DUQUESNE LIGHT COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION FOLLOW-UP REVIEW OF THE 2019 MANAGEMENT AND OPERATIONS AUDIT REPORT

Pennsylvania Public Utility Commission
Bureau of Audits
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DUQUESNE LIGHT COMPANY
MANAGEMENT EFFICIENCY INVESTIGATION

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I. INTRODUCTION

A. Background

In 2019, the Pennsylvania Public Utility Commission's (PUC or Commission) Bureau of Audits (Audits) conducted a management and operations audit (management audit) of Duquesne Light Company (DLC). In July 2019, Audits issued its final report with 18 recommendations for improvement. DLC submitted its July 2019 Implementation Plan indicating that all 18 recommendations were accepted. On August 8, 2019, at Docket No. D-2018-3000838, the Commission released the 2019 Management Audit Report and July 2019 Implementation Plan to the public and directed that the company should:

- proceed with the July 2019 Implementation Plan, and

- submit progress reports on the implementation, annually by September 1st, for each of the next three years.

Since September 2020, DLC submitted three implementation updates as requested by the Commission which reported on the company's progress in implementing the management audit recommendations. Based upon the review of these updates, the Audits' Western Region Management Audits Team (auditors) conducted a management efficiency investigation (MEI) to verify DLC's progress in implementing 16 of the original 18 recommendations. In addition, specific items of management effectiveness and operational efficiency are subject to investigation pursuant 66 Pa. C.S. § 516(b).

B. Objective and Scope

The objective of this MEI is to review and evaluate the effectiveness of DLC's efforts to implement specific recommendations contained within the 2019 Management Audit Report. The scope of this evaluation is limited to DLC's efforts in implementing the recommendations in the following functional areas:

- Executive Management and Organizational Structure
- Corporate Governance
- Financial Management
- Customer Service
- Human Resources
- Electric Operations
- Information Technology
- Purchasing and Materials Management

I. INTRODUCTION

In addition, the auditors deemed it prudent to review DLC's compliance with PUC regulations at 52 Pa. Code § 101 regarding physical security, cyber security, emergency response, and business continuity plans.

C. Approach

The auditors began fieldwork on February 27, 2023 and continued through May 18, 2023. The fact gathering process included:

- Interviews with DLC's personnel
- Analysis of records, documents, and reports of a financial and operational nature primarily focused on the period 2020 – 2022 and the year 2023, as available
- Site inspections of select company facilities

II. SUMMARY OF MANAGEMENT EFFECTIVENESS AND OPERATING EFFICIENCY

The auditors found that Duquesne Light Company (DLC) effectively or substantially implemented 14 of the selected 16 prior management audit recommendations reviewed and has acted on the remaining two recommendations. Among the more notable improvements are:

- Established individual goals and objectives for the chief executive officer that follow the SMART[1] criteria
- Added a financial expert, as defined by the Securities and Exchange Commission (SEC), to the DQE Holdings LLC's Board of Directors' Audit Committee
- Developed and implemented a quality assurance and improvement program and formalized policies/procedures for the Internal Audit Department
- Developed and implemented a formal budget variance policy to document and explain material variances
- Revised written documents used to engage contractors to consistently define safety procedures
- Increased staffing for field operations
- Enhanced reporting of outage causes provided in electric reliability reports
- Met the established goal to increase information technology maturity level by 10% and developed and implemented a plan for continued periodic internal review

Although these accomplishments are commendable, the auditors identified further opportunities for improvement. Specifically, DLC should:

- Establish and implement net recovery performance goals for third-party collection activities while continuing to monitor monthly performance reports
- Focus on successful recruitment practices to further increase craftworker staffing levels
- Implement measures to balance workload and limit available overtime
- Analyze historical usage trends and obtain benchmarking data to establish an inventory turnover goal

Exhibit II-1, beginning on the next page, summarizes the prior management audit recommendations reviewed and the auditors' follow-up findings, conclusions, and recommendations. Exhibit II-1 also includes additional findings, conclusions, and recommendations that the auditors identified during fieldwork.

[1] SMART is an acronym for specific, measurable, achievable, relevant, and time-based.

Duquesne Light Company
Summary of 2019 Management and Operations Audit Recommendations and Follow-Up Findings, Conclusions, and Recommendations

Prior Management Audit Recommendations	MEI Follow-Up Findings and Conclusions	MEI Follow-Up Recommendations
III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE		
Establish an annual management committee self-evaluation and/or survey to assess the efficiency and effectiveness of each management committee.	III-1 – DLC developed and implemented annual management committee self-evaluation surveys.	None
Perform a follow-up to the span of control assessment after completing the current reorganization.	III-2 – DLC performed a follow-up span of control assessment and developed procedures for ongoing span of control reviews.	None
Establish individual goals for the Chief Executive Officer that are specific, measurable, attainable, relevant, and time-based (SMART), and linked specifically to corporate goals and objectives like the prior approach used in 2014.	III-3 – DLC established individual goals and objectives for the Chief Executive Officer that follow the SMART criteria.	None
IV. CORPORATE GOVERNANCE		
Include within the profile currently being developed to hire an independent director the consideration criterion that a candidate may qualify as a SEC-defined audit committee financial expert.	IV-1 – A qualified board member has been hired to serve as an audit committee financial expert.	None
Implement a quality assurance and improvement program that meets Institute of Internal Auditors' Standard 1300 and its subcategories and prepare written policies and procedures for the Internal Audit Department that provide guidance on internal audit activities to meet Institute of Internal Auditors' Standard 2040.	IV-2 – The Internal Audit Department developed and implemented a quality assurance and improvement program and a policies and procedures manual which conform to the Institute of Internal Auditors' Standards 1300 and 2040, respectively.	None

Duquesne Light Company
Summary of 2019 Management and Operations Audit Recommendations and Follow-Up Findings, Conclusions, and Recommendations

Prior Management Audit Recommendations	MEI Follow-Up Findings and Conclusions	MEI Follow-Up Recommendations
V. FINANCIAL MANAGEMENT		
Conduct a review of all accounting and finance policies and procedures to ensure administrative controls are standardized and applied uniformly.	V-1 – DLC conducted a review of all accounting and finance policies and procedures.	None
Create a formal budget variance policy that includes a threshold (percentage and/or dollar amount) for variances to be tracked and explained through documentation.	V-2 – DLC developed and implemented a formal budget variance policy to document and explain material variances.	None
VI. CUSTOMER SERVICE		
Implement the extensive testing phase and training phase currently planned to prepare for the December 2019 customer care system update.	VI-1 – DLC completed an extensive testing phase and training phase prior to the customer care system update.	None
Establish, implement, and monitor key performance indicators of third-party collection agency net recovery performance goals.	VI-2 – DLC did not establish net recovery goals for its third-party collection activities.	Establish and implement third-party collection net recovery performance goals while continuing to monitor monthly performance reports.
VII. HUMAN RESOURCES		
Revise written documents used to engage contractors to include consistent language requiring contractors to comply with all OSHA standards and to remove any language directing contractors to comply with undefined safety directives of representatives of DLC.	VII-1 – DLC revised written documents used to engage contractors to consistently define contractor safety and to require contractors to comply with all applicable OSHA standards.	None

Duquesne Light Company
Summary of 2019 Management and Operations Audit Recommendations and Follow-Up Findings, Conclusions, and Recommendations

Prior Management Audit Recommendations	MEI Follow-Up Findings and Conclusions	MEI Follow-Up Recommendations
VIII. ELECTRIC OPERATIONS		
Establish overtime level goals for each functional group with a goal not to exceed 20% and develop craftworker staffing levels and contractor resources to address the future workload, including work related to the Long-Term Infrastructure Improvement Plan.	VIII-1 – DLC increased staffing for field operations; however, overall overtime continued to exceed 20% of straight time during the current review period.	Focus on successful recruitment practices, such as the EDT Program[2], to further increase craftworker staffing levels to maintain overtime levels under 20% of straight time.
Monitor and control individual employee overtime levels by using overtime exception reports to actively review employees incurring excessive amounts of overtime.	VIII-2 – Individual field operation employees continue to experience high levels of overtime; in some instances, booking more than 2,080 hours of overtime within a year.	Implement measures to balance workload and limit available overtime.
Include additional descriptors to outage causes and report tree-related causes as being either vegetation inside right-of-way or vegetation outside right-of-way for a more effective analysis of possible remedial actions to outage causes in future annual and quarterly electric reliability reports to the PUC.	VIII-3 – DLC enhanced its reporting of outage causes provided in electric reliability reports.	None
Create a summary report of annual transmission and distribution line repairs to trend inspection and maintenance activities.	VIII-4 – DLC effectively uses its inspection program to track repair work to assign work orders to the necessary work group.	None

[2] The Electric Distribution Technology Program is a one-year training program focusing on theory and electric utility practicum – see Finding and Conclusion VIII-2 for additional details.

Duquesne Light Company
Summary of 2019 Management and Operations Audit Recommendations and Follow-Up Findings, Conclusions, and Recommendations

Prior Management Audit Recommendations	MEI Follow-Up Findings and Conclusions	MEI Follow-Up Recommendations
IX. INFORMATION TECHNOLOGY		
Continue to improve the information technology maturity rating via enhanced information technology capabilities, internal controls and governance, and coordination with internal business partners; furthermore, periodically reevaluate the information technology maturity rating.	IX-1 – DLC met the established goal to increase information technology maturity by 10% and developed and implemented a plan for continued periodic internal review of its information technology maturity level.	None
X. PURCHASING AND MATERIALS MANAGEMENT		
Implement *Maximo* for enhanced inventory tracking and reporting and establish inventory turnover goals based on optimal usage patterns.	X-1 – DLC successfully implemented *Maximo* as of September 2019; however, DLC has not yet established inventory turnover goals.	Analyze historic usage trends and obtain benchmarking data to establish an inventory turnover goal to be implemented as soon as is feasible.
XI. EMERGENCY PREPAREDNESS		
None	None	None

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Background – Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

DLC has executive leadership overseeing the following departments:

- Corporate Strategy
- Communications & Corporate Responsibility
- Energy Policy & General Counsel
- Information Technology
- Operations
- Customer Service
- Human Resources
- Finance

In this chapter, three prior situations and recommendations are reviewed, and three follow-up findings are presented. The findings relate to management committees' self-evaluation, span of control assessment, and the chief executive officer's (CEO) goals and objectives.

Finding No. III-1

Prior Situation – DLC maintained the following five management committees that met periodically throughout each year:

- Corporate Policy
- Conflict of Interest
- Executive Reliability Steering Committee
- Threat Assessment Team
- Charitable and Community Giving

DLC stated that each management committee reviewed and updated its charter periodically. When changes to a committee charter were considered, all committee members were expected to assess the committee's effectiveness both individually and through discussion with other members. The feedback, however, was not formalized.

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

The management committees did not routinely perform confidential surveys of members to evaluate the performance of each committee. DLC contended that the feedback process served as an appropriate method of evaluation in lieu of written forms. It was recommended that to ensure honest, objective feedback regarding the performance of each management committee, it is a best business practice for members to complete confidential evaluations and/or surveys.

Prior Recommendation – Establish an annual management committee self-evaluation and/or survey to assess the efficiency and effectiveness of each management committee.

Follow-Up Finding and Conclusion – DLC developed and implemented annual management committee self-evaluation surveys.

Current Review – For the years 2020 – 2022, the management committees conducted annual self-evaluation surveys. Self-evaluations were not administered to members of the Charitable and Community Giving Committee in 2020 because the purpose and structure of the committee was under review by a newly appointed Vice President, External Affairs. The Chief Compliance Officer stated that raising concerns, suggestions, etc. is always welcomed, and the self-evaluation surveys solicit additional feedback. DLC now has multiple avenues from which to obtain honest, objective feedback from members of each management committee to advance the committees' progress.

Follow-Up Recommendation – None

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Finding No. III-2

Prior Situation – DLC completed a span of control assessment on June 13, 2018. The span of control assessment determined that of the identified 265 reporting relationships, 40% had a span of control of 1:3 or less while 20% had a span of control of 1:10 or higher. This was a relatively high number of positions with spans of control outside company-determined ideal ranges. However, it was noted that DLC was in the process of reorganizing during the span of control assessment and new positions were created and remained vacant during the assessment. Because of the upheaval of reorganization, it was difficult to determine the status of DLC's span of control. The prior auditors recommended that the span of control assessment should be revisited.

Prior Recommendation – Perform a follow-up to the span of control assessment after completing the current reorganization.

Follow-Up Finding and Conclusion – DLC performed a follow-up span of control assessment and developed procedures for ongoing span of control reviews.

Current Review – Since 2018, DLC has undergone additional organizational changes and realignment to address business needs. Between February 2018 – December 2021, the company increased its total headcount from 1,487 – 1,618 (9% increase) with approximately 32% of the workforce being newly hired since February 2018. In addition, there was significant change at the executive leadership level throughout 2021 which in turn brought many changes throughout the various functional areas.

DLC's management structure continues to change with the goal of creating organizational alignment to meet business strategies and requirements and providing superior customer service. Significant organizational changes are ongoing and will continue to affect the organizational structure moving forward.

An updated span of control assessment was completed on June 30, 2022. Overall, 50% of the management relationships fell outside Audits' recommended span of control range of 1:4 – 1:9. 30% were less than 1:4 and 20% were greater than 1:9. The overall percentage was lower than the 60% identified in the span of control assessment completed in 2018.

No significant changes to span of control occurred since the most recent assessment. There were also no significant changes due to the introduction of teleworking. High spans of control typically involve repetitive tasks where performance is managed through data. Low spans of control exist in growing business units which are hiring new employees or in business units that require unique skill sets in a niche field for highly strategic work, think tanks, etc. DLC contends that no changes resulted from the formal assessment completed per the prior management audit recommendation. The company feels that it is an HR best practice to continually evaluate span of control as opposed to formally assessing at set points in time.

Span of control should be periodically reviewed as part of an organizational study to ensure there are sufficient levels of management oversight in each department to achieve and maintain an efficient and effective organizational structure. DLC is continually evaluating spans of control throughout a large reorganization effort.

Follow-Up Recommendation – None

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Finding No. III-3

Prior Situation – A review of the CEO’s individual goals and objectives for the years 2014 – 2018 reflected measurable goals and objectives in 2014 with performance expectations linked to specific dates of completion, dollar amounts, or other defined performance measures. However, the 2018 individual goals and objectives were more subjective and ambiguous with none of the quantifiable elements previously used.

After setting the CEO’s individual goals and objectives for 2013 and 2014, the DQE Board of Directors (Board) determined that the CEO’s individual goals and objectives were too detailed and prescriptive making it difficult to maintain alignment between the CEO’s goals and objectives and the corporate balanced scorecard. The corporate balanced scorecard reflected the status of achievement toward DLC’s key performance indicators which supported strategic priorities and objectives. Then in 2015 and 2016, the CEO’s individual goals and objectives were configured to reflect DLC’s six key operational priorities (Operations, Compliance, Customer Care, Technology, Regulatory/Legislative, Culture/Employee Engagement).

For 2017 and 2018, the Board reportedly streamlined the CEO’s goals and objectives to simply reflect the achievement of the short- and long-term business and strategic plans in place of holding the CEO accountable for individual elements of each plan along with exercising regulatory and legislative leadership. However, as written in 2018, the goals and objectives did not explicitly state how achievement would be measured. Consequently, the CEO’s stated goals and objectives were ambiguous and did not provide sufficient detail to ascertain what was to be achieved in the associated timeframe. DLC established SMART (specific, measurable, achievable, relevant, and time-based) goals and objectives for all other DLC employees in 2018, and this approach previously existed in 2014 for the CEO as well.

Prior Recommendation – Establish individual goals for the Chief Executive Officer that are specific, measurable, attainable, relevant, and time-based (SMART), and linked specifically to corporate goals and objectives like the prior approach used in 2014.

Follow-Up Finding and Conclusion – DLC established individual goals and objectives for the Chief Executive Officer that follow the SMART criteria.

Current Review – With the help of the Compliance Department, a review was conducted of the 2020 – 2023 CEO goals and objectives. The process for creating the CEO’s goals and objectives is as follows. The Board reviews the CEO’s prior year performance during its March meeting, and compensation is paid out accordingly. CEO performance is assessed as partially meeting, meeting, or exceeding the set goals and objectives. Throughout the remainder of the year, the Board discusses emerging business needs and priorities to be supported by future goals and objectives. During the current review period, the Board defined the following business priorities:

- Financial health/performance
- Affordability
- Safety
- Reliability
- Utility energy policy

The Board then sets the CEO's goals and objectives for the following year at its December meeting.

The portion of total compensation that is affected by the CEO's performance against goals and objectives is a raise in base salary and specified bonuses within the short-term incentive plan. The Board uses a third-party consultant specializing in compensation to advise its Compensation Committee. The consultant is a national firm with extensive experience and developed benchmarking data sets.

To be effective, goals and objectives should meet the following SMART criteria:

- Specific – well-defined and focused
- Measurable – metrics and milestones used to determine if a goal is being met
- Achievable – attainable yet challenging to motivate
- Relevant – linked to business unit or corporate goals
- Time-Based – realistic target dates for deliverables

The VP, Energy Policy and General Counsel stated that the CEO's goals and objectives now meet the SMART criteria.

<u>Follow-Up Recommendation</u> – None

IV. CORPORATE GOVERNANCE

Background – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE). DQE's Board of Directors (Board) is made up of two members nominated by each of the three ownership groups (six total), and the rest are independent members.

In this chapter, two prior situations and recommendations are reviewed, and two follow-up findings are presented. The findings are related to acquiring a financial expert to serve on the Board's Audit Committee and the Internal Audit Department's lack of adherence to some Institute of Internal Auditors' standards.

Finding No. IV-1

Prior Situation – The Board noted a concern that there may not be a current member qualified to serve as an audit committee (AC) financial expert as defined by the Securities and Exchange Commission (SEC). The Board engaged its external auditor to conduct a survey of the current directors to determine if any would qualify as an AC financial expert. The evaluation confirmed that there were no current directors that would qualify as an AC financial expert. Consequently, on December 6, 2017, the Board amended its AC charter to remove the requirement for an AC financial expert.

Because DLC is a privately-owned company, it was not required to comply with SEC regulations; however, having an AC financial expert is an industry-accepted best practice. It was recommended that additional expertise as provided by an AC financial expert could provide more rigorous oversight of both the internal and external auditing functions.

Prior Recommendation – Include within the profile currently being developed to hire an independent director the consideration criterion that a candidate may qualify as a SEC-defined audit committee financial expert.

Follow-Up Finding and Conclusion – A qualified board member has been hired to serve as an audit committee financial expert.

Current Review – The current AC financial expert has over 35 years' experience in finance and accounting. Moreover, most of the experience has been in the power generation and utility sector including serving as a Vice President and Chief Accounting Officer at another electric distribution company and as partner at two different Big 5 accounting firms (Arthur Andersen and Ernst & Young).

IV. CORPORATE GOVERNANCE

The new AC financial expert has assisted with improvements, trends, and developments in finance and accounting. Specifically, this member has influenced the accounting procedures to comply with new tax laws, the internal audit plan, and enterprise-wide risk analysis. There are no set terms for Board members; however, the AC financial expert is highly regarded and is expected to serve for the foreseeable future.

The SEC defines an AC financial expert as a person with:

i. an understanding of generally accepted accounting principles and financial statements
ii. the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves
iii. experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities
iv. an understanding of internal controls and procedures for financial reporting
v. an understanding of audit committee functions

The Board now has a SEC-defined financial expert to serve on its AC.

<u>Follow-Up Recommendation</u> – None

IV. CORPORATE GOVERNANCE

Finding No. IV-2

Prior Situation – DLC confirmed that it maintains Institute of Internal Auditors' (IIA) membership for all employees of the Internal Audit Department (IAD) and stated that the IAD conforms to the IIA standards. The auditors requested to review the IAD's quality assurance and improvement program as is required by IIA Standard 1300. The Senior Manager, Internal Audit confirmed that the IAD does not maintain a quality assurance and improvement program that incorporates all elements of IIA Standard 1300. The auditors also requested to review the IAD's policies and procedures manual as is required by IIA Standard 2040. The Senior Manager, Internal Audit explained that the IAD relies on its charter as its directing document as opposed to a policies and procedures manual. The IAD Charter outlined the mission and some general guidelines; however, it did not include all the elements necessary to guide the internal audit activities as defined in IIA Standard 2040. As such, the auditors concluded that although DLC had included some IIA guidelines, the IAD was not in full compliance with IIA standards.

Prior Recommendation – Implement a quality assurance and improvement program that meets Institute of Internal Auditors' Standard 1300 and its subcategories and prepare written policies and procedures for the Internal Audit Department that provide guidance on internal audit activities to meet Institute of Internal Auditors' Standard 2040.

Follow-Up Finding and Conclusion – The Internal Audit Department developed and implemented a quality assurance and improvement program and a policies and procedures manual which conform to the Institute of Internal Auditors' Standards 1300 and 2040, respectively.

Current Review – The IAD's Policies and Procedures Manual, dated September 20, 2022, contained all required elements from IIA Standard 2040. The IAD conducted a quality assurance review on November 30, 2021. The assessment report, which contained background, purpose and scope, procedures, and results of the review, were circulated to relevant employees and the Board.

According to IIA Standard 1300, the chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. In addition, according to IIA Standard 2040, the chief audit executive must establish policies and procedures to guide the internal audit activity. The IAD now conforms with IIA Standards 1300 and 2040, respectively.

Follow-Up Recommendation – None

V. FINANCIAL MANAGEMENT

Background – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

The financial management functional area includes the following departments:

- Procurement
- Controller
- Treasury

In this chapter, two prior situations and recommendations are reviewed, and two follow-up findings are presented. The findings relate to the general accounting and finance policies and the process for documenting budget variances.

Finding No. V-1

Prior Situation – Most of DLC's accounting and finance policies/procedures defined appropriate responsible parties and scopes; however, some named responsible parties of the employees of a business unit, division, department, or group instead of a specific employee. In addition, DLC stated that its accounting and finance policies/procedures are updated each year, and that each policy/procedure must be approved electronically by a manager or other designate. However, the approving manager or designate was not always listed in the document nor was a policy/ procedure governing this practice provided to support proper controls have been established.

DLC agreed to update the accounting and finance policies/procedures to reflect process changes associated with the implementation of the financial system replacement or at the next annual review of the policy and procedure manual. DLC stated that it would provide additional details to clarify the responsible parties and the scope of each policy and procedure.

Prior Recommendation – Conduct a review of all accounting and finance policies and procedures to ensure administrative controls are standardized and applied uniformly.

Follow-Up Finding and Conclusion – DLC conducted a review of all accounting and finance policies and procedures.

V. FINANCIAL MANAGEMENT

Current Review – DLC established a 288-page Finance Department Policies and Procedures Manual. This internal document is used by DQE and its subsidiaries. The manual is reviewed annually, at a minimum, based on a timeline and responsibility matrix distributed by the Manager, Financial Reporting. The most recent review was conducted on December 31, 2022. The responsibility matrix includes all policies/procedures contained in the manual along with the reviewers tasked with facilitating changes, updates, and additions.

The manual and associated annual review practice mirrors compliance with the Sarbanes-Oxley Act even though it is not required of privately-held companies. DLC noted that these processes have helped during the onboarding of new employees.

Policies/procedures which lack a designated responsible party and/or defined scope can lead to confusion and reduced accountability. Ideally, all policies/procedures should have a single employee designated as the ultimate responsible party. If a policy/procedure governs the activities of many employees in a department, the manager or designate of the department should be the ultimate person responsible and be stated as such. DLC has an extensive, current policies and procedures manual to guide the Finance Department.

Follow-Up Recommendation – None

V. FINANCIAL MANAGEMENT

Finding No. V-2

Prior Situation – The auditors reviewed monthly operating and maintenance (O&M) and capital budget reports used by management to evaluate financial performance, and it was noted that budget line items did not have calculated variances listed nor written explanations for significant variances. In each division's/group's monthly report, there were significant variances by cost center, line item, and in total (percentage and dollar amount).

DLC contended the company had no threshold for variance review because thresholds could limit which variances are investigated. DLC maintained that, although explanations to budget variances were not documented in the monthly budget reports, all budget variances were discussed during review processes.

It was Audits' opinion that establishing a policy for documenting explanations for significant variances (e.g., variances which exceed +/- 10% from budget or any variance exceeding a designated dollar amount) would not prevent DLC from continuing its current practices. The requirement to document significant variance explanations in budget reports would enhance the current process by enhancing accountability and creating historical context to evaluate current performance and make future budgeting decisions.

Prior Recommendation – Create a formal budget variance policy that includes a threshold (percentage and/or dollar amount) for variances to be tracked and explained through documentation.

Follow-Up Finding and Conclusion – DLC developed and implemented a formal budget variance policy to document and explain material variances.

Current Review – DLC developed and implemented a formal budget variance policy which requires monthly review and documentation of O&M and capital budget variances outside of +/- $250,000 and +/- 10% by functional area for O&M and +/- $1M and +/- 10% for capital by funding project number. DLC stated it has experienced forecasting accuracy in some areas of less than 1% variance for O&M, but the timing of major capital projects makes monthly forecasting of capital budgets more challenging.

Maintaining a formal budget variance policy that requires budget variance explanations is a best business practice to ensure appropriate review of financial performance and valuable data for future planning. Trends could be identified for more accurate allocation of funding, and unnecessary borrowing could be avoided.

Follow-Up Recommendation – None

VI. CUSTOMER SERVICE

Background – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

DLC's customer service functional area includes billing/revenue management, customer affordability & innovation, customer experience, the contact center, and meter operations. This department reports to the VP, Chief Customer Officer who reports to the President and Chief Executive Officer.

In this chapter, two prior situations and recommendations are reviewed, and two follow-up findings and one additional recommendation are presented. The findings relate to the implementation of an extensive testing and training phase prior to a planned customer care system update and establishing net recovery goals for third-party collection activities.

Finding No. VI-1

Prior Situation – As a result of a new customer information system implementation in 2014, customer service performance sharply declined between 2015 and 2016 and then slowly recovered to adequate or above adequate levels throughout 2017 and 2018. More specifically, performance measures declined in numerous categories including:

- Call abandonment rate
- Percentage of calls answered within 30 seconds
- Number of residential disputes not receiving a response within 30 days
- Response time to the Pennsylvania Public Utility Commission's Bureau of Consumer Services for residential consumer complaints in days
- Percentage of residential meters not read in six months
- Percentage of residential customers did not bill each billing cycle
- Satisfaction with ease of reaching the electric distribution company (EDC)
- Satisfaction with using the EDC's automated phone system
- Overall satisfaction with EDC's quality of service

The company cited the reason for these performance declines was difficulty recovering from numerous technical difficulties arising from the installation of the new customer service system. The company noted bugs in the new system, which required workarounds to newly learned work processes, created confusion and inconsistent system use.

VI. CUSTOMER SERVICE

During prior audit fieldwork, DLC was preparing for a customer care system upgrade expected to go live in December 2019. DLC's Customer Service Transformation business unit was overseeing this project and provided an outline of the planned preparation activities. DLC planned a testing phase for February 2019 – June 2019 with a tiered checkpoint structure intended to fully examine the integrity of all processes that would be affected by the update. This would be followed by an extensive training phase projected for July 2019 – December 2019 including online and instructor-led training activities.

System upgrades are necessary for continued improvements and development. Thoughtful planning of the testing and training well enough in advance before implementation allows for proper absorption and allows for reasonable remediation training, if needed. Post-implementation support is also an important component to ensure a smooth transition. These business practices promote efficiency and effectiveness.

Prior Recommendation – Implement the extensive testing phase and training phase currently planned to prepare for the December 2019 customer care system update.

Follow-Up Finding and Conclusion – DLC completed an extensive testing and training phase prior to the customer care system update.

Current Review – DLC implemented an extensive testing phase and training phase prior to the customer care system update planned for December 2019. DLC partnered with Oracle, the customer care & billing system developer; Accenture, the system testing facilitator; and Ernst & Young, the training phase facilitator, to ensure a successful system implementation.

For testing, a tiered checkpoint structure was used to examine the integrity of all processes that would be affected by the customer care system update. This was managed through an integrated work plan (IWP). The IWP mapped out each component of the project including checkpoint deadlines. This process was followed from inception through completion, and adjustments were made to the project timeline as needed to accommodate noted issue resolution.

In September 2020, the testing phase was complete and goals for the training phase were finalized. DLC executed an extensive training phase including both online and instructor-led training activities. Each participant had to successfully pass each module of the training phase to ensure a smooth system transition.

Although the system implementation was projected to be completed by end-of-year 2019, unforeseen problems arose, including the pandemic, that postponed the go-live date until January 19, 2021. Thereafter, a formal hyper-care phase commenced to provide user support. Defects and issues identified post-implementation were minor and were communicated to users through the trainers and management team. The hyper-care phase was scheduled for a four-month period; however, DLC was able to end the phase six weeks ahead of schedule due to a well-planned implementation.

<u>Follow-Up Recommendation</u> – None

VI. CUSTOMER SERVICE

Finding No. VI-2

Prior Situation – DLC maintained contracts with four third-party collection agencies. The contracts had been negotiated in 2011 or 2012. DLC did not maintain net recovery performance goals for its third-party collection activities. The prior auditors compared net recovery performance to the average performance of other regional utilities and did not specifically note a problem with collection performance.

Maintaining performance goals for third-party collection agencies is a best business practice for companies to be able to evaluate results and maximize revenue recovery. Goals should focus on net collection results[3] to best evaluate the value of third-party collection activities.

Prior Recommendation – Establish, implement, and monitor key performance indicators of third-party collection agency net recovery performance goals.

Follow-Up Finding and Conclusion – DLC did not establish net recovery goals for its third-party collection activities.

Current Review – On March 1, 2019, DLC contracted with a third-party collection servicer who would manage its collection efforts in place of its Collections Department managing individual contracts with individual collection agencies. DLC previously maintained contracts with four individual collection agencies each with different portfolios of reference. This process was manually intensive.

DLC selected First Financial Portfolio Services (FFAM360) based on projected recovery performance, process management, and enhanced reporting capabilities. Although DLC made the decision to work with a collection servicer in March 2019, services were delayed due to system limitations on DLC's side. Following system upgrades, FFAM360 was able to begin services in January 2021.

Exhibit VI-1 shows the consolidated third-party collection performance DLC experienced using its former methodology for the years 2016 – 2018. Exhibit VI-2 shows the performance results of the new collection servicer methodology for the years 2021 – 2022.

[3] Net collection results equal gross collections less commissions – this data allows for equitable comparison between collection agencies as well as provides actual revenue recovered that is available for company use.

VI. CUSTOMER SERVICE

Exhibit VI-1
Duquesne Light Company
Former Third-Party Collection Methodology Performance
For the Years 2016 – 2018

Year	Placements	Gross Recovery	Net Recovery	Net Recovery Percentage	Commission	Commission Percentage
2016	$20,207,726	$1,498,179	$1,199,901	5.94%	$298,278	19.91%
2017	$22,543,404	$1,376,611	$1,108,378	4.92%	$268,233	19.49%
2018	$10,849,890	$ 677,790	$ 566,275	5.22%	$111,515	16.45%

Source: 2019 Management Audit Data Request No. CS-30

Exhibit VI-2
Duquesne Light Company
Current Third-Party Methodology Performance
For the Years 2021 – 2022

Year	Placements	Gross Recovery	Net Recovery	Net Recovery Percentage	Commissions	Commissions Percentage
2021	$15,612,655	$1,165,891	$ 967,690	6.20%	$198,201	17.00%
2022	$16,196,655	$2,054,566	$1,705,290	10.53%	$349,276	17.00%

Source: Data Request CS-6

Comparing the performance DLC experienced from its former methodology with the current methodology, the data supports DLC's decision to use FFAM360's services. DLC has realized a higher percentage of net recovery at a reasonable commission rate.

DLC has monthly meetings with FFAM360 to review and discuss any concerns about performance. DLC has not yet developed specific performance goals.

<u>Follow-Up Recommendation</u> – Establish and implement third-party collection net recovery performance goals while continuing to monitor monthly performance reports.

VII. HUMAN RESOURCES

Background – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

DLC's human resources functional area includes five divisions:

- Employee & Labor Relations
- HRIS & People Analytics
- Talent Acquisition & Performance
- Talent & Compensation
- Benefits

These divisions report to the VP, Chief Human Resources Officer who reports directly to the President and Chief Executive Officer. In this chapter, one prior situation and one recommendation are reviewed, and one follow-up finding is presented. The finding relates to revising the written documents used to engage contractors for consistency.

Finding No. VII-1

Prior Situation – DLC addressed contractor safety in multiple documents used when engaging contractors. The language therein was vague and highly subjective. In addition, DLC used fourteen different versions of Master Service Agreements (MSA) when hiring contractors for multiple projects. There were safety-related sections within each document; however, the language was inconsistent from document to document. There was also language indicating that contractors were to follow the more stringent of applicable regulations and laws or DLC's safety requirements. This language was also vague and highly subjective in interpretation. This practice did not inherently support DLC's safety goals nor its underlying safety culture mission.

United States employers, including DLC and any contractor DLC would hire, are required to comply with Occupational Safety and Health Administration (OSHA) standards. Requiring all contractors that engage with DLC to comply with all OSHA standards is lawful, ethical, and finite in definition. The enforcement of and adherence to legally and ethically sound contractor engagement documentation ensures positive, effective relationships between DLC and its contractors. Any performance standards DLC determines to be necessary to enforce with contractors should be defined, in writing, and agreed upon during the contractor onboarding process.

VII. HUMAN RESOURCES

<u>Prior Recommendation</u> – Revise written documents used to engage contractors to include consistent language requiring contractors to comply with all OSHA standards and to remove any language directing contractors to comply with undefined safety directives of representatives of DLC.

<u>Follow-Up Finding and Conclusion</u> – DLC revised written documents used to engage contractors to consistently define contractor safety and to require contractors to comply with all applicable OSHA standards.

<u>Current Review</u> – DLC updated the language in the documents it uses to engage contractors. The updated documents require contractors to comply with OSHA standards and no longer direct contractors to comply with undefined safety directives of company representatives.

Specifically, DLC updated its Supplier Code of Conduct (SCC) as of July 20, 2021. The updated SCC defines the minimum standards of conduct to which all suppliers must adhere while conducting business with DLC. The SCC is incorporated into any agreement between a contractor and DLC. The SCC, along with the Policies for Ethical Conduct, define DLC's standards and expectations for key areas of corporate responsibility for contractors.

In addition, DLC revised the various MSAs as of January 11, 2022. The MSAs are used with contractors who will be serving on multiple projects with DLC. The language was made consistent throughout all MSAs which could be used for anything from engineering and construction projects to equipment and software purchases.

<u>Follow-Up Recommendation</u> – None

VIII. ELECTRIC OPERATIONS

Background – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE). DLC maintains over 7,700 miles of electric distribution and transmission lines covering 817 square miles.

In this chapter, four prior situations and recommendations are reviewed, and four follow-up findings with two follow-up recommendations are presented. The findings relate to excessive company overtime, reporting outage causes, and tracking inspection and maintenance activities.

Finding No. VIII-1

Prior Situation – DLC's craftworkers were organized into four functional groups: overhead (OH), underground (UG), substation (SS), and operations center (OC). Exhibit VIII-1, as was presented in the 2019 Management Audit Report, displays the number of craftworkers as full-time equivalents (FTEs), overtime as a percentage of straight time, the percentage change over the period 2013 – November 2018 for each group, and the backshift schedules used by each group. Meter technician jobs were transferred from the OH group to the Customer Service business unit during the years 2013 – 2016 which made it difficult to compare the change in staffing levels from 2013 – November 2018. The auditors used total straight time to estimate the FTEs over this period. The analysis by group revealed that, in general, OC workers experienced the highest average overtime levels at 31.8% – 46.2%. However, the levels of annual overtime varied between 20.0% – 39.6% of straight time during the period 2013 – November 2018.

To forecast its workload and staffing needs, DLC used historical hours incurred for each activity and yearly work plan projections to budget hours for forecasted work. If forecasted staffing exceeded field resources available, DLC would develop overtime and contractor resource models to try to determine an efficient and effective mix. These models were based on the type of work, the craft resources required, the planned in-service date, and the location. In certain circumstances, the terms of the collective bargaining agreement (CBA) were considered in these decisions as well.

VIII. ELECTRIC OPERATIONS

Exhibit VIII-1
Duquesne Light Company
Craftworker Staffing and Overtime Levels
For the Years 2013 – 2017 and as of November 2018

		2013	2014	2015	2016	2017	November 2018	% Change
Underground	**No. of FTEs**	58	57	57	58	58	62	
	Straight hrs	122,684	118,920	120,522	120,832	120,845	118,880	5.7%
	Overtime hrs	33,427	28,141	24,786	24,627	34,789	39,423	28.6%
	Overtime %	**27.2%**	**23.6%**	**20.5%**	**20.3%**	**28.7%**	**33.1%**	**21.7%**
	Backshift(s)	Monday – Thursday from 7:00pm – 5:00am Monday – Friday from 9:00pm – 5:00am						
Overhead	**No. of FTEs**	274	271	266	223	211	211	
	Straight hrs	570,259	564,552	554,664	465,118	438,899	402,516	NA
	Overtime hrs	176,102	105,796	94,273	76,399	145,440	183,231	NA
	Overtime %	**30.8%**	**18.7%**	**17.0%**	**16.4%**	**33.1%**	**45.5%**	**47.4%**
	Backshift	Monday – Friday from 4:00pm – 2:00am						
Substation	**No. of FTEs**	71	69	72	69	75	74	
	Straight hrs	148,476	143,571	150,106	145,281	156,447	142,392	4.6%
	Overtime hrs	45,647	42,269	28,670	32,135	37,830	39,904	-4.6%
	Overtime %	**30.7%**	**29.4%**	**19.1%**	**22.1%**	**24.1%**	**28.0%**	**-8.8%**
	Backshift	Saturday from 7:00am – 3:30pm						
Operations Center	**No. of FTEs**	57	53	50	51	41	58	
	Straight hrs	119,455	111,834	104,752	107,061	85,527	112,243	2.5%
	Overtime hrs	38,002	35,837	38,792	43,549	39,562	45,279	29.9%
	Overtime %	**31.8%**	**32.0%**	**37.0%**	**40.6%**	**46.2%**	**40.3%**	**26.8%**
	Backshift(s)	Monday – Sunday from 3:00pm – 11:00pm Monday – Sunday from 11:00pm – 7:00am						
Total	**No. of FTEs**	460	450	445	401	385	405	
	Straight hrs	960,874	938,877	930,044	838,292	801,718	776,031	NA
	Overtime hrs	293,178	212,043	186,521	176,710	257,621	307,837	NA
	Overtime %	**30.5%**	**22.5%**	**20.0%**	**21.0%**	**32.1%**	**39.6%**	**30.0%**

Source: 2019 Management and Operations Audit Report

<u>Prior Recommendation</u> – Establish overtime level goals for each functional group with a goal not to exceed 20% and develop craftworker staffing levels and contractor resources to address the future workload, including work related to the Long-Term Infrastructure Improvement Plan.

<u>Follow-Up Finding and Conclusion</u> – DLC increased Operations' staffing; however, overall overtime continued to exceed 20% of straight time during the current review period.

<u>Current Review</u> – As shown in Exhibit VIII-2, DLC increased total craftworker staffing levels as of 2022. Internal staffing increased by 31 FTEs to a total of 437 FTEs. The

VIII. ELECTRIC OPERATIONS

OH, SS, and Operations Center/Field Operations (OC/FO)[4] functional groups realized the most significant staffing increases of 13, 12, and 10 FTEs, respectively. Overall craftworker overtime was highest in 2020 (40.3%) and 2021 (38.1%) with the OC/FO group reaching nearly 45% in 2020. The UG and SS groups were down closer to 25% overtime as of 2022, but total overtime for each year of current review period was notably higher than during the period audit period.

Exhibit VIII-2
Duquesne Light Company
Craftworker Staffing and Overtime Levels
For the Years 2018 – 2022

		2018	2019	2020	2021	2022	2018-2022 Average
Underground	No. of FTEs	62	62	59	59	58	60
	Straight hrs	128,902	129,432	122,795	122,534	121,090	124,951
	Overtime hrs	42,394	33,423	44,989	42,095	33,886	39,357
	Overtime %	**32.89%**	**25.82%**	**36.64%**	**34.35%**	**27.98%**	31.54%
	Backshift(s)	Monday – Thursday from 7:00pm – 5:00am Monday – Friday from 9:00pm – 5:00am Sunday 12:00am – 8:00am					
Overhead	No. of FTEs	211	210	213	213	224	214
	Straight hrs	439,392	437,840	444,754	442,944	466,797	446,345
	Overtime hrs	183,019	148,895	188,477	191,722	161,462	174,715
	Overtime %	**41.65%**	**34.01%**	**42.38%**	**43.28%**	**34.59%**	39.16%
	Backshift	Monday – Friday from 4:00pm – 2:00am					
Substation	No. of FTEs	74	75	76	79	86	78
	Straight hrs	154,975	156,633	159,301	165,110	180,194	163,243
	Overtime hrs	45,031	46,638	53,827	45,228	46,442	47,433
	Overtime %	**29.06%**	**29.78%**	**33.79%**	**27.39%**	**25.77%**	29.16%
	Backshift	Saturday from 7:00am – 3:30pm					
Operations Center and Field Operations	No. of FTEs	59	54	58	65	69	61
	Straight hrs	122,041	112,220	119,866	134,560	144,018	126,541
	Overtime hrs	49,617	43,317	53,819	50,758	47,733	49,049
	Overtime %	**40.66%**	**38.60%**	**44.90%**	**37.72%**	**33.14%**	39.00%
	Backshift(s)	None[5]					
Total	No. of FTEs	406	401	406	416	437	413
	Straight hrs	845,310	836,125	846,716	865,148	912,099	861,080
	Overtime hrs	320,061	272,273	341,112	329,803	289,523	310,554
	Overtime %	**37.86%**	**32.56%**	**40.29%**	**38.12%**	**31.74%**	36.11%

Source: Data Request TD-01 and auditor analysis

[4] During the current review period, DLC split the OC functional group into two groups, Operations Center and Field Operations, for data tracking purposes – in Exhibit VIII-2, those two groups have been merged to be more easily compared to the prior period data provided in Exhibit VIII-1.
[5] During the current review period, DLC created two twelve-hour regular shifts for the OC group, and three eight-hour regular shifts for the FO group.

VIII. ELECTRIC OPERATIONS

As shown in Exhibit VIII-3, DLC increased craftworker staffing four out of the five years of the current review period with an overall increase of 48 field operations employees. The hiring success can be directly tied to the Electric Distribution Technology (EDT). The EDT Program is a one-year certificate focusing on theory and electric utility work practicum. In addition, there are internship opportunities for students to work in the field. Students complete 44 academic credit hours and approximately 1,300 hours of hands-on training. Successful graduates are then able to apply for apprenticeship positions with DLC. The EDT Program contributed to 83 of the 120 craftworkers hired from 2019 – 2022 as is shown in Exhibit VIII-3. DLC intends to continue the EDT Program to ensure a ready pipeline of qualified craftworkers for hire.

Exhibit VIII-3
Duquesne Light Company
Craftworker Transfers, Hires, Terminations, and Retirements
For the Years 2018 – 2022

	2018	2019	2020	2021	2022
Transfer In	24	21	27	19	28
Transfer Out	21	21	22	17	25
New Hires	25	18	27	40	35
Terminations	6	9	9	12	12
Retirements	15	15	12	13	7
Total	**7**	**-6**	**11**	**17**	**19**
		Grand Total =		**48**	
EDT Program Hires	**N/A**	**18**	**16**	**25**	**24**

Source: Data Request TD-7, TD-15, and auditor analysis

<u>Follow-Up Recommendation</u> – Focus on successful recruitment practices, such as the EDT Program, to further increase craftworker staffing levels to maintain overtime levels not to exceed 20% of straight time.

VIII. ELECTRIC OPERATIONS

Finding No. VIII-2

Prior Situation – As determined during the prior audit, the ten employees with the highest overtime levels are shown in Exhibit VIII-4. Many of the field operations employees exceeded 1,040 hours of overtime (or about 50% of straight time) for any given year and had even reached as high as 2,231 overtime hours (more than a traditional work year of 2,080 hours). It should be noted that the overtime hours reported included hours not only worked but earned by craftworkers under certain circumstances. Earned overtime hours were triggered by callout rest period rules and minimum hours paid for callouts that craftworkers were entitled to under the CBA.

Exhibit VIII-4
Duquesne Light Company
Top Ten Highest Individual Overtime Levels
For the Years 2013 – 2017 and as of November 2018

Rank	2013	2014	2015	2016	2017	Nov 2018
1	1,329	1,460	1,429	1,507	2,081	2,231
2	1,190	1,283	1,332	1,452	1,700	1,968
3	1,153	1,117	1,307	1,416	1,637	1,950
4	1,145	1,065	1,275	1,382	1,543	1,837
5	1,136	1,048	1,235	1,295	1,527	1,781
6	1,076	1,011	1,220	1,291	1,413	1,673
7	1,065	1,002	1,208	1,290	1,300	1,654
8	1,052	1,001	1,204	1,161	1,265	1,643
9	1,046	939	1,152	1,160	1,192	1,604
10	992	895	955	1,122	1,155	1,511

Source: 2019 MA Data Requests TD-29, TD-82, and auditor analysis

Individuals incurred most of the overtime hours in the categories of emergency, emergent, and planned (over 95% of total overtime hours). Emergency overtime hours were subject to the callout program and were considered uncontrollable by the company; however, planned and emergent overtime, within the same job classification, should be distributed as evenly as possible per the CBA. For the years 2013 – 2017, planned overtime hours accounted for 37.9% – 50.8% and emergent contributed 15.1% – 29.9% of total overtime hours as shown in Exhibit VIII-5.

Exhibit VIII-5
Duquesne Light Company
Overtime by Category
For the Years 2013 – 2017

	2013		2014		2015		2016		2017	
	Hours	% Total	Hours	% Total	Hours	% Total	Hours	% Total	Hours	% Total
Total OT	11,182		10,821		12,316		13,075		14,812	
Emergency	4,388	39.2%	2,801	25.9%	4,095	33.2%	4,229	32.3%	5,042	34.0%
Emergent	1,694	15.1%	2,396	22.1%	3,677	29.9%	3,895	29.8%	4,068	27.5%
Planned	4,443	39.7%	5,498	50.8%	4,543	36.9%	4,951	37.9%	5,626	38.0%
	10,525	**94.1%**	**10,695**	**98.8%**	**12,315**	**100.0%**	**13,075**	**100.0%**	**14,736**	**99.5%**

Source: 2019 MA Data Request TD-29 and Auditor Analysis

<u>Prior Recommendation</u> – Monitor and control individual employee overtime levels by using overtime exception reports to actively review employees incurring excessive amounts of overtime.

<u>Follow-Up Finding and Conclusion</u> – Individual field operation employees continue to experience high levels of overtime; in some instances, booking more than 2,080 hours of overtime within a year.

<u>Current Review</u> – Beginning in the fourth quarter of 2020, DLC improved its method of tracking and reviewing individual overtime. The improved overtime exception reporting includes details of an individual's overtime levels by week, last four weeks, year-to-date, and last 52 weeks. The reports are distributed on a weekly basis to service centers as a management tool to monitor overtime levels.

As a follow-up, the auditors reviewed individual overtime levels for the years 2018 – 2022. The top 10 highest overtime levels are provided in Exhibit VIII-6. The review revealed that individuals were incurring over 2,000 hours of overtime in a single year with the highest being 2,631 hours in 2019. The company reiterated that the hours may include earned overtime hours triggered by CBA terms. An example of earned overtime would be if an employee was paid a minimum of four hours of overtime for a callout job which only took the employee two hours to complete. The company further explained that it is not feasible to track worked versus earned overtime; therefore, it is uncertain the amount of overtime that was worked versus earned. Per CBA language, overtime must be offered by seniority, and in most cases, DLC cannot prohibit field operations employees from accepting overtime.

VIII. ELECTRIC OPERATIONS

Exhibit VIII-6
Duquesne Light Company
Top Ten Highest Individual Overtime Levels
For the Years 2018 – 2022

Rank	2018 OT Hrs	2019 OT Hrs	2020 OT Hrs	2021 OT Hrs	2022 OT Hrs
1	**2,483**	**2,631**	**2,597**	1,812	1,946
2	**2,282**	**2,317**	**2,505**	1,596	1,916
3	**2,230**	1,962	**2,399**	1,591	1,524
4	1,991	1,905	1,851	1,463	1,494
5	1,868	1,892	1,730	1,443	1,392
6	1,864	1,704	1,692	1,416	1,377
7	1,829	1,641	1,656	1,407	1,345
8	1,799	1,419	1,651	1,402	1,321
9	1,764	1,408	1,642	1,399	1,311
10	1,728	1,387	1,615	1,391	1,300

Source: Data Request TD-4

Excessive individual worked overtime can increase the number of worker errors which could negatively impact service. More importantly, excessive individual worked overtime severely deteriorates the safety environment for employees, customers, and the public.

Follow-Up Recommendation – Implement measures to balance workload and limit available overtime.

VIII. ELECTRIC OPERATIONS

Finding No. VIII-3

Prior Situation – DLC reported outages due to the following causes: storms, trees (contact), trees (falling), equipment failures, overloads, vehicles, and other. For each cause, the number of outages, outage percentage, kVA[6] total, kVA percentage, kVA-minute total, and kVA-minute percentage were listed to provide insight on the frequency and extent of outages DLC experienced for the reported period. Exhibit VIII-7 shows DLC's rolling 12-month outage data, by cause, for the third quarter of 2018 as was presented in the 2019 Management Audit Report.

Exhibit VIII-7
Duquesne Light Company
Third Quarter 2018 Reliability Report – Outage Causes

	No. of Outages	Portion of Total Outages	kVA Total	Portion of kVA Totals	kVA-minute Total	Portion of kVA-minute Totals
Storms	488	14.1%	866,281	14.5%	145,243,379	21.0%
Trees (Contact)	20	0.6%	23,527	0.4%	921,342	0.1%
Trees (Falling)	1,026	29.7%	1,686,928	28.3%	229,617,374	33.2%
Equipment Failures	848	24.6%	1,600,407	26.9%	173,453,157	25.1%
Overloads	165	4.8%	161,577	2.7%	12,096,163	1.8%
Vehicles	144	4.2%	415,719	7.0%	49,191,408	7.1%
Other	761	22.0%	1,201,656	20.2%	80,287,634	11.6%
TOTALS	**3,452**	**100.0%**	**5,956,095**	**100.0%**	**690,810,457**	**100.0%**

Source: Third Quarter 2018 Electric Reliability Report at Docket No. M-2016-2522508

The method of reporting tree-related outages did not provide adequate detail to assess the adequacy of DLC's vegetation management. Specifically, the reporting neglected to classify right-of-way vegetation versus private property vegetation. In addition, there was an excess number of outages reported under "Other" which provides no value for management review and decision-making.

Prior Recommendation – Include additional descriptors to outage causes and report tree-related causes as being either vegetation inside right-of-way or vegetation outside right-of-way for a more effective analysis of possible remedial actions to outage causes in future annual and quarterly electric reliability reports to the PUC.

Follow-Up Finding and Conclusion – DLC enhanced its reporting of outage causes provided in electric reliability reports.

Current Review – Per 52 Pa. Code § 57.195, an electric distribution company (EDC) must provide the PUC with annual reports and quarterly updates on the status of their system reliability. Specifically, section (b)(4) requires an annual "breakdown and analysis of outage causes during the year being reported", and (e)(5) requires that

[6] 1 kVA = 1,000 volt amps

VIII. ELECTRIC OPERATIONS

EDCs with 100,000 customers or more must submit quarterly a “rolling 12-month breakdown and analysis of outage causes during the preceding quarter, including the number and percentage of service outages, the number of customers interrupted, and customer interruption minutes categorized by outage cause such as equipment failure, animal contact, tree related, and so forth. Proposed solutions to identified service problems shall be reported.”

Exhibit VIII-8
Duquesne Light Company
Fourth Quarter 2019 Reliability Report – Outage Causes

	No. of Outages	Portion of Total Outages	kVA Total	Portion of kVA Totals	kVA-minute Total	Portion of kVA-minute Totals
Storms	357	11%	933,511	13%	119,004,324	15%
Trees (Inside ROW)	360	11%	330,331	4%	58,540,342	8%
Trees (Outside ROW)	845	26%	1,942,015	27%	258,246,809	33%
Equipment Failures	768	24%	2,102,217	29%	196,429,852	25%
Overloads	49	1%	20,295	1%	1,462,984	1%
Vehicles	183	6%	597,611	8%	55,330,726	7%
Contact/Dig In	20	1%	91,615	1%	3,130,864	1%
Animal Contact	120	4%	262,093	4%	12,217,572	2%
Unknown	355	11%	615,090	8%	33,689,339	4%
Other	183	5%	401,332	5%	34,028,752	4%
TOTALS	**3,240**	**100%**	**7,296,110**	**100%**	**771,081,564**	**100%**

Source: Fourth Quarter 2019 Electric Reliability Report at Docket No. M-2016-2522508
ROW = right-of-way

DLC indicated that it expanded its outage causal codes beginning with its Fourth Quarter 2019 Electric Reliability Report submitted to the PUC on January 29, 2020. Exhibit VIII-8 details the updated outage causal codes which are highlighted in green. DLC included the recommended classifications for trees inside and outside right-of-way. In addition, DLC included three additional classifications:

- Contact/Dig In – line hits caused by anything other than an animal (OH and UG)
- Animal Contact – animals causing outages
- Unknown – outages for which DLC is unable to identity the root cause (can be investigated multiple times before assigning this cause type)

<u>Follow-Up Recommendation</u> – None

VIII. ELECTRIC OPERATIONS

Finding No. VIII-4

Prior Situation – DLC classified and prioritized transmission and distribution (T&D) maintenance issues found during inspections based on severity. Along with tracking the severity of the deficiency, the database recorded location and circuit, assigned work order number and crew leader, condition and problem, repair date, etc.

It is common practice for a utility, gas or electric, to provide a summary of inspection and maintenance (I&M) activities for the calendar year within management dashboards. These activities include the number of repairs sorted by repair severity and categorized by completed, backlogged, overdue, and re-inspected. A summary of T&D's I&M activities would enable DLC to trend performance of its capital and O&M programs.

Prior Recommendation – Create a summary report of annual transmission and distribution line repairs to trend inspection and maintenance activities.

Follow-Up Finding and Conclusion – DLC effectively uses its inspection program to track repair work to assign work orders to the necessary work group.

Current Review – DLC created a summary of T&D's corrective maintenance work orders being tracked in the first quarter of 2021. The report is distributed weekly to operations leadership to provide a high-level overview of progress on open corrective maintenance issues across all business units. The work orders are assigned either to owner groups or individuals who work to resolve the corrective maintenance issues. Concurrently, the company tracks the total number of corrective maintenance orders that are finished to ensure that necessary repairs are being completed.

Follow-Up Recommendation – None

IX. INFORMATION TECHNOLOGY

<u>Background</u> – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

The Vice President and Chief Information Officer (CIO) is responsible for information technology (IT) functions at DLC. During our current review, the CIO position was vacant, and an interim CIO was responsible for IT functions. In this chapter, one prior situation and one prior recommendation are reviewed, and one follow-up finding is presented. The finding relates to IT maturity.

Finding No. IX-1

<u>Prior Situation</u> – In 2017, DLC engaged a third-party consultant to review and assess its five-year IT strategy and how it aligns with its corporate strategy and objectives. Part of this review included an IT maturity composite assessment. DLC made improvements after this review, and in 2018, the same consultant was used again to measure progress and advise on additional opportunities for improvement. DLC then set a goal to improve its IT maturity rating by 10% by year-end 2020. Once this goal was met, DLC planned to reevaluate its IT capability needs and determine if it would be worthwhile to consider additional increases in IT capabilities.

<u>Prior Recommendation</u> – Continue to improve the information technology maturity rating via enhanced information technology capabilities, internal controls and governance, and coordination with internal business partners; furthermore, periodically reevaluate the information technology maturity rating.

<u>Follow-Up Finding and Conclusion</u> – DLC met the established goal to increase information technology maturity by 10% and developed and implemented a plan for continued periodic internal review of its information technology maturity level.

<u>Current Review</u> – As of November 2020, DLC increased its IT maturity by 10.3% per a third-party maturity framework study. DLC decided to change maturity framework models starting in 2021. The new model is based on the COBIT (Control Objectives for Information Technologies) framework. DLC stated this is less time-consuming and is better recognized across the industry than the former framework. Although these two models have similar rating scales, the previous score cannot be compared to the new framework because of different evaluation and measurement processes.

DLC identified 45 process components to its custom-modified COBIT model. For use in initial evaluation, DLC decided to focus on four specific components. Base scores for the four components were established between July 2022 – January 2023. Established work teams focused on maturing areas to align with designated IT strategy and priorities. Monthly reports, along with an annual end-of-year score, are produced which detail progress for each of the four components.

DLC did not have a global IT maturity rating established because base scores in all component ratings (the 45 referenced above) would have been needed to establish an overall maturity rating. DLC's intent is to conduct a comprehensive internal review for each of the four chosen components by the end of 2023. After this review, DLC will determine whether to implement goals for further improvement in these designated components or to dedicate resources toward additional components.

Follow-Up Recommendation – None

X. PURCHASING AND MATERIALS MANAGEMENT

<u>Background</u> – As previously discussed, Duquesne Light Company (DLC) is a Pennsylvania regulated utility providing electric services to approximately 610,000 customers in Allegheny and Beaver counties. It is a wholly-owned subsidiary of the energy services holding company, Duquesne Light Holdings, Inc., which is a wholly-owned subsidiary of the private equity investor owned DQE Holdings LLC (DQE).

In this chapter, the prior situation and recommendation, relating to the materials management function, are reviewed, and one follow-up recommendation is presented. The finding relates to the implementation of a new inventory management system and the establishment of inventory turnover goals.

<u>Finding No. X-1</u>

<u>Prior Situation</u> – Due to legacy system limitations, certain best materials management practices, such as maintaining an emergency stock list, establishing reasonable economic order points and quantities, and establishing and monitoring materials management performance through inventory turnover goals, were not feasible for DLC. During prior audit fieldwork, DLC was preparing to implement a new materials management system (*Maximo*) which would improve DLC's materials management capabilities.

<u>Prior Recommendation</u> – Implement *Maximo* for enhanced inventory tracking and reporting and establish inventory turnover goals based on optimal usage patterns.

<u>Follow-Up Finding and Conclusion</u> – DLC successfully implemented *Maximo* as of September 2019; however, DLC has not yet established inventory turnover goals.

<u>Current Review</u> – After successfully implementing *Maximo* on September 5, 2019, DLC's Procurement & Supply Chain (P&SC) Department began the task of ensuring that known data integrity issues that had existed in the legacy system would not hinder the new system. First, they performed a full physical inventory count to correct any inaccuracies transferred from the legacy system. Then, they developed procedures for handling obsolete items and establishing and maintaining emergency stock. These represent the prudent first steps in establishing controls in materials management.

Maximo offers many automated inventory management features; however, it will take time to rely on these features given that historical usage reports from the legacy system were unreliable. The P&SC Department had to compile historic usage data over time within the new system so that trends could be identified and inventory optimization points could be established.

Amid establishing materials management controls, the P&SC Department encountered external challenges brought about with the pandemic. Like all other companies, DLC had to adjust its work schedules to comply with health and safety mandates in the short-term while still monitoring the effects of lingering supply chain failures.

Given the time necessary for historic data to be compiled and analyzed along with the need for operations to normalize following the pandemic, the P&SC Department found it difficult to determine appropriate goals to monitor and evaluate the success of materials management processes. In 2022, an inventory average value target was implemented with a general goal of keeping total inventory levels controlled; however, this target was set at a modest level because supply chain delays continue to be a problem.

DLC's P&SC Department demonstrated awareness of how inventory optimization helps to reduce storage costs and to minimize financial resources being tied up in overstock or obsolescent items while minimizing the risk of stock shortages which could affect service. The efforts of the P&SC Department, such as investing in an upgraded materials management system and ensuring the accuracy of inventory data, support its intention to follow materials management best practices.

The P&SC Department should continue to analyze historic usage data and implement sound materials management processes, so as operational normalization continues, the P&SC Department can focus on inventory optimization. Audits encourages utility companies to maintain inventory levels that would support a minimum inventory turnover rate of 2.0 – 4.0 as a best business practice. Companies must exclude emergency stock from inventory turnover rate calculations because the items maintained within the emergency stock list are, by definition, slow-moving items that are not yet obsolete because they are still in plant and therefore, could be required for a repair to keep the distribution system operational. If included, these items falsely reduce calculated inventory turnover rates which result in inaccurate performance data.

<u>Follow-Up Recommendation</u> – Analyze historic usage trends and obtain benchmarking data to establish an inventory turnover goal to be implemented as soon as is feasible.

XI. EMERGENCY PREPAREDNESS

Background – The 2019 Management and Operations Audit Report for Duquesne Light Company (DLC) was compiled by the Pennsylvania Public Utility Commission's (PUC or Commission) Bureau of Audits (Audits) and released in July 2019 at Docket No. D-2018-3000838. Although the management audit had no recommendations for the emergency preparedness functional area, Audits deemed it prudent to perform an updated review of the company's compliance with PUC regulations at 52 Pa. Code § 101 (Chapter 101) regarding physical security plans (PSP), cyber security plans (CSP), emergency response plans (ERP), and business continuity plans (BCP).

To protect infrastructure within the Commonwealth of Pennsylvania and ensure safe, continuous, and reliable utility service, Chapter 101 PUC regulations, effective June 2005, require all jurisdictional utilities to develop and maintain written physical security, cyber security, emergency response, and business continuity plans. Furthermore, pursuant to 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, includes 13 questions as shown in Exhibit XI-1.

Exhibit XI-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?	
2	Has your physical security plan been reviewed in the last year and updated as needed?	
3	Is your physical security plan tested annually?	
4	Does your company have a cyber security plan?	
5	Has your cyber security plan been reviewed in the last year and updated as needed?	
6	Is your cyber security plan tested annually?	
7	Does your company have an emergency response plan?	
8	Has your emergency response plan been reviewed in the last year and updated as needed?	
9	Is your emergency response plan tested annually?	
10	Does your company have a business continuity plan?	
11	Does your business continuity plan have a section or annex addressing pandemics?	
12	Has your business continuity plan been reviewed in the last year and updated as needed?	
13	Is your business continuity plan tested annually?	

Source: Public Utility Security Planning and Readiness Self-Certification Form at
http://www.puc.state.pa.us/general/onlineforms/pdf/Physical_Cyber_Security_Form.pdf

The auditors use a NIST (National Institute of Standards and Technology) Cyber Security Framework-based audit plan modified to address the needs and capabilities of the PUC and the Pennsylvania utility companies. Ultimately, due to the sensitive nature of the information reviewed, specific information is not revealed in Audits' reports; instead, the generalities of the information reviewed are discussed.

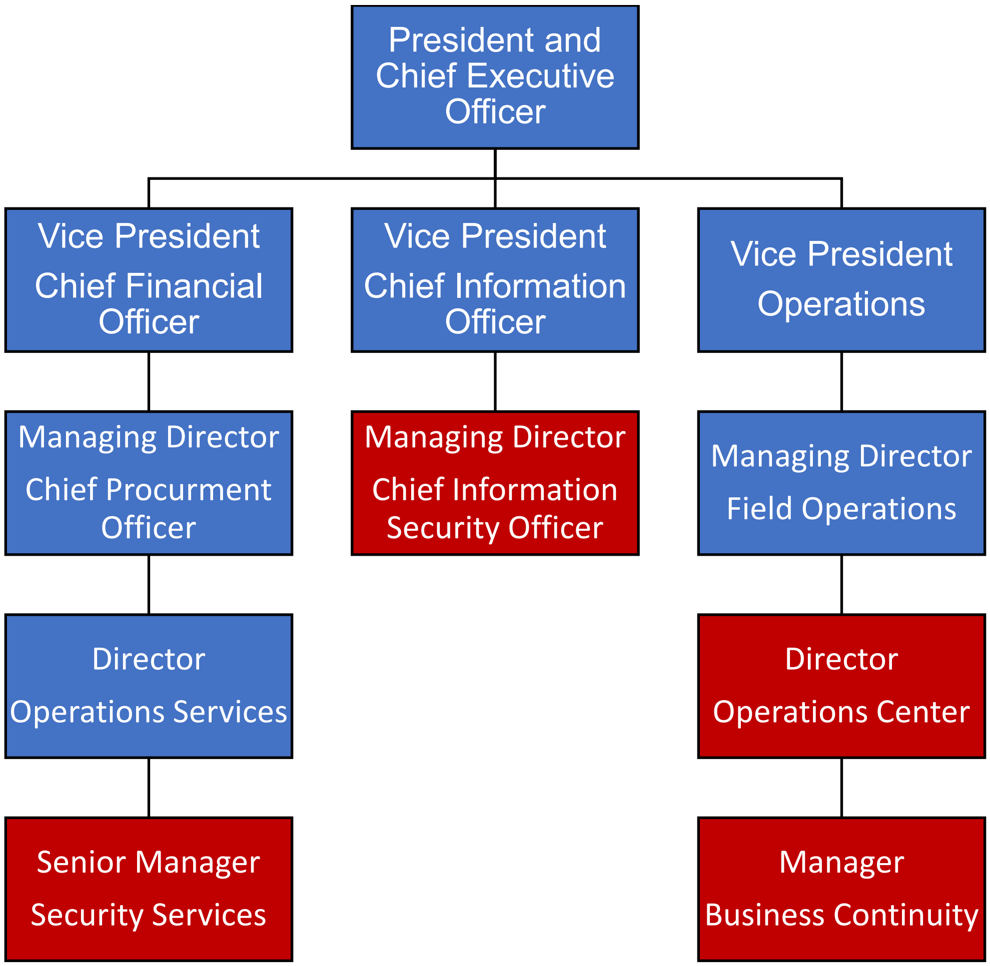
The auditors reviewed the most recent (i.e., 2022) Self-Certification Form DLC filed with the PUC. The auditors' examination of DLC's emergency preparedness included a review of the PSP, CSP, ERP, BCP, and associated security measures. In addition, the auditors performed inspections of a sample of the company's facilities.

Maintenance of the four emergency plans includes annual reviews and testing. Frequently, testing occurs more than once a year. This often involves federal, state, and local agencies and authorities in addition to company personnel. Testing can be performed via tabletop exercises, simulations, or real-life events. In addition, physical and cyber vulnerability tests are routinely conducted to discover potentially susceptible areas. Any discoveries from the testing will be conveyed to employees, and the manuals will be updated as needed to reflect revised procedures or practices resulting therefrom.

Each of the emergency plans has centralized and facility specific information and procedures. Although many individuals are involved in the maintenance and testing of these plans, four key positions provide oversight and active management. These four positions, listed below, are displayed in red in Exhibit XI-2.

- **Physical Security Plan (PSP)** – Senior Manager, Security Services
- **Cyber Security Plan (CSP)** – Managing Director, Chief Information Security Officer
- **Emergency Response Plan (ERP)** – Director, Operations Center
- **Business Continuity Plan (BCP)** – Manager, Business Continuity

Exhibit XI-2
Duquesne Light Company
Emergency Preparedness Coordinators



Source: Data Request EM-4

Findings and Conclusions

Our examination of the emergency preparedness at Duquesne Light Company included a review of the Physical Security Plan, Cyber Security Plan, Emergency Response Plan, Business Continuity Plan, vulnerability assessments, and all associated security measures. Based on our review of the company's emergency preparedness efforts, no evidence was discovered that would lead the auditors to conclude that the areas reviewed were inadequately addressed.

Recommendations – None

XII. ACKNOWLEDGEMENTS

We wish to express our appreciation to the officers and staff of Duquesne Light Company for their cooperation and assistance.

This review was conducted by Craig Bilecki, Timothy Kerestes, Melissa Lawrence, Eric McKeever, and Jennifer Lange of the Pennsylvania Public Utility Commission's Bureau of Audits' Management Audit Division.

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