylvania EDC panel average increased by approximately 28.6% from $350 in 2007 to $450 in 2011. Moreover, Duquesne Light's performance exceeded the panel average for each year during the 2007 to 2011 period.

Exhibit VIII-3
Duquesne Light Company
Average Annual Residential Arrearage Per Customer
For the Years 2007 Through 2011

	2007	2008	2009	2010	2011
Met-Ed	$443	$441	$442	$488	$559
PECO-Electric	$351	$388	$478	$449	$455
Penelec	$369	$364	$352	$370	$444
Penn Power	$438	$494	$543	$559	$563
PPL	$415	$437	$454	$480	$565
West Penn	$83	$87	$98	$112	$116
Panel	**$350**	**$369**	**$395**	**$410**	**$450**
Duquesne	**$382**	**$483**	**$508**	**$539**	**$509**

Source: 2013 Management Audit Exhibit VIII-7

Consequently, the Audit Staff recommended that to reduce arrearages, Duquesne Light should strive to acquire constant, timely payments from customers through rapid response to payment arrangement requests, proper negotiation of payment arrangement requests, increased use of Customer Assistance Programs (CAP) and other assistance programs for low-income customers, and persistent collection of delinquent accounts. If the Company had attained the panel average during the 2007-2011 period, Duquesne Light would have experienced an approximate $2.0 million reduction in its average annual arrearage balances during this five year period. Additionally, by reducing arrearage levels, an increase in cash flow would occur, which in return would effectively reduce the amount of money the Company would need to borrow. By reducing arrearage levels, Duquesne Light could have saved approximately $410,000 in interest expense from 2007 to 2011, or an average annual savings of approximately $82,000 based on the average annual prime interest rates.

<u>Follow-up Finding and Conclusion No. VIII-1</u> – Duquesne Light has reduced overall customer arrearages and compares more favorably with a panel of other Pennsylvania EDCs.

Duquesne Light's average monthly customer arrearages, by customer class and in total, for the years 2011-2014 are shown in Exhibit VIII-4. Total customer arrearages decreased from approximately $47.2 million in 2011 to approximately $44.1 million in 2014, a decrease of approximately $3.1 million or 6.6%. The decrease was primarily due to a reduction in residential customer arrearages, which decreased from approximately $43.4 million in 2011 to approximately $39.2 million in 2014, a decrease of $4.2 million or 9.7%. Residential customer arrearages, as a percentage of total customer arrearages, also decreased from 92.1% in 2011 to 89.0% in 2014.

Exhibit VIII-4
Duquesne Light Company
Average Monthly Customer Arrearages
For the Years 2011 Through 2014

	Total	% Total
2011		
Residential	**$43,424,642**	92.1%
Commercial	**$3,252,876**	6.9%
Industrial	**$496,481**	1.1%
Totals	**$47,174,000**	**100.0%**
2012		
Residential	**$42,750,917**	92.3%
Commercial	**$3,171,637**	6.8%
Industrial	**$397,337**	0.9%
Totals	**$46,319,891**	**100.0%**
2013		
Residential	**$41,834,677**	90.5%
Commercial	**$3,731,008**	8.1%
Industrial	**$646,963**	1.4%
Totals	**$46,212,649**	**100.0%**
2014		
Residential	**$39,228,895**	89.0%
Commercial	**$4,197,398**	9.5%
Industrial	**$643,980**	1.5%
Totals	**$44,070,273**	**100.0%**

Source: Data Request CS-10 and Auditor Analysis

Comparing arrearage levels from 2011 to 2014, Duquesne Light achieved an approximate $4.2 million reduction in arrearages for residential customers, which resulted in an increase in cash flow and effectively reduced the amount of money the Company needed to borrow. Overall, in 2014, Duquesne Light saved approximately $136,500 in interest expense by reducing residential arrearage levels. The current prime rate was used to calculate the potential savings in interest expense. The prime rate is the interest rate charged by most major banks to their most creditworthy customers. The prime rate has been low in recent years, which greatly reduced the potential savings. The potential savings in the future could be even greater should interest rates increase.

The reductions in arrearages can be attributed to Duquesne Light's introduction of new collections and severance processes based on customer segmentation of an internal credit behavioral score as well as new specific customer collection classes.

These classes defined by Duquesne Light control the collection methods applied to the account. They were configured by a customer's rate class, enrollment in Duquesne Light's customer assistance program, premise information, documentation provided to Duquesne Light, and payment agreements entered into with the Company. Duquesne Light also introduced a behavioral credit score that is calculated based on the risk of default on bill payment. The score decreases based on unfavorable behaviors. Score reductions are effective for a 12-month period from the date in which they were applied. All score reductions within the last 12-month period are summed together to provide an overall internal credit behavioral score. As payment behavior improves, the internal behavioral score is adjusted accordingly.

Duquesne Light also began the following new outbound call campaigns aimed at reducing arrearages:

- 888 Dollar Energy Grant Campaign – targets eligible customers to explain the benefits of the Dollar Energy Fund program and how to apply for a grant.
- CAP Referrals Campaign - targets eligible customers to explain the benefits of Duquesne Light's customer assistance program and how to enroll in the program.
- Low-Income Home Energy Assistance Program (LIHEAP) Referrals Campaign - targets eligible customers to explain the benefits of LIHEAP and how they can apply for a grant.
- Promotions e-Bill and Electricheck - targets eligible customers to explain how they can receive their bill through their email account and sign up for Electricheck to automatically deduct bill payment from their bank account.
- Watts Choices Campaign - targets eligible customers to explain the benefits of the Watts Choice program, what qualifies for a rebate, and how a customer can apply.
- Special Messages Campaign – used to inform customers about special events in their service area such as an energy efficiency event, LIHEAP sign up event, or CAP enrollment event.

By reducing its arrearages, the Company as of 2014 compares more favorably with the Pennsylvania EDC panel average in terms of residential arrearage per customer. Exhibit VIII-5 illustrates that Duquesne Light's average annual residential arrearage per customer of $457 was in close approximation to a panel of other major Pennsylvania EDC's for 2014. Moreover, the Company's average annual residential arrearage per customer decreased by approximately 10.2% from $509 in 2011 to $457 in 2014, while the Pennsylvania panel average decreased by only 1.6% from $450 in 2011 to $443 in 2014. This may indicate that the effect of Duquesne Light's efforts is beginning to be realized and the Company should continue to utilize the measures it has taken to reduce arrearages.

Exhibit VIII-5
Duquesne Light Company
Average Annual Residential Arrearage Per Customer
For the Years 2011 Through 2014

	2011	2012	2013	2014	% Inc/Dec
Metropolitan Edison Company	$559	$588	$528	$494	-11.6%
PECO Energy Co.	$455	$539	$439	$380	-16.5%
Pennsylvania Electric Company	$444	$508	$457	$432	-2.7%
Pennsylvania Power Company	$563	$558	$468	$431	-23.4%
PPL Electric Utilities	$565	$593	$620	$618	9.4%
West Penn Power	$116	$206	$284	$302	160.3%
Panel Average	**$450**	**$499**	**$466**	**$443**	**-1.6%**
Duquesne Light	**$509**	**$501**	**$513**	**$457**	**-10.2%**

Source: 2011-2014 Bureau of Consumer Services Report on Universal Service Programs and Collections Performance and Auditor Analysis

Duquesne Light stated that based on its residential customers, only 13.5% of confirmed low income customers and 4.2% of all residential customers are delinquent and the confirmed low income percentage is the second lowest in the industry based on 2013 data. Duquesne Light also stated that it has approximately 61% of its low income customers participating in the CAP which is the second highest percentage in the state as of 2013. However, Duquesne Light still has an average annual residential arrearage per customer above the average of a panel of the other major Pennsylvania EDC’s for 2011-2014.

Duquesne Light offers one payment arrangement, per balance, to all customers when eligible, regardless of their income. In addition, customers are offered additional arrangements if they experience changes to their income. If the payment arrangement is satisfied, the customer is then entitled to another payment arrangement on new arrears. If electric service is terminated, customers below 300% of the poverty level are offered a second arrangement which is known as a restoration arrangement. Customers below 150% of poverty level can also be given an additional arrangement, which is to enroll in CAP. Every customer, except an active CAP enrollee, is also entitled to a payment arrangement by the PUC’s Bureau of Consumer Services (BCS). In addition, low income customers are given all energy assistance information available in order to help alleviate their debt.

Staff’s Follow-up Recommendation – None.

Prior Recommendation – Examine potential policy, procedure, and staffing level changes that may be necessary to efficiently respond to the increasing levels of customer complaints and Payment Arrangement Requests with the PUC’s Bureau of Consumer Services.

Prior Situation – Duquesne Light's average response time to customer complaints and payment arrangement requests (PARs) was longer in duration than that of the panel average. Exhibits VIII-6 and VIII-7 show Duquesne Light's average response time to residential consumer complaints and PARs with those of a panel of other Pennsylvania EDCs for the period 2006 to 2010. In general, Duquesne Light's average response time to residential consumer complaints was longer in duration than that of the panel average in every year except 2009. In 2010, Duquesne Light's average response time to residential consumer complaints was 18.6 days versus the panel average of 12.9 days. Likewise, the Company's average response time to residential PARs was longer in duration than that of the panel average for the period reviewed. In 2010, Duquesne Light's average response time to residential PARs was 13.3 days versus the panel average of 5.5 days. Furthermore, the best performing EDCs in the panel had an average response time to residential consumer complaints of just over 9 days, and an average response time to residential PARs of 2.3 to 2.5 days. Generally, longer response times are often related to a need to increase staffing levels to address consumer complaints and PARs. As shown in Exhibit VIII-8, the numbers of consumer complaints and PARs had risen for both Duquesne Light and other Pennsylvania EDCs. Despite these increases, Duquesne Light's Regulatory Consumer Relations group's staffing levels had remained steady and the Company did not plan on making any significant staffing changes.

Exhibit VIII-6
Duquesne Light Company
Average Response Time (Days) to Residential Consumer Complaints
For the Years 2006 Through 2010

	2006	2007	2008	2009	2010	Compound Growth
Met-Ed	14.2	16.6	13.0	12.3	11.0	-6.2%
PECO	13.7	20.7	19.3	14.8	11.8	-3.7%
Penelec	15.0	12.5	12.0	13.5	9.3	-11.3%
Penn Power	8.4	14.9	11.5	11.5	9.4	2.9%
PPL	23.9	22.5	19.5	20.1	22.7	-1.3%
West Penn	20.1	14.1	22.1	10.7	13.2	-10.0%
Panel Average	15.9	16.9	16.2	13.8	12.9	-5.1%
Duquesne	20.8	23.6	22.9	12.7	18.6	-2.8%

Source: 2013 Management Audit Exhibit VIII-10

Exhibit VIII-7
Duquesne Light Company
Average Response Time (Days) to Residential Payment Arrangement Requests
For the Years 2006 Through 2010

	2006	2007	2008	2009	2010	Compound Growth
Met-Ed	1.8	2.7	2.3	3.1	2.3	6.3%
PECO	13.8	13.7	13.0	5.3	4.7	-23.6%
Penelec	2.6	2.7	2.5	2.8	2.5	-1.0%
Penn Power	2.2	2.7	2.3	2.5	2.5	3.2%
PPL	24.0	6.1	8.1	10.3	10.3	-19.1%
West Penn	18.4	13.8	22.9	6.7	10.9	-12.3%
Panel Average	10.5	7.0	8.5	5.1	5.5	-14.7%
Duquesne	15.1	22.7	16.9	8.7	13.3	-3.1%

Source: 2013 Management Audit Exhibit VIII-11

Exhibit VIII-8
Duquesne Light Company
Number of Residential Consumer Complaints & Payment Arrangement Requests
For the Years 2006 Through 2010

	2006	2007	2008	2009	2010	Compound Growth
Residential Complaints						
Duquesne Light	252	322	467	323	500	19%
Electric Industry	4,837	6,059	6,198	5,862	5,852	5%
Payment Arrangement Requests						
Duquesne Light	2,859	3,507	5,089	4,482	4,859	14%
Electric Industry	25,271	28,341	38,921	35,185	37,566	10%

Source: 2013 Management Audit Exhibit VIII-12

Duquesne Light began to replace its prior customer service system and related software packages with a new Oracle system in June of 2010, and as of December 2012 completion was expected in the 4th quarter of 2013. This replacement included updates to the business intelligence and reporting processes, customer web portal and Interactive Voice Response systems. The project was named FOCUS, and was the foundation for implementing Advanced Metering Infrastructure (AMI) under legislative Act 129, also known as the Smart Meter Program. Duquesne Light anticipated that all of its smart meters would be fully deployed by the end of 2020.

In addition to serving as the foundation for AMI implementation, the FOCUS project would provide the Company with the ability to easily make system upgrades and enhancements, offer new customer products and services, and ease the transition to Direct Load Control and Home Energy management practices. Also, the Oracle package would provide customers with access to near real-time information. A few other customer benefits included, but were not limited to: online appointment scheduling, detailed payment arrangement billing, integrated CAP billing, customer account numbers which do not expire, additional electronic billing features, and seasonal mailing address options.

The Audit Staff recommended that the Company should work with BCS to determine if policy or procedural changes could be made to reduce the high response times to residential consumer complaints and PARs. Other considerations to improving response times were underway or being contemplated by the Company including implementation of FOCUS. With the implementation of FOCUS, the Regulatory Consumer Relations group would be provided a new software package enabling formal complaints and PARs to be received in real-time and the ability to respond to cases in a more efficient and timely manner.

<u>Follow-up Finding and Conclusion No. VIII-2</u> – Duquesne Light's average response time to residential consumer complaints and PARs in 2013 has improved significantly.

Exhibits VIII-9 and VIII-10 show Duquesne Light's average response times to residential consumer complaints and PARs with those of a panel of other Pennsylvania EDCs for the period 2010 to 2013. Duquesne Light's average response time to residential consumer complaints was much shorter in duration than that of the panel average in 2013. In 2013, Duquesne Light's average response time to residential consumer complaints was 3.9 days versus the panel average of 15.4 days. A reduction in the number of complaints contributed to the improvement in average response time to residential consumer complaints. Duquesne Light's average response time to residential PARs was much shorter in duration to that of the panel average in 2013. In 2013, Duquesne Light's average response time to residential PARs was 1.3 days versus the panel average of 7.9 days. Exhibit VIII-11 shows Duquesne Light's number of residential consumer complaints and PARs compared to the total of other Pennsylvania EDCs for the period from 2010 to 2013. The number of residential consumer complaints has decreased by 7.6% and 15.7% for Duquesne Light and the panel average, respectively, while the number of PARs has increased 0.9% and 6.8% for both Duquesne Light and other Pennsylvania EDCs, respectively.

Exhibit VIII-9
Duquesne Light Company
Average Response Time (Days) to Residential Consumer Complaints
For the Years 2010 Through 2013

	2010	2011	2012	2013	Compound Growth
Met-Ed	11.0	12.1	15.3	17.2	15.9%
PECO+	11.8	8.3	7.6	8.8	-9.2%
Penelec	9.3	12.2	15.4	15.4	18.1%
Penn Power	9.4	10.4	13.2	15.4	17.7%
PPL	22.7	21.4	18.4	19.1	-5.5%
West Penn	13.2	12.0	17.4	16.3	7.2%
Panel Average	12.9	12.7	14.6	15.4	6.0%
Duquesne	18.6	17.7	19.5	3.9	-40.3%

Source: 2010-2013 Bureau of Consumer Services Utility Consumer Activities Report and Evaluation and Auditor Analysis

Exhibit VIII-10
Duquesne Light Company
Average Response Time (Days) to Residential Payment Arrangement Requests
For the Years 2010 Through 2013

	2010	2011	2012	2013	Compound Growth
Met-Ed	2.3	3.4	9.5	8.3	52.7%
PECO+	4.7	3.4	3.2	3.3	-11.0%
Penelec	2.5	3.5	9.5	8.1	47.4%
Penn Power	2.5	3.9	9.0	7.5	43.7%
PPL	10.3	15.5	9.5	13.1	8.3%
West Penn	10.9	5.7	8.4	7.1	-13.1%
Panel Average	5.5	5.9	8.2	7.9	12.7%
Duquesne	13.3	10.6	12.6	1.3	-53.6%

Source: 2010-2013 Bureau of Consumer Services Utility Consumer Activities Report and Evaluation and Auditor Analysis

Exhibit VIII-11
Duquesne Light Company
Number of Residential Consumer Complaints & Payment Arrangement Requests
For the Years 2010 Through 2013

	2010	2011	2012	2013	Compound Growth
Residential Complaints					
Duquesne Light	500	613	578	395	-7.6%
Other PA EDCs	5,852	3,141	3,468	3,202	-15.7%
Payment Arrangement Requests					
Duquesne Light	4,859	5,616	6,025	4,998	0.9%
Other PA EDCs	37,566	42,551	36,065	39,837	6.8%

Source: 2010-2013 Bureau of Consumer Services Utility Consumer Activities Report and Evaluation and Auditor Analysis

Duquesne Light reached an agreement with a third-party that went into effect in January 2014, and a contractor was added within Duquesne Light's Regulatory Consumer Relations group for PARs and complaints. Also, a reference sheet and automated, standardized, and uniform responses used within the group to respond to complaints and for informal reports were updated in 2013 to help reduce response time. In addition, complaints previously batched overnight and received the next business day are now available at three different times throughout the day. The Company also has an internal goal to complete a PAR where there is no dispute within the same day. Significant improvement has been made in response times to complaints and PARs. In fact, as of 2013 Duquesne Light had become a top performer in terms of response times to complaints and PARs when compared to the other Pennsylvania EDCs.

Staff's Follow-up Recommendation – None.

Follow-up Finding and Conclusion No. VIII-3 – Collection agency performance is incentivized on a gross collection basis instead of a net collection basis.

Duquesne Light has collection agreements in place with a number of collection agencies as a first or second placement agency for residential accounts or a commercial and industrial account agency. Collection agency performance has remained relatively steady over the period of 2012 through 2014 and, based on the Audit Staff's prior observations, compares well with other utilities for the same time period. Depending on the contractual terms set forth in the specific agreement with each collection agency, the agencies may have different incentive rates to increase commissions that are based on gross collection performance.

Although the collection agency performance compares well with other utilities for the same period, establishing collection agency goals based on the percentage of net dollars collected will enable Duquesne Light to more effectively measure relative collection agency performance as well as justify any incentives given for achieving a certain level of performance. For the years 2012 through 2014, first placement agency performance for net collections ranged from approximately 5.1% to 6.5%. Second placement agency performance for net collections ranged from approximately 0.6% to 1.0% for the same period. Commercial and industrial account agency performance for net collections ranged from approximately 7.1% to 9.2% for the same period. Incentives can be established based upon achieving threshold (minimal performance) and goal levels.

Staff's Follow-up Recommendation – Establish goals for collection agency performance based upon the percentage of net dollars collected.

IX. EMERGENCY PREPAREDNESS

Background – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company), conducted by the Audit Staff and released by the Pennsylvania Public Utility Commission (PUC or Commission) on March 14, 2013, at D-2011-2269361, did not contain any recommendations within the Emergency Preparedness functional area. Although the Audit Staff rated this functional area as meets expected performance level, it was deemed prudent to perform an updated review of the Company's compliance with PUC regulations at 52 Pa. Code §101 regarding physical security, cyber security, emergency response and business continuity plans as part of this audit.

In order to protect infrastructure within the Commonwealth of Pennsylvania and ensure safe, continuous and reliable utility service, effective since June 2005, PUC regulations at 52 Pa. Code §101 (Section 101) require jurisdictional utilities to develop and maintain appropriate written physical security, cyber security, emergency response, and business continuity plans. Furthermore, in accordance with 52 Pa. Code §101.1, all jurisdictional utilities are to annually submit a Self Certification Form to the Commission documenting compliance with Chapter 101. This form, available on the PUC website, is comprised of 13 questions as shown in Exhibit IX-1.

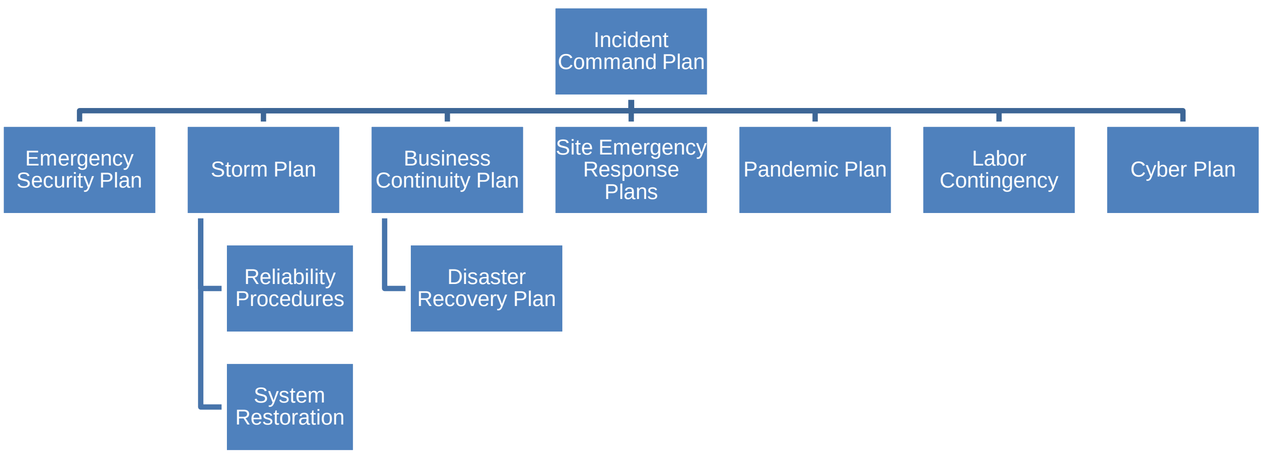
Exhibit IX-1
Pennsylvania Public Utility Commission
Public Utility Security Planning and Readiness Self Certification Form

Item No.	Classification	Response (Yes-No-N/A*)
1	Does your company have a physical security plan?	1.
2	Has your physical security plan been reviewed in the last year and updated as needed?	2.
3	Is your physical security plan tested annually?	3.
4	Does your company have a cyber security plan?	4.
5	Has your cyber security plan been reviewed in the last year and updated as needed?	5.
6	Is your cyber security plan tested annually?	6.
7	Does your company have an emergency response plan?	7.
8	Has your emergency response plan been reviewed in the last year and updated as needed?	8.
9	Is your emergency response plan tested annually?	9.
10	Does your company have a business continuity plan?	10.
11	Does your business continuity plan have a section or annex addressing pandemics?	11.
12	Has your business continuity plan been reviewed in the last year and updated as needed?	12.
13	Is your business continuity plan tested annually?	13.

* Attach a sheet with a brief explanation if N/A is supplied as a response to a question.
Source: Public Utility Planning and Readiness Self Certification Form, as available on the PUC website at http://www.puc.state.pa.us/general/onlineforms/pdf/Physical_Cyber_Security_Form.pdf.

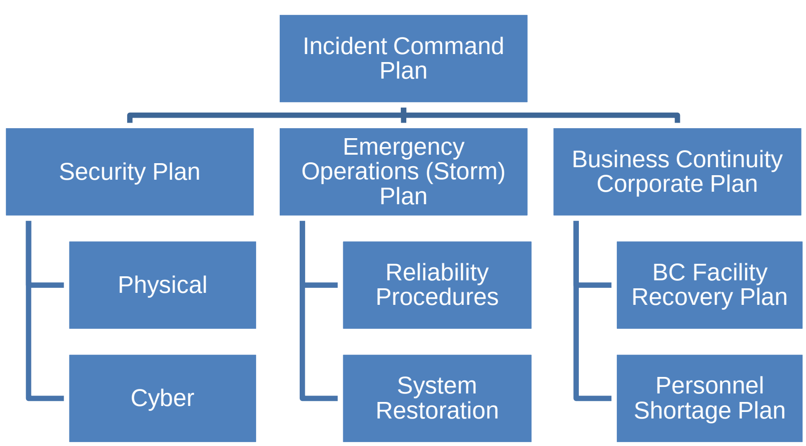
In the last quarter of 2014, Duquesne Light substantially reorganized the emergency preparedness functions, which at the Company is denoted as the Incident Management System (IMS). Whereas, previous to this reorganization the responsibilities for the various plans were led by multiple positions, there is now an established Manager of Emergency Preparedness who has the consolidated responsibilities for the testing and updating of all emergency plans, training, and issues involving mutual assistance. Duquesne Light's prior and current IMS alignments are displayed in Exhibit IX-2 and Exhibit IX-3. All previous information from the plans displayed in Exhibit IX-2 is still maintained but has been consolidated into one of the plans displayed in Exhibit IX-3.

Exhibit IX-2
Duquesne Light Company
Incident Management System Alignment Prior to Consolidation
(Prior to 2015)



Source: Data Request AI-6

Exhibit IX-3
Duquesne Light Company
Incident Management System Alignment After Consolidation
As of 2015



Source: Data Request AI-6

To protect physical and cyber security, the measures used by the Company include the following:

- Physical access to buildings, service centers, garages, and maintenance areas is restricted through various security measures.
- Cyber access allows varying levels of access to internet, intranet and software applications. The amount of access permitted is determined by an employee's job description and title.
- Duquesne Light utilizes multiple types of clustered industry standard firewalls to secure and protect its critical cyber infrastructure.
- Cyber risk and vulnerability assessments are conducted periodically.

Duquesne Light tests its Physical Security, Cyber Security, Emergency Operations and Business Continuity Plans at least annually and, in some instances, multiple times a year. A review is completed to ensure each plan has been tested, results of testing have been evaluated, and the necessary corrective measures have been taken as necessary. The plans are updated accordingly following the testing and review of the individual plan.

The Audit Staff reviewed the most recent (2013) Self Certification Form submitted by Duquesne Light to determine the status of its responses. Our examination of the Company's emergency preparedness included a review of the Physical Security Plan, Cyber Security Plan, Emergency Operations Plan (which is the Company's emergency response plan), Business Continuity Plan, and all associated security measures. This included a review of emergency response manuals to ensure that proper identification of PUC and other government agency contacts were sufficient and up to date. In addition, the Audit Staff also reviewed measures taken by the Company to safeguard its areas of vulnerability. If situations were to occur, however, which prevented normal operations from occurring; the Business Continuity Plan adequately addresses contingencies for employees, equipment, facilities and services provided. Due to the sensitive nature of the information reviewed in this functional area, specific information is not revealed in this report but rather the generalities of the information reviewed is summarized.

<u>Follow-up Finding and Conclusion No. IX-1</u> – The Emergency Operations Plan does not contain local municipal police, fire, and emergency medical service contacts nor does it contain PUC contacts.

A review of the Emergency Operations Plan revealed that there is no contact information for local emergency responders (i.e., police, fire, and emergency medical services). According to the Company, this is because County 911 would be contacted in case of emergencies as opposed to local emergency responders. Although it is acceptable and often preferable to call County 911 centers directly during emergencies (especially in rural areas), the Company should have all local municipal emergency responder information documented and updated annually. Although it may be uncommon to immediately need this information, there may be instances of a 911 system outage or where local responders could quickly provide vital information for an emergency.

Additionally, it is important for the Company to create and maintain all current PUC contacts in the Emergency Operations Plan as well. Although it is likely that current Company representatives are fully aware of the proper PUC contacts, there is a potential that during an emergency, Company representatives who are acting in a temporary replacement role for the normal representatives would not be aware of the proper PUC contacts.

<u>Staff's Follow-up Recommendation</u> – Include all local emergency service and PUC contacts in the Emergency Operations Plan and update at least annually.

X. ACKNOWLEDGEMENTS

We wish to express our appreciation for the cooperation and assistance given to us during the course of this Management Efficiency Investigation by the officers and staff of Duquesne Light Company.

This audit was conducted by Bryan Borres, Timothy Kerestes, Eric McKeever, and Craig Bilecki of the Management Audit Staff of the Bureau of Audits.


PENNSYLVANIA
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