**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held September 15, 2016

Commissioners Present:

Gladys M. Brown, Chairman

Andrew G. Place, Vice Chairman, Statement

John F. Coleman, Jr.

Robert F. Powelson

David W. Sweet

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| Petition of Duquesne Light Company for Approval of its Long-Term Infrastructure Improvement Plan Petition of Duquesne Light Company for Approval of a Distribution System Improvement Charge |  P-2016-2540046 P-2016-2540046 |

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Commission for consideration are the Petitions for approval of the Long-Term Infrastructure Improvement Plan (LTIIP) and the Distribution System Improvement Charge (DSIC) of Duquesne Light Company (Duquesne or Company).

**HISTORY OF THE PROCEEDING**

Duquesne – a wholly owned subsidiary of Duquesne Light Holdings, Inc. – is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. Duquesne is in the business of transmitting and distributing electricity to retail customers within the Commonwealth, and is therefore a “public utility” within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. §§ 102, subject to the regulatory jurisdiction of the Commission. Duquesne, as an Electric Distribution Company (EDC), provides electric distribution, transmission, and provider of last resort services to approximately 588,000 customers in a certified service territory that spans approximately 817 square miles to include the City of Pittsburgh and portions of Allegheny and Beaver Counties in western Pennsylvania. As part of its distribution network, Duquesne operates and maintains approximately 5,900 miles of overhead lines, 1,400 miles of underground lines, and 182 substations.

Duquesne’s LTIIP was filed on April 15, 2016, with copies being served upon the statutory advocates and all active parties in Duquesne’s most recent base rate case[[1]](#footnote-1), in accordance with *Implementation of Act 11 of 2012*, Docket No. M‑2012‑2293611 (August 2, 2012) (Final Implementation Order).

On May 5, 2016, the Office of Small Business Advocate (OSBA) filed an Answer, Notice of Intervention, Public Statement, and Verification for Duquesne’s LTIIP. In its Answer, the OSBA requested the Petition be sent to the Office of Administrative Law Judge (OALJ) for hearings and preparation of an initial decision. As per 52 Pa. Code § 121.4(c), the Commission’s LTIIP review procedures require LTIIPs to be referred to the OALJ if comments “raise material factual issues”. The only sections of Duquesne’s LTIIP Petition that were denied by the OSBA were I-8, II-9, II-10, and III-30 (OSBA Answer at 2, 3, and 5, respectively). The OSBA averred that there was insufficient information or knowledge to form a belief as to the truth of the Petition’s claims in these sections. This alone does not raise material factual issues. However, the Commission did agree the Petition did not provide enough information in section I-8[[2]](#footnote-2). Therefore, among other additional information, the Commission requested more detail be provided on section I-8 of Duquesne’s LTIIP Petition.

On May 13, 2016, the Office of Consumer Advocate (OCA) provided comments on Duquesne’s LTIIP. The OCA did not request hearings, but suggested Duquesne provide additional information to the Commission to ensure Duquesne’s LTIIP accelerated infrastructure repair and replacement in a cost effective manner as required by Act 11. Specifically, the OCA noted that Duquesne did not provide historical baseline data to compare against the proposed LTIIP and further recommended that the commission review Duquesne’s biennial Inspection and Maintenance Plans to determine if the LTIIPs meet the acceleration requirements in Act 11 (OCA Comments at 4).

On May 13, 2016, the Bureau of Investigation and Enforcement (I&E) filed comments indicating it does not oppose Duquesne’s LTIIP at this time, but that it reserves its right to address cost recovery and allocation issues during any forthcoming Duquesne DSIC proceeding. Specifically, I&E noted the absence of specific information related to the microgrid portion of Duquesne’s LTIIP (I&E Comments at 4).

On May 16, 2016, Citizen Power Inc. (Citizen) filed comments indicating it has concerns that Duquesne’s LTIIP does not meet the acceleration requirements under 52 Pa. Code § 121.3(a)(6). Citizen noted that Duquesne did not provide adequate detail regarding baseline expenditures in order to independently determine if the projected expenditures were actually being accelerated.

Duquesne filed for approval of a DSIC on May 26, 2016. Duquesne’s DSIC Petition includes a ProForma Supplement No. XXX to Electric – Pa. P.U.C. No. 24 to introduce the DSIC Rider into the Company’s tariff with an effective date of October 1, 2016. The filing was made pursuant to 66 Pa. C.S. § 1353 and the Final Implementation Order.

On June 15, 2016, the OCA filed an Answer to Duquesne’s DSIC Petition. In its Answer, the OCA states that the Commission should deny Duquesne’s Petition as filed, suspend the proposed tariff, and refer the matter to the OALJ for full hearing and investigation.

On June 15, 2016, I&E filed an Answer to Duquesne’s DSIC Petition. In its Answer, I&E requests that the Commission deny Duquesne’s Petition as filed and refer the matter to the OALJ for evidentiary hearings and the issuance of a recommended decision.

On July 13, 2016, the Commission issued a Secretarial Letter to Duquesne requesting more details regarding its LTIIP, specifically in regards to historical baseline infrastructure replacement and capital spending for the categories of eligible property.

On July 25, 2016, Duquesne filed a response to the July 13, 2016 Secretarial Letter.

On July 28, 2016, the Commission issued a Secretarial Letter to Duquesne extending the review period until September 16, 2016.

On August 11 2016, the Commission issued a Secretarial Letter to Duquesne requesting further details and clarification in regards to the Duquesne LTIIP historical and projected baseline expenditures and project categories.

On August 22, 2916, Duquesne filed a response to the August 11, 2016 Secretarial Letter.

On August 25, 2016, Duquesne filed a letter with the Commission clarifying the fact that, in its petition, testimony, and exhibits, it should have stated that the initial DSIC effective October 1, 2016 will include eligible plant placed in service during the months of June, July, and August 2016, rather than just July and August as originally stated. Duquesne included a revised exhibit DBO-3, which provided a revised DSIC calculation using the corrected months of June through August as eligible plant.

On August 29, 2016, pursuant to discussion with Commission Staff, Duquesne filed revised tables for its LTIIP that reconciled historical baseline, forecasted, and accelerated spending plans and units from previously submitted versions.

Letters expressing opposition to the Duquesne DSIC were received from seven individual customers, who all argued against implementation of a DSIC.

No objections or comments were received from federal, state or local governmental agencies.

**BACKGROUND**

On February 14, 2012,Governor Corbett signed into lawAct 11 of 2012, (Act 11),[[3]](#footnote-3) which amends Chapters 3, 13 and 33 of Title 66. Act 11, *inter alia*, provides jurisdictional water and wastewater utilities, electric distribution companies (EDCs), and natural gas distribution companies (NGDCs) or a city natural gas distribution operation with the ability to implement a DSIC to recover reasonable and prudent costs incurred to repair, improve or replace certain eligible distribution property that is part of the utility’s distribution system. The eligible property for the utilities is defined in 66 Pa. C.S. §1351. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file a LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352. The Commission’s LTIIP Regulations are codified at 52 Pa. Code § 121.

On April 5, 2012, the Commission held a working group meeting for discussion and feedback from stakeholders regarding its implementation of Act 11. On May 10, 2012, the Commission issued a Tentative Implementation Order addressing and incorporating input from the stakeholder meeting. Stakeholders filed comments to the Tentative Implementation Order on June 6, 2012. On August 2, 2012, the Commission issued the Final Implementation Order, at Docket No. M‑2012‑2293611, establishing procedures and guidelines necessary to implement Act 11.

The Final Implementation Order adopts the requirements established in 66 Pa. C.S. § 1352, provides additional standards that each LTIIP must meet, and gives guidance to utilities for meeting the Commission’s standards. The Final Implementation Order of Act 11 requires the inclusion of seven elements in the LTIIP.

**DUQUESNE’S LTIIP PETITION**

Before the Commission for consideration is the Petition for approval of Duquesne’s LTIIP, filed on April 15, 2016. Act 11 states that as a precondition to the implementation of a DSIC, a utility must file a LTIIP with the Commission that is consistent with 66 Pa. C.S. §1352.

Duquesne’s LTIIP is a six year plan, spanning the years 2017 through 2022. The LTIIP detailed accelerated infrastructure improvements in order to enhance system resiliency and reliability on an aging infrastructure. The LTIIP Petition projected accelerated spending of $212 million total, excluding unreimbursed highway relocation amounts. However, based on discussion with Commission Staff and information filed by Duquesne in response to Commission data requests, the actual acceleration is approximately $130 million, excluding unreimbursed highway relocation amounts. Duquesne has outlined six infrastructure initiatives as follows:

* 4kV Program $110 million
* Overhead Program $2.1 million
* Underground Program $13.6 million
* Substation Program $4.2 million
* Unreimbursed Highway Relocation $17.2 million
* Microgrid Program $0

The scope of each of the initiatives is described in Table 1 in the LTIIP Element 1 discussion, below.

Duquesne’s LTIIP Petition provided information based on an accelerated expenditure of $212 million. As noted above, subsequent information filed with the Commission provided further detail on Duquesne’s baseline projects and expenditures from the period covering 2011 through 2022. Based on this information, Duquesne’s actual accelerated expenditures were approximately $130 million, excluding unreimbursed highway relocations. Duquesne noted that their forecasted DSIC eligible budgeting as shown in Figure 4 of their Petition included baseline and accelerated amounts. Data filed by Duquesne on July 25, 2016 appeared to indicate that the projected baseline expenditures for 2017 through 2022 were lower than those of 2011 through 2016.[[4]](#footnote-4) LTIIPs should reflect and maintain an acceleration over the historic level of capital improvement.[[5]](#footnote-5) Therefore, on August 29, 2016, Duquesne filed revised projected baseline and LTIIP projects and expenditure information to reflect the actual amount of *accelerated* LTIIP projects and expenditures. Duquesne’s projected baseline eligible property projects and expenditures were adjusted to reflect a continued level of capital improvement.

Duquesne’s Microgrid Program did not have any associated expenditures or specific eligible property detailed. Duquesne’s LTIIP provided a brief overview of a prospective microgrid project at their Woods Run location. The proposed microgrid would initially be limited to Duquesne’s Woods Run campus to provide for increased reliability for their critical facilities. Duquesne noted that ensuring the operability of their Woods Run campus would enable Duquesne to more effectively respond to service interruptions and ensure the reliable functioning of downtown Pittsburgh’s electrical infrastructure during such events. As this section is speculative and the LTIIP does not contain any proposed plans or expenditures in this regard, this Order does not address this provision of Duquesne’s LTIIP. If Duquesne desires to implement any of these speculative programs in their LTIIP in the future, they may file a Petition for a Major Modification or an amended LTIIP per regulation 52 Pa. Code § 121.5(a).

On March 14, 2013, the Commission issued a proposed rulemaking on the LTIIP at L‑2012‑2317274. The proposed rulemaking acknowledged the Commission’s decision against establishing a separate Pipeline Replacement and Performance Plan filing process at Docket No. M‑2011‑2271982, because it would be duplicative of the Act 11 DSIC regulatory process, specifically, the filing of LTIIPs. The Commission, nevertheless, determined that it would rather order additional actions from NGDCs if necessary, in order to safeguard the public. The Commission also acknowledged that the implementation of a DSIC mechanism may lead to numerous construction projects by the utilities. The Commission is aware that these construction projects could lead to significant disruptions as utilities perform work in the right of ways of the roadways and streets across the Commonwealth in order to repair or replace their infrastructure. Therefore, the Commission has directed, by way of the proposed rulemaking, that a utility, as part of its LTIIP, should provide a description of its outreach and coordination activities with other utilities, Pennsylvania Department of Transportation (PennDOT), and local governments regarding their planned maintenance/construction projects and roadways that may be impacted by the plan.

As a result, the proposed rulemaking added an additional element, thereby increasing the original seven elements in the LTIIP to eight as shown below:

1. Types and age of eligible property;
2. Schedule for its planned repair and replacement;
3. Location of the eligible property;
4. Reasonable estimates of the quantity of property to be improved;
5. Projected annual expenditures and measures to ensure that the plan is cost effective;
6. Manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service;
7. A workforce management and training program; and
8. A description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects.

Duquesne’s LTIIP addressed these eight elements as required in the Final Implementation Order of Act 11 and the proposed rulemaking of March 14, 2013, as outlined below.

1. **TYPES AND AGE OF ELIGIBLE PROPERTY**

**Duquesne’s Petition**

Table 1, below, describes the types and ages of eligible property for each of the initiatives outlined in the Duquesne LTIIP.

**Table 1 – Duquesne Types and Age of Eligible Property**



**Comments**

I&E commented that Duquesne did not provide enough information for an evaluation on the types and ages of eligible property for their Microgrid Program.

**Resolution**

 Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds that the requirements of element one of the Final Implementation Order, types and age of eligible property, have been fulfilled. As noted previously, Duquesne’s Microgrid Program is speculative and will be fully evaluated when Duquesne files a subsequent Petition for a Major Modification or an amended LTIIP and the concerns of I&E are met. The Commission would also like to remind all parties that the inclusion of arguably non-DSIC-eligible property does not void the LTIIP application, nor is the inclusion of such property in the LTIIP dispositive of whether the cost of that project will be afforded DSIC recovery. The Commission acknowledges the level of detail contained within the LTIIP for item one conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

1. **SCHEDULE FOR PLANNED REPAIR AND REPLACEMENT OF ELIGIBLE PROPERTY**

**Duquesne’s Petition**

Table 2, below, provides the schedule for planned projects for each of Duquesne’s initiatives for 2017 thru 2022 and the accelerated repair and replacement of eligible property based on the LTIIP project categories. The information in the table is based on Duquesne’s LTIIP and supplemental information filed with the Commission.

**Table 2 – Duquesne LTIIP Project Schedule**



**Comments**

No comments were received regarding the schedule for planned repair and replacement of eligible property.

**Resolution**

Upon review of Duquesne’s LTIIP and all supplemental information and explanations filed, the Commission finds that the requirements of element two of the Final Implementation Order, schedule for planned repair and replacement of eligible property, have been fulfilled. The Commission acknowledges the level of detail contained within the LTIIP conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

1. **LOCATION OF ELIGIBLE PROPERTY**

**Duquesne’s Petition**

Duquesne’s service territory comprises approximately 817 square miles in parts of Allegheny and Beaver Counties. Duquesne averred that total eligible property as outlined in the LTIIP is located throughout its territory. Table 3, below, provides information on the expected locations of the LTIIP projects.

**Table 3 – Duquesne Location of Eligible Property Programs**



**Comments**

No comments were received regarding the location of eligible property.

**Resolution**

Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds that the requirements of element three of the Final Implementation Order, the location of eligible property, have been fulfilled. The Commission acknowledges the level of detail contained within the LTIIP conforms to Commission requirements and is presented in a manner that allows for complete and efficient review of, and reference to, these materials.

1. **REASONABLE ESTIMATES OF THE QUANTITY OF PROPERTY TO BE IMPROVED, and**
2. **PROJECTED ANNUAL EXPENDITURES AND MEASURES TO ENSURE THAT THE PLAN IS COST EFFECTIVE**

**Duquesne’s Petition**

 Duquesne provided information on the expected annual property units and expenditures for each initiative category in its LTIIP. The LTIIP expenditures represent an incremental increase over the expected normal spending in those categories. Duquesne also provided baseline property units and expenditures from the previous six years for the same categories as the LTIIP initiatives. Table 4, below, details the baseline historical property units installed for 2011 through 2016; the baseline projected units to be installed for 2017 through 2022; and the LTIIP property units to be installed for 2017 through 2022. Table 5, below, details the baseline historical spending for 2011 through 2016; the baseline projected spending for 2017 through 2022; and the LTIIP spending for 2017 through 2022.

**Table 4 – Baseline Historical, Baseline Projected, and LTIIP Project Units**



**Table 5 – Baseline Historical, Baseline Projected, and LTIIP Expenditures**



Duquesne also provided information on measures to ensure cost effectiveness. Those measures included a provision to ensure projects are completed by qualified and trained Duquesne personnel, or selected pre-approved vendors. Pre-approved vendors are employed for those projects that would be competitively bid. Duquesne noted that due to the size and scope of the LTIIP projects, approximately 80 percent of the projects would be competitively bid. Duquesne utilizes a formal request for proposal (RFP) process for bidders that provide documented controls to ensure contracts are awarded based on technical capability and reasonable cost. Duquesne provided a sample RFP to the Commission. The Duquesne bid package typically includes: RFP instructions; job specifications; drawings or special instructions; technical, commercial, and pricing data sheets; and Duquesne’s commercial terms and conditions.

 Duquesne uses an Internal Client/Requestor Purchasing Guide for procurement of materials, equipment, and services. A Contract Intelligence Module is used to track contract performance to ensure work is being performed in a cost effective, safe, and reliable manner. Duquesne also has a Project Management Office that provides services specifically dedicated to the successful execution of the LTIIP. Duquesne Project Managers are expected to ensure work is performed in accordance with industry best practices. Duquesne averred that financial management resources will ensure overall financial responsibility of the projects from beginning to end and their Supply Chain section will oversee the materials and manage contracts. Engineering will provide support and oversight for all aspects of the engineering phase of distribution projects. Construction management will ensure work is performed in a workmanlike manner and in accordance with contract documentation.

 Duquesne noted that they monitor projects to ensure that disposal and salvage of materials is completed in a safe and environmentally sensitive manner. This process also ensures any credit for salvage is recognized as an offset to the cost of removal.

 In general, Duquesne noted the LTIIP expenditures are considered cost effective because the infrastructure that will be replaced and/or upgraded will have a direct impact on customer service and increase reliability.

**Comments**

The OCA commented generally that the Commission should thoroughly examine Duquesne’s LTIIP to ensure cost effectiveness. The OCA specifically noted that Duquesne should provide more detail to the Commission on how cost effectiveness would be calculated. The OSBA, in its Answer, averred that there was insufficient information or knowledge to form a belief as to the truth of the Petition’s claims in sections related to determining cost effectiveness. I&E commented that Duquesne did not provide enough information for an evaluation of the cost effectiveness for its Microgrid Program.

**Resolution**

Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds the requirements of elements four and five of the Final Implementation Order, reasonable estimates of the quantity of property to be improved and the projected annual expenditures and measures to ensure that the plan is cost effective, have been fulfilled. The concerns of the OCA and OSBA have been addressed by the Duquesne’s LTIIP and supplemental information filed, including Duquesne’s detailed explanation of the RFP vendor and procurement processes. As to the concern of I&E, Duquesne’s Microgrid Program is speculative and will be fully evaluated when Duquesne files a subsequent Petition for a Major Modification or an amended LTIIP.

The Commission acknowledges the level of detail contained within the LTIIP, and the supplemental information filed, does conform to Commission requirements and are presented in a manner that allows for complete and efficient review of, and reference to, these materials. Further, the Commission will monitor the progress of the LTIIP through the required Annual Asset Optimization Plan filings. Improvements in reliability will be monitored through Duquesne’s required quarterly and annual Reliability Reports.

1. **ACCELERATED REPLACEMENT AND MAINTAINING SAFE AND RELIABLE SERVICE**

**Duquesne’s Petition**

Duquesne averred that the LTIIP projects are an acceleration of past and current projects and will enhance safe and reliable service. Duquesne provided information regarding the historical spending in the eligible property categories outlined in the LTIIP project areas. As shown in Tables 4 and 5, above, Duquesne will increase its spending and reliability improvements, including the incremental increases represented by the projects and expenditures in the LTIIP.

**Comments**

The OCA noted that the Duquesne LTIIP may not meet the standard for the required acceleration component because Duquesne did not provide sufficient background information on how it will accelerate infrastructure repair and replacement. Citizen commented that the LTIIP did not provide sufficient detail on the baseline expenditures. Citizen also noted that the baseline expenditures for 2017 through 2022 appear to be less than that of the baseline expenditures of 2011 through 2016.

**Resolution**

After providing further information and clarification as detailed in Tables 4 and 5, above, Duquesne has demonstrated that the LTIIP expenditures are an acceleration of historical spending in the eligible property categories outlined in the LTIIP projects areas. Therefore, the concerns of the OCA and Citizen have been addressed.

Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds that the requirements of element six of the Final Implementation Order, manner in which replacement of aging infrastructure will be accelerated and how repair, improvement or replacement will maintain safe and reliable service, have been fulfilled. Duquesne has demonstrated that it is planning to accelerate its infrastructure replacement over the timeframe of the LTIIP and that completion of the planned projects of the LTIIP will maintain safe and reliable service.

1. **WORKFORCE MANAGEMENT AND TRAINING PROGRAM**

**Duquesne’s Petition**

The Final Implementation Order requires a utility to include within its LTIIP a workforce management and training plan designed to ensure that the utility will have access to a qualified workforce to perform work in a cost-effective, safe and reliable manner.

Duquesne has a joint partnership with Community College of Allegheny County to teach an Electrical Distribution Technology Program, which is a one-year certificate program that would allow graduates the opportunity for entry level positions based on Duquesne’s standard hiring process and enter a structured apprentice program that lasts about five years. Duquesne averred that this ensures new hires are familiar with the Duquesne processes, safety programs, and system.

Duquesne also provides ongoing internal formal refresher training through the Workforce Development (WFD) team. The WFD conducts ongoing annual Compliance Training which ensures the workforce receives consistent, accurate, and quality training. The WFD maintains Duquesne employee training materials and records to ensure compliance and completeness of training.

Duquesne leverages industrial best practices, consensus standards, such as American National Standards Institute, American Society for Testing Materials and Institute of Electrical and Electronics Engineers, to develop safe, modern, and effective work practices and associated training curriculum.

Duquesne sizes the workforce to accommodate steady state workload that includes day-to-day activity and a reasonable level of storm response as projected from historical averages. Any additional qualified manpower needed to complete LTIIP projects will be managed and acquired by a dedicated Project Management Office that will utilize a competitive bidding process and a pre-approved vendor program, as detailed in the section on LTIIP requirement 5, above. This ensures contractors are selected based on available manpower and equipment resources, understanding of project scope, constructability, management and safety oversight, and pricing.

**Comments**

No comments were received regarding the workforce management and training program.

**Resolution**

As part of the planning for DSIC projects, a utility may experience the need for increased workforce, internal and contractor. Utilities should be able to identify the projected number of jobs (or full-time equivalents) that are expected to be created through specific replacement projects. When a utility submits its information on the eligible projects, it should supply the number of anticipated new jobs to be created by those projects. When the DSIC funds are audited for annual reconciliation, the utility should be able to provide actual numbers for the jobs created due to specific replacement projects.

Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds that the requirements of element seven of the Final Implementation Order, a workforce management and training program, have been fulfilled.

1. **DESCRIPTION OF OUTREACH AND COORDINATION ACTIVITIES WITH OTHER UTILITIES, PENNDOT AND LOCAL GOVERNMENTS ON PLANNED PROJECTS**

**Duquesne’s Petition**

Duquesne noted that most of the work being performed under its LTIIP will likely have minimal impact on other entities’ work schedules. Therefore, Duquesne says that they do not have any LTIIP specific outreach plans developed. However, Duquesne will continue regular communication for underground work in the city of Pittsburgh using a communications program developed by Accella Corporation, which offers a Cloud based communications tool to increase engagement, improve efficiency, and deliver transparency. Duquesne will also use the National Joint Utilities Notification System to coordinate with third party pole facility attachers.

**Comments**

No comments were received regarding the outreach and coordination activities.

**Resolution**

Upon review of Duquesne’s LTIIP and all supplemental information filed, the Commission finds that the requirements of element eight of the Final Implementation Order, a description of a utility’s outreach and coordination activities with other utilities, PennDOT and local governments on planned maintenance/construction projects, have been fulfilled.

**LTIIP SUMMARY**

The Commission has reviewed each of the eight required elements of Duquesne’s Petition for Approval of its LTIIP individually and has taken into account the comments received on this petition. Duquesne’s proposed LTIIP appears to demonstrate that its associated expenditures are reasonable, cost effective, and designed to ensure and maintain efficient, safe, adequate, reliable, and reasonable service to its customers. While the Commission’s Final Implementation Order stated, at page 18, that the LTIIP “need only address the specific property eligible for DSIC recovery,” the inclusion of arguably non-DSIC-eligible property does not void the LTIIP application, nor is the inclusion of such property in the LTIIP dispositive of whether the cost of that project will be afforded DSIC recovery.  The issues of eligibility and cost recovery, for all property claimed as DSIC-eligible, are to be addressed and resolved in the subsequent DSIC petition and calculation.  Accordingly, Duquesne’s LTIIP is approved.

**DUQUESNE’S DISTRIBUTION SYSTEM IMPROVEMENT CHARGE PETITON**

Section 1353 requires utilities to file a petition seeking approval of a DSIC that includes the following:

1. An initial tariff that complies with the Model Tariff adopted by the Commission, which includes:
	1. A description of eligible property;
	2. The effective date of the DSIC;
	3. Computation of the DSIC;
	4. The method for quarterly updates of the DSIC; and
	5. A description of consumer protections.
2. Testimony, affidavits, exhibits, and other supporting evidence demonstrating that the DSIC is in the public interest;
3. A Long Term Infrastructure Improvement Plan (LTIIP) as described in Section 1352, 66 Pa. C.S. § 1352;
4. Certification that a base rate case has been filed within five years prior to the filing of the DSIC petition; and
5. Other information required by the Commission.

Duquesne’s petition addresses each of the elements listed in the statute, as detailed below.

 **(1) Tariff Filing**

Section 1353 requires utilities to file an initial tariff that complies with the Model Tariff adopted by the Commission. Duquesne’s proposed Supplement No. XXX to Electric – Pa. P.U.C. No. 24 (Proposed Tariff) closely reflects the language of the Model Tariff. However, Duquesne shall make the tariff sufficiency modifications as spelled-out in Appendix A at the conclusion of this Order. We shall review each item in turn.

**(a) Eligible Property**

**Duquesne’s Petition**

Duquesne designates the same property as DSIC-eligible as it included in its LTIIP, including the following: poles and towers; overhead and underground conductors; transformers and distribution substation equipment; fixtures and devices related to the eligible property such as insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, convertors, and condensers; unreimbursed costs related to highway relocation projects; and other related capitalized costs. Details of Duquesne’s DSIC-eligible property are discussed thoroughly in the LTIIP section of this Order. Eligible property for EDCs is defined in Section 1351, 66 Pa. C.S. § 1351(1).

Duquesne has separated its eligible property into six distinct programs, including: (1) 4kV Program, (2) Overhead Program, (3) Underground Program, (4) Substations Program, (5) Highway Relocation Program, and (6) Microgrid Program. Although the Company has included microgrids in its eligible property, it is not requesting approval or recovery of any particular microgrid projects at this time.

**Comments**

The OCA and I&E both expressed concerns about the inclusion of Duquesne’s Microgrid Program as eligible property available for recovery under the DSIC. I&E notes that Duquesne has not provided sufficient information to determine whether the costs associated with its Microgrid Program constitute reasonable and prudent costs incurred to repair, improve, or replace eligible property, and that the annual schedule and expenditures for the program are still being determined. I&E submits that the Microgrid Program costs cannot be deemed eligible for DSIC recovery when its costs, scope, and ratepayer benefits have yet to be identified. The OCA points out that no resources have yet been allocated to the Microgrid Project under Duquesne’s LTIIP and that the Company plans to file an amended LTIIP to include detailed information and costs when the program is closer to being implemented, and it is not until this point in time, the OCA submits, that the Microgrid Program should be reviewed to determine the validity of its costs being recovered through the DSIC surcharge.

**Resolution**

Duquesne plans to evaluate locations within its service territory that may benefit from the deployment of microgrid projects, with a focus on identifying which critical community infrastructure assets would provide sufficient benefit to all customers so as to justify the cost of installing a microgrid to protect them from extraordinary outages caused by high-consequence events such as major storms or physical/cyber attacks. As explained by Company witness John Hilderbrand, Duquesne intends to build a microgrid at its Woods Run operations campus, which is the Company’s largest operations facility and the one responsible for ensuring the reliability of downtown Pittsburgh’s electrical infrastructure. However, the details of the project are still in the works, and as such, no resources have yet been allocated to the project under the Company’s LTIIP. As Duquesne’s Woods Run project, along with any other potential microgrid projects, is further developed and moves closer to construction, the Company states it will file an amended LTIIP to include detailed project information and costs.

The Commission has ruled in the LTIIP section of this Order as to whether these items will be permitted for inclusion in Duquesne’s LTIIP as eligible-property. We will align our stance on whether these items should be DSIC-recoverable with the determinations made in that LTIIP discussion. However, noting that the OCA and I&E have challenged the recovery of microgrid projects in the DSIC, the Commission will refer the issue of whether the costs associated with Duquesne’s Microgrid Program are recoverable through the DSIC mechanism to the OALJ for hearing and recommended decision.

**(b) Effective Date**

**Duquesne’s Petition**

Duquesne’s Proposed Tariff has an effective date of October 1, 2016. As outlined by Company witness David Ogden, Duquesne’s last base rate proceeding utilized a fully projected test year ending April 30, 2015, subsequent to which Duquesne has been making continued investments in DSIC eligible distribution plant that have not been reflected in rate base. The October 1, 2016 effective date will allow the Company to begin recovering the costs associated with eligible plant placed into service commencing June 1, 2016, thereby offsetting some of the costs of investments made following its last base rate case.

**Comments**

The OCA submits that Duquesne should not be permitted to implement its DSIC rate until the issues raised about the recovery of certain costs through the DSIC have been resolved, and it has been determined that the DSIC rate has been calculated in accordance with Act 11 and the Commission’s Final Implementation Order. I&E, along with the OCA, submit that the Commission should deny Duquesne’s petition for a DSIC and refer the matter to the OALJ for hearing and disposition.

**Resolution**

Given that the OCA and I&E have raised issues and requested hearings regarding certain elements of Duquesne’s DSIC petition, we shall refer those issues to OALJ for hearing and recommended decision. However, consideration of those issues need not delay implementation of the DSIC mechanism itself. We shall permit Duquesne to implement a DSIC mechanism, pursuant to a tariff filed on a 10-day notice and in compliance with the directives in this Order, but note that the rates charged pursuant to the DSIC surcharge shall be subject to recoupment and refund after final resolution of the issues brought before the OALJ. Therefore, based on requirements for DSIC quarterly updates, as more fully described below, the Commission directs Duquesne to file a tariff no later than September 20, 2016, if Duquesne wishes to have an effective date of October 1, 2016.[[6]](#footnote-6) Duquesne’s tariff must be modified in a tariff filing as directed by the Commission in this Order.

**(c) Computation of the DSIC**

**Duquesne’s Petition**

With the Proposed Tariff, Duquesne proposes a Pro-Forma DSIC rate of .55%, which the Company avers was calculated consistent with the Model Tariff in the Final Implementation Order, with the exception of one modification. That modification, as explained by Company witness Ogden, is due to the fact that the Model Tariff attached to the Final Implementation Order does not properly reflect a tax component related to the Pennsylvania Gross Receipts Tax in the DSIC formula. Therefore, Duquesne has modified the formula for calculation of the DSIC as follows:

DSIC = ((DSI \* PTRR) + Dep + e) \* (1/(1-T))

 PQR

Where:

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

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

Dep = Depreciation expense related to DSIC-eligible property.

e = Amount calculated under the annual reconciliation feature or Commission audit.

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

T = Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

Duquesne’s calculation is:

DSIC = ((20,689,931 \* 2.78%) + 86,569) \* (1/(1-.059))

 126,962,474

Duquesne’s estimated DSIC rate of .55% was calculated using projected costs and capital structure that would be suitable for an October 1, 2016 effective date. Duquesne will update this computation ten days before the actual approved effective date of the DSIC rate to reflect the following: the costs of all DSIC-eligible projects that were placed into service during the three month period ending one month prior to the approved effective date; Duquesne’s actual capital structure and cost of long term debt as of one month prior to the effective date; and the Commission-allowed rate of return on equity. Therefore, for a DSIC effective October 1, 2016, a three-month period of June through August should be used when calculating the appropriate DSIC rate.

Duquesne used a rate of return on equity (ROE) of 9.90% in calculating its DSIC, which was taken from the Commission’s Q3 2015 Quarterly Earnings Report at Docket No. M-2016-2522717. Duquesne states that when the Commission publishes a ROE to be used for DSIC purposes[[7]](#footnote-7), it will revise its tariff filing to reflect the allowed ROE.

Duquesne has elected to use projected quarterly revenues for the applicable three-month period rather than using one-fourth of its projected annual distribution revenues, which, according to Duquesne witness Ogden, will more closely match the sales used to calculate the DSIC with the actual sales during the applicable period, thereby alleviating the amount of any over/under collections during the quarter.

**Comments**

The OCA has identified a concern about the riders that Duquesne proposes to include in its distribution revenues for the purposes of calculating the DSIC rate, claiming that additional review and information is necessary to determine whether the inclusion of such riders is consistent with Act 11 and the Final Implementation Order.

The OCA states that the DSIC surcharge proposed by Duquesne may be contrary to Pennsylvania case law and the well-established principles of sound ratemaking and regulatory policy. The OCA requests that the Commission reject the proposed surcharge, and that the matter be referred to the OALJ for the development of an evidentiary record.

**Resolution**

The Commission acknowledges that Duquesne’s calculations are merely estimates and will not be the exact numbers used in the final DSIC calculation. Based on requirements for DSIC quarterly updates, as more fully described below, the Commission directs Duquesne to file a DSIC tariff using actual data for eligible property placed into service during the three-month period ending one month prior to the approved effective date of the DSIC.

The cost of equity determinations in the Commission’s Staff Report on Quarterly Earnings of Jurisdictional Utilities (Quarterly Report) are used for DSIC calculations if more than two years have elapsed since a utility’s last fully litigated base rate case. 66 Pa. C.S. § 1357(b)(3). If, in any quarter, a utility will earn more than the ROE used for the DSIC calculations (which may be the ROE determined in the Staff Quarterly Report), the DSIC will be reset to zero. 66 Pa. C.S. § 1358(b)(3). Accordingly, the DSIC must remain at zero until such time that the utility, in a subsequent quarter, earns less than the ROE used for the purpose of DSIC calculation.

The Commission directs that, along with its updated capital structure and cost rates filed one month prior to the approved effective date of the tariff, Duquesne shall file a comprehensive debt schedule, outlining all outstanding debts and their associated interest rates that were used to calculate the long term debt cost rate figure.

The Model Tariff makes available to utilities two options for calculating projected quarterly revenues: 1) The summation of projected revenues for the applicable three-month period; or 2) One-fourth of projected annual revenues. In order to more closely match the sales used to calculate the DSIC with the actual sales during the valid period, Duquesne chose to use the summation of projected revenues for the applicable three-month period as its projected quarterly revenues. The Model Tariff permits the use of the summation of projected revenues; therefore, Duquesne’s use of the summation of projected distribution revenues for the applicable three-month period as its projected quarterly revenues is appropriate.

The OCA expressed concern over the riders that Duquesne proposes to include in its distribution revenues for the purposes of calculating the DSIC rate. Duquesne states that distribution revenue includes all amounts that are billed to customers for distribution service, including all applicable charges and riders, with the exception of the State Tax Adjustment Surcharge (STAS). In addition to base distribution charges for the delivery of electricity, distribution revenues include the Retail Market Enhancement Surcharge, Universal Service Charge, Energy Efficiency and Conservation Surcharge, and Smart Meter Charge. As a result, Duquesne claims that the DSIC rate will be applied to the total distribution charges of a customer’s bill after all charges and riders have been calculated and included, excluding STAS.

We will refer the OCA’s issue related to the inclusion of riders in distribution revenues when calculating the DSIC to the OALJ for further disposition. To the extent that Duquesne may be permitted to implement a DSIC pending the OALJ proceeding and chooses to do so while this matter is pending in the OALJ, the DSIC recovery shall be subject to recoupment and refund after final resolution.

 **(d) Quarterly Updates**

**Duquesne’s Petition**

A utility’s DSIC is subject to quarterly updates to reflect eligible plant additions placed in service during the three-month period ending one month prior to the effective date of any DSIC update. The Proposed Tariff includes a chart of the effective dates of Duquesne’s proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update. The Company states that once its DSIC is implemented, customers will receive notice of quarterly changes in the DSIC through bill messages, consistent with Act 11 and the Final Implementation Order.

**Comments**

No comments were filed regarding quarterly updates.

**Resolution**

In accordance with 66 Pa. C.S. § 1358(e)(2), the revenue received under the DSIC for the reconciliation period shall be compared to the utility's eligible costs for that period. The difference between revenue and costs shall be recouped or refunded, as appropriate, in accordance with section 1307(e), over a one-year period or quarterly period commencing April 1 of each year. Based on the statute mandating over/under collections be refunded commencing April 1 of each year, the Commission directs any utility filing for a DSIC to schedule the effective dates of their proposed DSIC updates, and the corresponding period for eligible plant additions that will be reflected in each update, to align quarterly with the months of April, July, October, and January. Duquesne has suggested such a schedule in the filing of their Proposed Tariff, and hence, the Commission deems Duquesne’s tariff to be compliant with Section 1353 as it pertains to the issue of quarterly updates.

 **(e) Consumer Protections**

**Duquesne’s Petition**

In accordance with the Model Tariff and consistent with Section 1358, Duquesne’s Proposed Tariff also includes the following customer safeguards:

1. A 5.0% cap on the total amount of distribution revenue that can be collected through the DSIC by Duquesne as determined on an annualized basis;
2. Annual reconciliations performed by Duquesne;
3. Audits conducted by the Commission;
4. Customer notice of any changes in the DSIC;
5. A reset of the DSIC to zero as of the effective date of new base rates that include the DSIC-eligible plant; and
6. Provisions for the charge to be set at zero if, in any quarter, Duquesne’s most recent earnings report shows that Duquesne is earning a rate of return that exceeds the allowable rate of return used to calculate its fixed costs under the DSIC.

As a customer safeguard, the Model Tariff states that the DSIC shall be applied equally to all customer classes.

**Comments**

No comments were filed regarding consumer protections.

**Resolution**

Duquesne’s proposed DSIC tariff is consistent with the Model Tariff and complies with the customer safeguards required by 66 Pa. C.S. § 1358.

 **(2) Public Interest Considerations**

**Duquesne’s Petition**

According to the Company, implementing the proposed DSIC and allowing the Proposed Tariff to go into effect is in the public interest because the DSIC will ensure that customers continue to receive safe and reliable service in the future as required by Section 1501, 66 Pa. C.S. § 1501.

Duquesne states that much of its distribution system was constructed more than 40 years ago, and as a result, is approaching the end of its useful life. As this equipment deteriorates due to age, environmental exposure, and added load, it has become increasingly critical for the Company to plan for the repair, upgrade, and replacement of these assets. In light of this, Duquesne is undertaking an accelerated infrastructure repair and replacement plan in the form of its LTIIP, under which it requires a secure revenue stream in order to maintain the planned level of accelerated investment. This is why the DSIC, the Company argues, is such a necessary component, because without its implementation the Company would need to either slow its level of investment or file more frequent base rate cases in order to cover the significant costs associated with its LTIIP. Duquesne contends that base rate filings are unpredictable and would add risk and uncertainty to its planning process, whereas the DSIC will result in gradual quarterly rate changes that should be more acceptable to customers over time. Thus, the DSIC is a critical component in Duquesne’s efforts to improve its distribution system by ensuring the resources needed to maintain accelerated investment, thereby serving the public interest.

**Comments**

No comments were received regarding the supporting evidence that Duquesne’s DSIC is in the public interest.

**Resolution**

Section 1353 requires testimony, affidavits, exhibits, and other supporting evidence to be submitted demonstrating that the DSIC is in the public interest. Based on Duquesne’s submitted direct testimonies by the Company’s Manager of Rates and Tariff Services and the Director of Rates, Energy Procurement, and Federal/RTO Affairs, as well as exhibits demonstrating how the proposed DSIC supports accelerated infrastructure improvement, the Commission concludes that the DSIC filing is in the public interest and that the Company has met its obligation under Section 1353.

 **(3) Long Term Infrastructure Improvement Plan**

Section 1353 requires that the utility have an approved Long Term Infrastructure Improvement Plan (LTIIP). Duquesne filed a LTIIP with the Commission on April 15, 2016, which is recommended for approval concurrently with the DSIC.

 **(4) Base Rate Case**

Section 1353(b)(4) requires a utility to certify that it has filed a base rate case within the five years prior to the date of its DSIC petition. Duquesne has provided the required certification that its last base rate case, under which Duquesne’s current base rates were established, was filed on August 2, 2013.[[8]](#footnote-8)

 **(5) Other Information Required by the Commission**

**Section 1354 - Customer Notice**

Pursuant to Section 1354, a utility is required to provide customer notice of: 1) Submission of the DSIC petition; 2) Commission’s disposition of the DSIC petition; 3) Any quarterly changes to the DSIC rate; and 4) Any other information required by the Commission. Duquesne has verified that it will provide customer notice of the proposed DSIC, Commission action thereon, and quarterly updates through bill inserts, consistent with Act 11 and the Final Implementation Order.

Duquesne will provide a bill insert to all customers informing them of the filing, the estimated impact of a DSIC on their bills, and their rights to intervene in the proceeding. The language on the bill insert was developed through feedback from the Commission and other interested parties.

The Commission agrees that this is consistent with the notice requirements set forth in the Model Tariff, Act 11, and the Final Implementation Order.

**Bills Rendered or Service Rendered**

The Final Implementation Order directed utilities to bill customers for the DSIC on a bills rendered basis versus a service rendered basis[[9]](#footnote-9), based on current practice and procedure for water companies. (*See* 66 Pa. C. S. § 1358). Duquesne’s Proposed Tariff confirms that the DSIC will be applied on a bills rendered basis. Therefore, Duquesne is in compliance with the billing standards outlined in the Final Implementation Order.

**Section 1355 – Commission Review**

Section 1355 provides that the Commission shall, after notice and opportunity to be heard, approve, modify or reject a utility’s proposed DSIC and initial tariff. The Bureau of Technical Utility Services has reviewed Duquesne’s proposed DSIC and Proposed Tariff and has determined that the filing contains all necessary items identified in Section 1353.

**DSIC SUMMARY**

We will approve the proposed DSIC calculation and Proposed Tariff subject to the modifications consistent with this Order, including the following:

1. A tariff filed on ten days’ notice with an effective date no earlier than October 1, 2016;
2. A three-month period of June through August for eligible plant additions;
3. An initial quarterly depreciation expense being equal to the initial accumulated depreciation; and,
4. An appropriate return on equity as displayed in the Commission’s Quarterly Report for the period ending March 31, 2016.

Section 1355 also states that the Commission shall hold evidentiary and public input hearings as necessary to review the petition. As noted above, the OCA and I&E have petitioned to intervene in Duquesne’s DSIC proceeding, and there were requests to hold evidentiary hearings on several aspects of the DSIC.

Accordingly, we will refer the matters of whether the costs associated with Duquesne’s Microgrid Program are recoverable through the DSIC mechanism, as well as the inclusion of riders in distribution revenues when calculating the DSIC, to the OALJ for hearing and recommended decision. To the extent that Duquesne elects to implement a DSIC mechanism prior to resolution of these matters, any recovery will be subject to refund or recoupment consistent with final determinations on these matters referred to OALJ.

**CONCLUSION**

Upon review, the Commission finds that the Duquesne Long-Term Infrastructure Improvement Plan and manner in which it was filed conforms to the requirements of Act 11 and our Final Implementation Order.

Additionally, the Commission finds that the Petition of Duquesne for a Distribution System Improvement Charge complies with the requirements of Act 11 and our Final Implementation Order. Moreover, the Commission has reviewed the filing and does not find it to be inconsistent with the applicable law or Commission policy. Subject to recoupment and/or refund pending final resolution of the matters referred herein to the OALJ, Duquesne may elect to implement a DSIC mechanism consistent with this order on ten days’ notice; **THEREFORE,**

**IT IS ORDERED:**

1. That the Petition for approval of a Long-Term Infrastructure Improvement Plan (LTIIP) filed by Duquesne Light Company is approved, consistent with this Order.

2. That the Petition for approval of a Distribution System Improvement Charge (DSIC) filed by Duquesne Light Company is approved, consistent with this Order.

3. That Duquesne Light Company shall file a tariff, consistent with this Order, on ten days’ notice to be effective October 1, 2016. Revenues collected pursuant to said tariff will be subject to refund and recoupment based on the Commission’s final resolution of the matters referred herein to the Office of Administrative Law Judge for hearing and recommended decision.

4. That the following issues be assigned to the Office of Administrative Law Judge for hearing and preparation of a recommended decision:

* 1. DSIC-recovery of costs associated with Duquesne’s Microgrid Program; and
	2. The inclusion of riders in distribution revenues when calculating the DSIC mechanism.

5. That Duquesne Light Company provides the estimated number of anticipated new jobs to be created for specific replacement projects with its revised DSIC tariff and to track such employment in order to have actual numbers of jobs created when the DSIC fund information is submitted for annual audit and reconciliation.

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**BY THE COMMISSION,**

 Rosemary Chiavetta

 Secretary

(SEAL)

ORDER ADOPTED: September 15, 2016

ORDER ENTERED: September 15, 2016

**Appendix A**

**Tariff Sufficiency Modifications**

* On page 112C, under the “Calculation” section, on the third line, “July 1, 2016” should be changed to “June 1, 2016”.
* On page 112C, under the “Calculation” section, the cell in R3 C2 of the table should be changed to read “December 1 through February 28 *or 29*”.
* On page 112D, under the “PQR” portion of the “Formula” section, starting on the second line, the phrase “…..from existing customers plus revenue from any customers which will be acquired by…..” should be changed to “....from existing customers plus *netted* revenue from any customers which will be acquired *or lost* by…..”.
* On page 112E, under the “Quarterly Updates” section, the Commission’s Bureau of Audits should be added as a party to be served.
1. *See* Docket No. R-2013-2372129 [↑](#footnote-ref-1)
2. Relating to information on the eight required elements of a LTIIP [↑](#footnote-ref-2)
3. <http://www.legis.state.pa.us/WU01/LI/LI/US/HTM/2012/0/0011..HTM>. [↑](#footnote-ref-3)
4. The historical baseline expenditures (including unreimbursed highway relocations) for 2011 through 2016 were approximately $508 million as compared to the projected baseline expenditures for 2017 through 2022 (total spend less the proposed $212 million LTIIP expenditures that did not include unreimbursed highway expenditures) of approximately $439 million. [↑](#footnote-ref-4)
5. *See* the Commission’s Final Implementation Order on Act 11, entered on August 2, 2012 at Docket No. M‑2012‑2293611. [↑](#footnote-ref-5)
6. The quarters are fixed by statute. If Duquesne does not have an effective date of October 1, 2016, the next earliest effective date would be January 1, 2017. [↑](#footnote-ref-6)
7. The ROE to be used in the DSIC calculation will be that which is calculated by the Commission in its most recent Quarterly Report on the Earnings of Jurisdictional Utilities. [↑](#footnote-ref-7)
8. Docket No. R-2013-2372129, Final Order entered on April 23, 2014. [↑](#footnote-ref-8)
9. “Bills rendered” bills are computed based on the effective tariff rate at the time of the bill. “Service-rendered” bills are prorated based on service rendered before and after a tariff rate change. [↑](#footnote-ref-9)