

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company**

**Statement No. 1**

**Direct Testimony of Frederick J. Eichenmiller**

1 **Q. Please state your full name and business address.**

2 **A.** My name is Frederick J. Eichenmiller. My business address is 411 Seventh  
3 Avenue, Pittsburgh, Pennsylvania 15219.  
4

5 **Q. What is your position at Duquesne Light Company (“Duquesne Light” or  
6 “Company”)?**

7 **A.** I am the Director of External Affairs for the Company.  
8

9 **Q. Please describe your professional and educational background.**

10 **A.** I have a Bachelor of Science Degree in Electrical Engineering from Grove City  
11 College, I am a graduate of the Management Program for Executives from the  
12 Katz Graduate School of Business at the University of Pittsburgh, and I am a  
13 licensed professional engineer in the Commonwealth of Pennsylvania.  
14

15 **Q. What has been your business experience?**

16 **A.** I began my career as an electrical engineer with Duquesne Light in 1973, and I  
17 have experience in many varied capacities at the Company. During my career, I  
18 held positions related to almost all aspects of the distribution processes,  
19 engineering, operations and operations support functions.  
20

21 For three years, I served as Executive Assistant to the President, CEO and  
22 Chairman of Duquesne Light. Subsequently, I held the positions of Director of  
23 Operations Support, Director of Work Management and Director of Operations  
24 and Underground. In these roles I had responsibilities for key processes that had  
25 a direct impact on distribution system reliability and customer satisfaction. In  
26 2004, I was appointed to Director of Rates and Regulatory Affairs and most  
27 recently to Director External Affairs.  
28

29 **Q. Please describe your current responsibilities as the Director External Affairs.**

30 **A.** I am responsible for the oversight and direction of the Company’s Rates  
31 Department, Regulatory and Legislative matters, as well as Transmission

1 Planning, RTO Processes and Environmental. In this role, I am responsible for  
2 the planning and direction of Duquesne Light's filing in this base rate proceeding.  
3

4 **Q. Please briefly describe the subject matter of your testimony in this**  
5 **proceeding.**

6 **A.** The purpose of my testimony is to provide an overview of Duquesne Light and its  
7 requested base rate increase. Section I is a summary of Duquesne Light and its  
8 requested distribution rate increase. In Section II, I discuss the Company's  
9 current financial condition, and its initiatives to manage costs while providing  
10 high quality and reliable electric service to customers. In Section III, I detail the  
11 primary reasons for requesting this rate relief. Section IV describes Duquesne's  
12 requested rate relief and the organization of the filing, and also introduces  
13 Duquesne's witnesses in the proceeding. In Section V, I discuss the importance  
14 of this case to Duquesne Light, its customers, and southwestern Pennsylvania.  
15 Finally, Section VI is a conclusion to my testimony.  
16

17 **Q. Are you sponsoring any exhibits to the filing?**

18 **A.** I am co-sponsoring the Statement of Reasons, which is included in Exhibit 2. I  
19 say that I am co-sponsoring the Statement of Reasons, recognizing that it  
20 summarizes all of the critical aspects of Duquesne Light's filing and, in that  
21 sense, it is sponsored and supported by all of the Company's witnesses.  
22

23 **I. SUMMARY OF DUQUESNE LIGHT AND THE REASONS FOR AND**  
24 **AMOUNT OF THE REQUESTED DISTRIBUTION RATE INCREASE**  
25

26 **Q. Please provide some background on Duquesne Light.**

27 **A.** For more than 130 years, Duquesne Light has been providing the people of the  
28 Pittsburgh region with reliable electricity. From the industrial age to the  
29 technology era, Duquesne Light has been an integral part of the fabric that makes  
30 up the city – as a public service provider, key employer, and long-time

1 community partner. Today the Company continues its role as a committed  
2 community partner and as a leader in the transmission and distribution of electric  
3 energy, providing a secure supply of reliable power and superior customer service  
4 to more than 588,000 homes and businesses throughout the region of Allegheny  
5 and Beaver counties. Duquesne Light maintains its headquarters in the heart of  
6 the community in which it serves, and is part of the important backbone of  
7 support for many social and human services programs in the region.

8  
9 **Q. Please provide a summary of the Company's major initiatives since**  
10 **Duquesne Light's last Distribution base rate case filing.**

11 **A.** At the time of the 2006 Distribution Rate Case, Duquesne Light had not had a  
12 previous case for over 20 years. In the 2006 case, Duquesne Light committed to a  
13 significant investment in its Distribution as well as its Transmission  
14 infrastructure.

15  
16 Since the 2006 Rate Case, Duquesne Light Holdings ("DLH") and Duquesne  
17 Light have continued to execute a back to basics philosophy. This process has  
18 resulted in the divestiture of several non-core unregulated businesses and  
19 significant restructuring of the management team. This leaner and more  
20 streamlined management team is now focused predominantly on the transmission  
21 and distribution "wires" business and has continued to make process  
22 improvements that have reduced costs and yet maintained high service levels and  
23 reliability for the Company's customers.

24  
25 In fact, normal ongoing distribution and operating and maintenance expenses  
26 required to maintain this high level service have been reduced by over \$20  
27 million per year due to process improvements, reduced employee related expenses  
28 in the management workforce, and appropriate jurisdictional allocations.

1 **Q. If normal distribution operating expenses are now less than during the 2006**  
2 **rate case, why is Duquesne Light now asking for a rate increase?**

3 **A.** There are several dynamics in play that are having significant impacts on our  
4 business today and going forward.

5  
6 The recent national financial crisis has had a significant adverse impact on the  
7 performance of the pension fund assets. Additionally, the Pension Protection Act  
8 of 2006 (PPA) has imposed new funding rules that require Duquesne to make  
9 significant (over \$100M) contributions to its pension plan in the future test year of  
10 this case, as well as subsequent years.

11  
12 Similarly and perhaps related to the financial crisis is the expected continued  
13 growth of low income customers needing assistance through the Customer  
14 Assistance Program (CAP). This expanding service is placing significant pressure  
15 on the Company's expenses.

16  
17 To continue to maintain the very high levels of service and reliability, as I will  
18 explain subsequently, Duquesne Light will invest \$169.8 million in distribution  
19 infrastructure during the twelve months ended March 31, 2011, and its net utility  
20 distribution plant will have increased \$263 million since the last base rate case  
21 (December 31, 2006).

22  
23 Also, we are expecting flat, if not slightly, negative sales and related revenues due  
24 to implementation of Act 129 energy efficiency provisions.

25  
26 **Q. Has Duquesne Light been able to maintain highly reliable service since its**  
27 **last base rate proceeding?**

28  
29 **A.** Absolutely. During this period (2007-2009), Duquesne has maintained high  
30 levels of service and reliability. In fact, Duquesne has provided its customers  
31 with the best reliability of all the major Pennsylvania EDCs in terms of all three

1 system and customer reliability metrics (CAIDI, SAIFI and SAIDI). As shown in  
2 the recent Pennsylvania Public Utility Commission (“PUC” or “Commission”)  
3 report on Electric Service Reliability in Pennsylvania, excerpt included below,  
4 Duquesne Light has consistently provided the highest level of reliability of any  
5 major electric utility in the Commonwealth over the last 3 years. Duquesne Light  
6 management and employees have made focused and continuous efforts to  
7 improve reliability even though Duquesne Light has been at the top of the list for  
8 some time. We are proud to provide customers this high level of service.

**Three-year average electric reliability indices for 2007-09**

<b>Customer Average Interruption Duration Index (CAIDI)</b>				<b>3-Year</b>	<b>3-Year</b>	<b>% Above (+) or</b>
<b>EDC</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Average</b>	<b>Standard</b>	<b>Below (-) Standard</b>
Allegheny Power	208	168	166	181	187	-3.4
Duquesne Light	107	98	85	97	119	-18.8
Met-Ed (FE)	112	104	111	109	129	-15.5
Penelac (FE)	110	142	117	123	129	-4.7
Penn Power (FE)	126	111	116	118	111	6.0
PECO	105	124	106	112	123	-9.2
PPL	140	169	117	142	160	-11.3
UGI	167	135	105	136	186	-27.1
Citizens	62	64	75	67	115	-41.7
Fike County	125	236	178	180	192	-6.4
Wellsboro	107	91	96	98	136	-27.7
<b>System Average Interruption Frequency Index (SAIFI)</b>				<b>3-Year</b>	<b>3-Year</b>	<b>% Above (+) or</b>
<b>EDC</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Average</b>	<b>Standard</b>	<b>Below (-) Standard</b>
Allegheny Power	1.29	1.16	0.97	1.15	1.16	-0.9
Duquesne Light	0.79	0.99	0.97	0.92	1.29	-28.9
Met-Ed (FE)	1.63	1.35	1.21	1.40	1.27	10.0
Penelac (FE)	1.71	1.56	1.22	1.50	1.39	7.7
Penn Power (FE)	1.19	1.13	0.75	1.02	1.23	-16.8
PECO	0.99	1.04	0.98	1.00	1.35	-25.7
PPL	1.11	1.05	0.89	1.02	1.08	-5.9
UGI	0.63	0.67	0.76	0.70	0.91	-22.7
Citizens	0.25	0.26	0.20	0.24	0.22	7.4
Fike County	0.45	0.46	0.60	0.50	0.67	-24.9
Wellsboro	1.63	1.07	1.21	1.30	1.35	-3.5
<b>System Average Interruption Duration Index (SAIDI)</b>				<b>3-Year</b>	<b>3-Year</b>	<b>% Above (+) or</b>
<b>EDC</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Average</b>	<b>Standard</b>	<b>Below (-) Standard</b>
Allegheny Power	268	195	161	208	217	-4.1
Duquesne Light	84	97	82	88	153	-42.7
Met-Ed (FE)	182	139	134	152	163	-7.0
Penelac (FE)	183	220	143	184	179	2.6
Penn Power (FE)	150	125	87	121	136	-11.3
PECO	104	129	103	112	167	-32.9
PPL	156	178	104	146	172	-15.2
UGI	114	90	80	95	170	-44.3
Citizens	16	17	15	16	25	-36.0
Fike County	57	109	106	91	129	-29.6
Wellsboro	169	98	117	128	185	-30.8

Note: GREEN = better than standard; RED = worse than standard.

1 Duquesne's highly automated 23Kv distribution control system has played a key  
2 role in providing customers with this level of reliability. However, this system is  
3 approaching end of life and is requiring significant capital investment (\$22.4M) to  
4 replace the sectionalizing devices with technically advanced units to maintain and  
5 improve service to customers (See Project #1 described in Mr. Ward's testimony,  
6 DLC St. No. 5).

7  
8 These and other major investments to our distribution system, as explained in Mr.  
9 Ward's testimony, are required to maintain this level of service for customers.  
10 Absent rate relief, these distribution system improvements will degrade the  
11 financial performance of the business.

12  
13 **Q. Has Duquesne been able to maintain high customer service levels since its**  
14 **last base rate proceeding?**

15  
16 **A.** Yes. Duquesne has met or exceeded the stringent Customer Service Metrics as  
17 established in the Settlement and Merger Approval Order, dated April 24, 2007.  
18 For each of the 3 years, 2007, 2008 and 2009, Duquesne performed better than all  
19 the established metrics. The metrics were: (1) percent of calls answered in 30  
20 seconds (established metric for all 3 years was 76%); (2) average busy out rate  
21 (established metric for all 3 years was 0.5%); (3) average call abandonment rate  
22 (established metric for all 3 years was 4%); and (4) percent of residential bills not  
23 rendered once every billing cycle (established metric was 0.01%). With that, it is  
24 apparent that Duquesne Light customers have received high quality call center  
25 and billing services.

26  
27 **Q. Please provide a summary of the Company's request for a distribution rate**  
28 **increase.**

29 **A.** Duquesne Light's filing in this docket requests that the Commission approve an  
30 \$87.3 million distribution rate increase, or approximately 6.69% on forecasted

1 revenues assuming 100% POLR sales. We have legally requested an effective  
2 date of sixty days after filing but expect rates to be effective after suspension and  
3 investigation by the Commission in about nine months, or in late April, 2011.  
4 We are also proposing that costs for Universal Services be recovered through a  
5 separate rider mechanism.

6  
7 As will be described in more detail in the testimony of other Duquesne Light  
8 witnesses, this level of rate relief is designed to provide the Company with an  
9 opportunity to earn an overall rate of return of 8.78%, including a 11.25% return  
10 on common equity, on a distribution rate base of \$1.440 billion.

11  
12 This filing deals only with distribution base rates. Generation supply and  
13 transmission service are not an issue in this proceeding.

14  
15 **II. DUQUESENE LIGHT'S FINANCIAL CONDITION, MANAGEMENT**  
16 **OF COSTS, AND RELIABILITY**

17  
18 **Q. What is Duquesne Light's current overall financial condition?**

19 **A.** For the historic test year, Duquesne Light had operating income from distribution  
20 operations for the Pennsylvania jurisdiction of approximately \$78.5 million,  
21 which equates to an overall return on rate base of 6.01 percent, (using historic test  
22 year end balances adjusted for ratemaking purposes). The Company's financial  
23 condition will decline further during the future test year as a result of continued  
24 increases in expenses, capital expenditures, mandatory cash contributions to its  
25 pension plan, and other factors, as explained in Mr. Bordo's testimony. On a pro  
26 forma basis for the future test year, we anticipate operating income for the  
27 Pennsylvania jurisdiction of \$78.9 million and an overall return on rate base of  
28 approximately 5.48 percent. These financial results are not commensurate with  
29 the service level Duquesne Light provides to its customers. Revenues at present  
30 rates simply do not provide sufficient funds for Duquesne Light to continue to  
31 operate its business, abide by legal requirements, and provide reliable electric

1 service to its customers. These issues are discussed in more detail in the  
2 testimony of Duquesne Light witnesses Robert O'Brien and David Bordo.

3  
4 **Q. What is causing a decline in Duquesne Light's financial condition?**

5 **A.** Duquesne Light's last rate case was filed in 2006. Duquesne Light Company has  
6 controlled, and in fact reduced, its operation and maintenance expenses by  
7 restructuring to a leaner management team, continuing process improvements and  
8 creatively deploying cost saving measures. Despite this, the cost of providing  
9 electricity service continues to increase and we are seeing escalating cost  
10 increases in many areas of our business.

11  
12 Duquesne Light will contribute over \$100 million in the future test year and more  
13 thereafter to fund its pension obligations under the Pension Protection Act. The  
14 significant decline in the stock market has affected the overall value of assets in  
15 Duquesne Light's pension. As explained by witnesses Bordo and Beebe,  
16 Duquesne Light must comply with higher funding levels required by the Pension  
17 Protection Act in a short time frame, with significant contributions required  
18 during the test period.

19  
20 In addition, as discussed later in my testimony and in detail in Mr. Ward's  
21 testimony, Duquesne Light will continue capital investments in its energy  
22 delivery system to replace equipment that is nearing the end of its operating life,  
23 or for increased capacity, and will invest over \$169.8 million in the future test  
24 year (April 2010 thru March 2011) in the distribution system to maintain high  
25 levels of customer service and continued reliable service.

26  
27 In the face of these issues, Duquesne Light will also see essentially no growth in  
28 sales primarily as a result of energy efficiency programs that are being  
29 implemented in response to the requirements of Act 129. Duquesne Light will  
30 experience higher costs as a result of increasing enrollment in its Customer

1 Assistance Program and other Universal Service Programs, as a result of  
2 economic conditions.

3  
4 **Q. Please describe in more detail some of Duquesne Light’s efforts to control**  
5 **costs while concurrently maintaining high levels of customer service and**  
6 **reliability.**

7 **A.** Duquesne Light’s people have worked hard to meet its customers’ need for high-  
8 quality service and reliability without raising rates. It is a priority to operate in a  
9 cost-conscious fashion, without unnecessary and frivolous expenditures.

10  
11 Following Duquesne’s last rate case in 2006, the Company has continued a “back  
12 to basics” philosophy. In short, the Company has refocused, restructured and  
13 reduced its management team to focus on its position as a “wires company”, and  
14 the associated delivery of electric energy to the customers of Allegheny and  
15 Beaver counties. A management restructuring effort and early retirement plan has  
16 resulted in the reduction of over 180 management employees. This was in an  
17 effort to continue to manage costs to reduce burdens on customers and streamline  
18 the decision-making processes, while continuing to focus on customer service.

19  
20 Duquesne Light has utilized technology to its benefit in various areas of the  
21 Company, and has taken various steps to automate processes which historically  
22 required employee interaction and significant resources. For example, Duquesne  
23 Light has recently provided a service which enables customers to report outages  
24 via computer. This is a quick, easy and mobile means to notify the Company  
25 regarding outages. Duquesne Light has also instituted a process whereby  
26 customers can receive updates on the service-restoration process via Twitter.  
27 Customers can also perform various customer service functions on-line, such as  
28 stop/start service, pay bills, etc. Nevertheless, customers always have access to  
29 Duquesne Light’s Customer Service Center and the many benefits that it offers.  
30 Customers also have the option to go paperless by using one of the “PayItGreen”  
31 services to view and pay bills. Duquesne Light’s automated meter reading

1 system, implemented several years ago, has virtually eliminated estimated bills  
2 and eliminated the need for meter readers to gather the data.

3  
4 From an operations perspective, Duquesne Light has taken various steps to reduce  
5 costs. Duquesne Light has invested in new and efficient equipment that does not  
6 require as much maintenance. For example, Duquesne Light has implemented  
7 new automated electronic relay testing equipment that can be efficiently operated  
8 by one person. Duquesne Light has replaced equipment at substations that was  
9 deteriorating – this has reduced maintenance costs.

10  
11 Through these efforts, and other initiatives, Duquesne Light has been able to, and  
12 will continue to, manage its costs of providing service. As I explained previously,  
13 Duquesne Light has done so while continuing to deliver the levels of service and  
14 reliability that satisfy our customers and meet or exceed PUC standards.  
15 However, rate relief can no longer be delayed.

16

17 **Q. Please describe Customer Care performance.**

18 **A.** Duquesne Light continues to maintain high levels of customer satisfaction.  
19 Notably, in 2009 Duquesne Light was recognized in a study performed by the  
20 Pacific Economics Group as a top performer in the United States in regard to the  
21 overall value that it offered to its customers. The group’s rating was based upon a  
22 combination of non-fuel O&M expenses and reliability.

23 In addition, Duquesne Light was named by J.D. Powers as the top performer in its  
24 2010 Business Customer Satisfaction Study among midsize utilities in the eastern  
25 United States. This award was bestowed based upon feedback from business  
26 customers ranking Duquesne Light on various attributes, including power quality  
27 and reliability, price, billing and payment, communications, corporate citizenship  
28 and customer service.

29  
30 Duquesne Light continues to make it a priority to have highly trained agents  
31 available who can successfully respond to customer needs in accordance with

1 Commission regulations, and customer complaints are low. Residential consumer  
2 complaints for 2009 dropped over 30% from the year prior. Similarly, residential  
3 payment arrangement requests dropped 12%. Of the customer complaints filed,  
4 Duquesne Light ranked better than all other Pennsylvania electric utilities in 2009  
5 for the percent of consumer complaints considered justified – only 1% of  
6 complaints were considered justified. Similarly, of the complaints filed by  
7 customers requesting payment arrangements, only 7% were deemed justified after  
8 being evaluated and closed, which is the lowest justified complaint percentage in  
9 the Commonwealth for 2009. Duquesne’s rate was even better for the first  
10 quarter of 2010, at 0%. Lastly, Duquesne Light’s response time to both customer  
11 complaints and payment arrangement requests in 2009 was reduced by one-half.  
12

13 **Q. Please describe reliability and Company performance.**

14 **A.** Achieving outstanding performance in system reliability is one of Duquesne’s  
15 fundamental objectives. Duquesne Light’s service territory covers approximately  
16 800 square miles, with a well-developed but aging distribution system throughout.  
17 Electric service reliability is fairly consistent across the service territory, and as  
18 previously mentioned on pages 4-7, Duquesne Light’s 2009 Annual Reliability  
19 Report indicates that reliability in Duquesne’s zone is among the best in the  
20 Commonwealth. This is evidence of Duquesne Light’s sound management of its  
21 electric distribution system. The combination of an effective outage restoration  
22 process and significant distribution automation allows the Company to quickly  
23 restore power to large numbers of customers in outage situations. The  
24 Engineering and Planning Group performs an ongoing analysis of reliability  
25 indices, root cause analysis of outages, and tracking and monitoring of other  
26 performance measures. This is the ongoing process to optimize reliability and to  
27 identify improvement opportunities. It includes making recommendations for  
28 capital projects such as circuit rehabilitation, new substations and distribution  
29 circuits. As explained by Mr. Ward, Duquesne Light’s Underground Residential  
30 Plan (URD) upgrade program is designed to enable the Company to reduce the  
31 frequency and duration of outages to customers on these aging underground

1 circuit areas that are both nearing the end of the useful life and difficult to restore  
2 when an outage occurs. Further, scheduled preventative and predictive  
3 maintenance activities continue to reduce the potential for future service  
4 interruptions. Corrective maintenance is prioritized, with the objective to reduce  
5 and eliminate any backlog in the most cost-efficient manner.

6  
7 In addition, we have increased efficiency and reliability through the continued use  
8 of technology, such as the automated control system that continuously monitors  
9 remote switches that can re-route power during storms and other outages to  
10 quickly restore service to large blocks of customers. This same automated system  
11 can be used to switch around overloaded circuits to defer temporary overload  
12 conditions on a real-time basis.

13  
14 **III. PRIMARY BASES FOR REQUESTING RATE RELIEF**

15  
16 **Q. Can you reiterate the primary bases for requesting this rate relief?**

17 **A.** Certainly. As I mentioned previously, the primary reasons are as follows: funding  
18 for continuation, maintenance and expansion of the distribution infrastructure to  
19 replace certain critical equipment that is aging as well as to make certain  
20 enhancements, as detailed in Mr. Ward's testimony; investment in the Company's  
21 pension pursuant to the PPA, including \$100M in the Future Test Year, as  
22 explained in Mr. Bordo's and Mr. Beebe's testimony; continued expansion of the  
23 Customer Assistance and other Universal Services programs as explained in Ms.  
24 Sandoe's testimony; and flat to negative kWh sales as a result of Act 129.

25  
26 **Q. Please describe the Company's distribution system and infrastructure  
27 improvement efforts.**

28 **A.** We live and work in a Commonwealth and region that has aging infrastructure.  
29 Duquesne Light continues to maintain and upgrade the distribution infrastructure  
30 which requires for the investment of resources and capital in the electrical  
31 infrastructure and supporting facilities. This investment is needed to provide

1 Allegheny and Beaver counties with the electric delivery system required to serve  
2 its customers and support economic development.

3  
4 Duquesne Light's customers rely on continuous and efficient utility service.  
5 Accordingly, we systematically analyze circuits that carry electricity across our  
6 service territory. Through the years, the Company has regularly replaced existing  
7 wires, poles and other equipment with new facilities in order to keep customers  
8 connected to a secure, reliable source of electricity.

9  
10 While Duquesne Light's distribution system has served customers well for  
11 decades, and improvements have been made, additional capital investment is  
12 necessary to meet the following necessary service obligations:

- 13 • To replace aging equipment;
- 14 • To ensure distribution system service capacity and reliability to meet the  
15 needs of our customers; and
- 16 • To provide supporting infrastructure, including information technologies,  
17 facilities, etc., to ensure that customers will continue to be served in the  
18 most cost effective and satisfactory manner possible.

19  
20 To address these service obligations, we plan to invest more than \$169.8 million  
21 in distribution capital expenditures during the future test year in order to ensure  
22 that Duquesne Light continues to provide the levels of service and reliability that  
23 our customers expect. This capital investment will take place throughout our  
24 service territory. These funds will be spent on a variety of projects, all of which  
25 are discussed in more detail in the testimony of Duquesne witness Scott Ward

26  
27 Investing in our infrastructure not only provides the necessary services and  
28 reliability to meet our obligation as a regulated utility, but also will result in new  
29 tax receipts and spin-off economic development for our area. Increased  
30 employment resulting from the infrastructure work will have a positive impact on  
31 the economy of Pennsylvania.

1 **Q. What effect will this infrastructure improvement plan have on Duquesne**  
2 **Light's financial condition?**

3 **A.** Obviously, the capital investment required for this will further stress  
4 Duquesne Light's current financial condition. Without rate relief, this will further  
5 erode Duquesne's income and financial stability. As a key employer and provider  
6 of electricity service to Allegheny and Beaver counties, Duquesne Light needs to  
7 be financially healthy and have acceptable credit ratings so that it can raise capital  
8 at a reasonable cost.

9  
10 **Q. Can you please summarize Duquesne Light's circumstances with respect to**  
11 **the funded status of its pension trust and the requirements of the Pension**  
12 **Protection Act?**

13 **A.** Duquesne Light's pension is currently underfunded in part due to the significant  
14 decline in pension assets as a result of the down-turn in the stock market over the  
15 last several years. Pursuant to the Pension Protection Act, enacted in August of  
16 2006, Duquesne Light is required to contribute a significant amount (over \$100  
17 million in the future test year) in the future test year and additional amounts in the  
18 next several years in order to maintain an 80% funding level, and then to reach a  
19 fully-funded status. These increased contributions are a significant reason for  
20 seeking a rate increase in this proceeding. Without rate relief, DLC will not be  
21 able to comply with the PPA, maintain its capital programs at a level necessary to  
22 maintain service, and maintain its current bond ratings.

23  
24 These issues will be discussed in more detail in the testimonies of Byron Beebe,  
25 David Bordo and Robert O'Brien.

26  
27 **Q. What is the effect of the Company's conservation efforts pursuant to Act**  
28 **129?**

29 **A.** On October 15, 2008, Governor Rendell signed into law Act 129 of 2008, which  
30 took effect on November 14, 2008 and, *inter alia*, mandated that Electric  
31 Distribution Companies file Energy Efficiency and Conservation Plans, setting

1           forth a plan to reduce energy consumption over the coming years. Specifically,  
2           EDCs must reduce total annual weather-normalized consumption of retail  
3           customers by 1% by May 31, 2011. This reduction is increased to 3% by May 31,  
4           2013. Finally, the weather-normalized demand of EDC retail customers must be  
5           reduced by a minimum of 4.5% of annual system peak demand in the 100 highest  
6           hours of demand. All of these reductions will reduce the levels of Mwh sales to  
7           Duquesne Light's customers. The effects of such conservation efforts is to turn  
8           otherwise rising sales into a small decline in sales for the future test year. This  
9           information is explained by Duquesne Light Witness James Habberfield (DLC St.  
10          No. 4).

11  
12       **Q. Are there any other major reasons that Duquesne Light is seeking rate relief**  
13       **in this proceeding?**

14       **A.** Yes, Duquesne Light is seeking funding for the growth trend of its Customer  
15       Assistance Program. With the financial incentives and demographics in  
16       southwestern Pennsylvania, we anticipate that the enrollment of low-income  
17       customers in Duquesne Light's CAP will expand greatly. To do that, our filing  
18       calls for significant increases to cover our increased CAP enrollment during the  
19       future test year.

20  
21       In addition to CAP, Duquesne Light intends to continue its additional Universal  
22       Services energy assistance initiatives, designed to cost effectively ensure that  
23       payment-troubled customers on a limited or fixed income have access to  
24       affordable energy. These include: the CARES (Customer Assistance & Referral  
25       Evaluation Service) Program, the Duquesne Light Company Hardship Fund,  
26       Smart Comfort/Low Income Usage Reduction Plan (LIURP), and Low-Income  
27       Home Energy Assistance Program (LIHEAP). These programs will be discussed  
28       in more detail by Duquesne Light witness Michele Sandoe.

29  
30       **Q. Are you making a new proposal regarding how you recover the costs for the**  
31       **Universal Services program?**

1 A. Yes. The Universal Services program costs are becoming a larger portion of  
2 Duquesne Light's budget. The Company has seen, and expects to continue to see,  
3 increases in enrollment in these programs due to, among other things, difficult  
4 economic conditions, higher poverty levels, and increased customer awareness  
5 regarding these programs.

6  
7 For this reason, Duquesne Light is recommending implementation of a Universal  
8 Services Rider. This rider would be reconciled on an annual basis. The details of  
9 this proposed approach can be found in the testimony of Mr. Pfrommer (DLC St.  
10 No. 14).

11  
12 **Q. Are you seeking a funding increase as it relates to Duquesne Light's Energy**  
13 **Efficiency and/or Smart Meter Procurement and Installation Plans?**

14 A. No. All revenue and expenses with respect to Duquesne Light's Energy  
15 Efficiency and Smart Meter plans have been excluded from this distribution rate  
16 case. Witness O'Brien makes the appropriate adjustments to eliminate such  
17 revenues and costs.

18  
19 **IV. OUTLINE OF DUQUESNE LIGHT'S REQUESTED RATE RELIEF**  
20 **AND ORGANIZATION OF FILING**

21 **Q. Can you place Duquesne Light's present and proposed rates in historic**  
22 **context?**

23 A. Yes. The Company's last base rate increase was approved by the Commission in  
24 2006 and became effective January 1, 2007. The current rate, including default  
25 supply rates as of June 30, 2010, produces a total bill of \$82.83 per month for  
26 Residential Customers using 600 kWh/month. If granted the full rate request, this  
27 would result in an average monthly bill increase of \$7.77 per month for  
28 Residential Customers, a 9.38% increase to the average Residential Customer bill,  
29 based upon the default supply rates in effect on June 30, 2010. Despite all of the  
30 change and uncertainty, Duquesne Light's overall rate (Generation, Transmission

1 & Distribution) for a customer using default service would be 9% higher than it  
2 was 20 years ago.

3  
4 **Q. Please introduce the testimony of Duquesne Light's other witnesses.**

5 **A.** Duquesne Light is submitting the testimony of thirteen other witnesses:

- 6 • **Andrew M. Chapman** (Duquesne Light Statement No. 2), Duquesne Light's  
7 Interim Chief Executive Officer for the period February 2010 to August 2, 2010,  
8 will discuss the recapitalization of Duquesne Light Holdings and Duquesne Light  
9 Company by its owners to respond to the recent financial crisis.
- 10 • **David B. Bordo** (Duquesne Light Statement No. 3), Duquesne Light Company's  
11 Director of Finance, will discuss Duquesne Light's financial records, budget, and  
12 capital structure.
- 13 • **James Habberfield** (Duquesne Light Statement No. 4), Duquesne Light's  
14 Forecasting and Risk Management Specialist, will address the Sales Forecast.
- 15 • **Scott R. Ward** (Duquesne Light Statement No. 5), Duquesne Light's Manager,  
16 Major Construction and Scheduling, will discuss Duquesne Light's proposed  
17 capital investments in energy support and delivery infrastructure to replace or  
18 enhance physical infrastructure.
- 19 • **Robert L. O'Brien** (Duquesne Light Statement No. 6), principal of O'Brien  
20 Innovative Regulatory Solutions,, will analyze Revenue Requirements and  
21 Adjustments, Cash Working Capital Study, Financial Adjustments and  
22 Normalization, and Uncollectible-Write-offs.
- 23 • **Larry A. Crowley** (Duquesne Light Statement No. 7), principal of The Energy  
24 Strategies Institute, will address the Jurisdictional Separation Study.
- 25 • **John J. Spanos** (Duquesne Light Statement No. 8), vice president of Gannett  
26 Fleming, will address Depreciation.
- 27 • **Richard J. Matchett** (Duquesne Light Statement No. 9), Duquesne Light's Tax  
28 Manager, will discuss Taxes.
- 29 • **Michele R. Sandoe** (Duquesne Light Statement No. 10), Duquesne Light's  
30 Director of Customer Care, will provide a description of Duquesne Light's  
31 programs for Low-Income Customers.

- 1 • **Byron Beebe** (Duquesne Light Statement No. 11), Actuary and Retirement  
2 managing principal for Hewitt Associates, will discuss the status of Duquesne  
3 Light's Pension Fund.
- 4 • **Paul R. Moul** (Duquesne Light Statement No. 12), managing consultant for P.  
5 Moul & Associates, will discuss Rate of Return and Capitalization.
- 6 • **Howard S. Gorman** (Duquesne Light Statement No. 13), president of HSG  
7 Group, will address the Class Cost of Service Study.
- 8 • **William V. Pfrommer** (Duquesne Light Statement No. 14), Duquesne Light's  
9 Manager of Rates and Tariff Services, will support the proposed allocation of the  
10 increase to the customer classes, the Rate Design, tariffs and new rates proposed  
11 in this base rate proceeding.

12  
13 **Q. How is the filing organized?**

14 A. Responses to the Commission's Data Filing Requirement ("DFRs") have been  
15 filed and are sponsored by individuals noted in the upper right hand corner of  
16 each DFR. The DFRs are grouped together in sequential order, and they are  
17 named DLC Ex. 1. DLC Ex. 2 is comprised of all of the Schedules for the Future  
18 Test Year ending March 31, 2011. The Schedules include the Statement of  
19 Reasons (Schedule A), Financial and Capital Schedules (B Schedules), the  
20 Measure of Value or Rate Base Schedules (C Schedules), and Operating Income  
21 and Adjustment Schedules (D Schedules). DLC Ex. 3 is the same information  
22 except it is for the Historic Test Year ended March 31, 2010. The testimony has  
23 been grouped together in DLC Ex. 4.

24  
25 **Q. Would you please provide a general description of the process used by the  
26 Company to determine its Pennsylvania jurisdictional revenue requirement?**

27 A. The Company first developed the 2010 and 2011 budgets for construction  
28 expenditures, operating revenues, operating expenses and other elements. A  
29 budget amount for the future test year ending March 31, 2011 was developed  
30 from these calendar budgets. Next, each of the budget elements were analyzed to  
31 determine where pro forma adjustments would be required to reflect the future

1 test year ending March 31, 2011 under normalized conditions. The pro forma  
2 results for the FTY were used to prepare a jurisdictional separation to show the  
3 distribution plant, revenue and expenses for the Company's Pennsylvania  
4 jurisdiction only. A detailed jurisdictional separation process that separates  
5 transmission, distribution, generation, and other issues was performed. Only the  
6 distribution costs associated with the jurisdictional separation are contained in this  
7 case.

8  
9 **Q. Please describe the other key elements of this filing.**

10 **A.** We have performed a thorough jurisdictional separation of our transmission and  
11 distribution assets to properly divide our costs, which will be discussed in more  
12 detail by Duquesne Light witness Larry Crowley. Mr. Howard Gorman has  
13 prepared a detailed Cost-of-Service study to provide guidance on how to allocate  
14 the increase to our customer classes and subsequently to our individual rate  
15 schedules. Based on these studies, we have attempted to allocate the rate increase  
16 and to design rates which will be simple and reflect class cost of service while  
17 applying principles of gradualism to avoid disparate rate impacts. Duquesne  
18 Light's proposed rate design will be discussed in more detail by Duquesne Light  
19 witness William V. Pfrommer.

20  
21 **V. IMPORTANCE OF THIS RATE INCREASE TO DUQUESNE LIGHT, ITS**  
22 **CUSTOMERS AND THE COMMUNITY**

23  
24 **Q. Mr. Eichenmiller, please describe the importance of this rate increase**  
25 **request.**

26 **A.** This request is critical for Duquesne Light, its customers, its employees,  
27 southwestern Pennsylvania and the Commonwealth. The ongoing improvements  
28 to our distribution system and infrastructure are a top priority and without rate  
29 relief we will degrade the financial performance of the business. Aged and  
30 deteriorating equipment on our system must be replaced, if we are to maintain  
31 reliability and meet growth in certain areas within our service territory.

1 In order to maintain our role as a committed public service provider, a key  
2 employer and a long-time community partner in the Pittsburgh region, Duquesne  
3 Light needs to remain financially healthy. Duquesne Light views its success as a  
4 company as directly connected to the success of the communities that it serves.  
5 The importance of Duquesne Light to this community has grown larger as the  
6 region's overall corporate citizenship has been greatly reduced. We are part of  
7 the shrinking, few number of electric utilities whose headquarters are located in  
8 Pennsylvania. Having a company's headquarters located within the state is  
9 important for many reasons. One of the main benefits is retaining local jobs in the  
10 region. An important added benefit is the support work is performed by local  
11 service providers like engineers, consultants and vegetation specialists, etc. Most  
12 notably, the recent economic downturn has hit charities and community  
13 organizations in a significant fashion, as corporate contributions have suffered,  
14 and Duquesne Light and its dedicated employees strive to continue its support for  
15 the region.

16  
17 Duquesne Light has continued its commitment. We have established Duquesne  
18 Light as one of the leading companies in this region in proactively dealing with  
19 important social, human-service and economic development issues. Our dollars,  
20 our people, and our energy truly go to serving this community. The community  
21 needs a financially sound Duquesne Light providing essential electric service.

22  
23 Approval of this Plan will allow Duquesne Light to continue community support  
24 programs. The Power of Light program is an important corporate outreach  
25 program designed to reinforce the Company's commitment to the region by  
26 focusing on illuminating regional and neighborhood landmarks and recreational  
27 lighting, as well as lighting initiatives promoting economic vitality, safety and  
28 security in the neighborhoods served by the Company. For example, through this  
29 program, Duquesne Light has installed safety lights on Smallman Street in the  
30 Strip District, and has provided recreational lighting for various community ball  
31 fields and parks. Further examples include significant donations to the

1 Hazelwood YMCA to install outdoor lighting and fencing so that people in this  
2 distressed community would feel safe enough to utilize the facility at night, and to  
3 Crossroads Park in Oakland to refurbish that park to serve the Oakland  
4 community. Ongoing projects in 2010 include a lighting project for the Catholic  
5 Youth Association West Deer Senior Center. Duquesne Light will install poles  
6 with street lights to light the parking lot, which will provide safety lighting for  
7 seniors.

8  
9  
10 Our employees are very active in the community helping food banks and youth  
11 groups, and providing Arbor Day programs at elementary schools, to name just a  
12 few ways. Our employees volunteer for River Sweeps to clean trash and debris  
13 from local river banks, and are fully engaged and committed to serving our  
14 customers as well as to support area charities and programs. These employees  
15 willingly volunteered 3,120 hours of their time at Company-sponsored events in  
16 2009, including the United Way Day of Caring, and the Martin Luther King Jr.  
17 Living the Dream Day. Every day, the Company and its employees are investing  
18 their energy and resources to make powerful things happen that improve the  
19 quality of life for all who live and work in this region.

20  
21 **Q. What is the management team's basic philosophy in managing Duquesne**  
22 **Light?**

23 **A.** Duquesne Light's vision is clear – a focus on the core electric utility delivery  
24 business and what is in the best interest of the customers. Unlike other major  
25 utilities, Duquesne Light, or its affiliates, does not have any meaningful  
26 generation, and, as such, remains focused, staffed and structured to provide  
27 fundamental and essential electric delivery services. The Company has  
28 implemented a culture that stresses the importance of high service reliability and  
29 sound customer service.

30

1 Duquesne Light has a very long history of providing reliable, safe and efficient  
2 electric service to its customers in Allegheny and Beaver counties, and we intend  
3 to stay focused on that key objective.  
4

5 **Q. Has Duquesne Light's management been effective in implementing this**  
6 **philosophy?**

7 **A.** Yes. Management has been very effective in navigating Duquesne Light through  
8 periods of great uncertainty and change, both in the electric utility industry and in  
9 the region that we serve. Our team has worked through some very difficult and  
10 challenging issues recently, including a restructured management team, a  
11 tumultuous economy, implementation of expanding and mandatory NERC  
12 reliability standards, and the new Act 129 Energy Efficiency and Smart Meter  
13 programs.  
14

15 I would note, in particular, that Duquesne Light has been at the forefront of  
16 encouraging customer choice in Pennsylvania and in working with others to try to  
17 reap the benefits envisioned by restructuring. Duquesne was the first Company in  
18 the state to divest of generation. There is much more customer shopping in the  
19 Company's service territory than in any other area of the state. Specifically,  
20 about 55 percent of the total load in our service territory today is from customers  
21 who have chosen an energy supplier other than Duquesne Light Default Service.  
22

23 We are recognized in the Pittsburgh region, by service organizations, our  
24 customers and elected officials, as a committed community partner. Each of these  
25 provides very good measures of management effectiveness. We have built on  
26 opportunities at our core, regulated utility business and continue to strengthen  
27 community and regulatory relationships. We intend to provide a continued safe,  
28 reliable and reasonably priced supply of electricity for our customers and a safe  
29 and rewarding environment for our employees.  
30  
31

1  
2  
3 **VI. CONCLUSION**

4 **Q. Finally, Mr. Eichenmiller, do you have any concluding comments?**

5 **A.** I am advised that the Commission has discretion to set the cost of equity within  
6 the range of reasonableness established by the evidence in this proceeding, and  
7 that the Commission has used such discretion to reward companies based on  
8 performance, investment, and service to customers. Given our strong  
9 performance in serving our customers, our outstanding service reliability and our  
10 high level of community involvement, we believe that the Company should be  
11 awarded a Return on Equity of 11.25% as supportive of the Company's  
12 performance.

13 **Q. Does this complete your direct testimony?**

14 **A.** Yes.  
15

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company**

**Statement No. 2**

**Direct Testimony of Andrew M. Chapman**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company**

**DLC Statement No 2**

**Direct Testimony of Andrew M. Chapman**

1 Q. Please state your name, occupation and business address.

2 A. My name is Andrew M. Chapman. I am a Senior Managing Director of  
3 Macquarie Capital Funds Inc. I oversee the utility investments held by Macquarie  
4 Capital Funds Inc. in North America, including Macquarie Infrastructure  
5 Partners' ("MIP") 22% interest in DQE Holdings LLC ("DQE"). Pursuant to a  
6 contract between Macquarie Capital Funds Inc. and Duquesne Light Holdings,  
7 Inc. ("DLH"), I have been serving as Interim President and CEO of DLH and  
8 DLH's subsidiary Duquesne Light Company ("Duquesne Light") since the former  
9 President and CEO of these entities resigned in February 2010. I am also a  
10 member of the Board of Directors of these entities, including DQE, the parent  
11 company of the corporate group. My business address is 411 Seventh Avenue,  
12 Pittsburgh, PA 15219. I am testifying on behalf of DQE.

13

14 Q. Please summarize your educational background and professional experience.

15 A. I joined Macquarie Capital Funds Inc in 2006. In my oversight role for  
16 Macquarie Capital Funds Inc.'s utility investments, I am a director of Puget  
17 Energy, The Gas Company (Hawaii) and Aquarion Water Company. From 1989  
18 until 2005, I held various financial and management positions with Elizabethtown  
19 Water Company, its parent E'town Corporation, and, later, American Water  
20 Company. I was president of Elizabethtown Water Company, a regulated  
21 investor-owned water utility serving 200,000 metered customer connections in  
22 central New Jersey from 1996 – 2002, and then was president of New Jersey  
23 American Water Company during 2003 and 2004. From 1985 until 1989, I was

1 Director of the Office of Financial Management for the New Jersey Department  
2 of Treasury and in that capacity managed the debt financing activities for the  
3 State of New Jersey and its independent authorities. I earned my Masters in  
4 Business Administration from the Yale School of Management and my Bachelors  
5 of Science from the University of California at Berkeley.

6  
7 Q. What is the purpose of your testimony in this proceeding?

8 A. My testimony explains the actions that the investors in DQE have taken to inject  
9 additional capital into DQE, DLH and Duquesne Light in order to recapitalize the  
10 companies and maintain credit ratings following the financial crisis in 2008.

11  
12 Q. Please provide an explanation of the acquisition of DLH and Duquesne Light by  
13 DQE and the Investor Consortium.

14 A. In May 2007, DLH was taken private by a Macquarie-led group of five  
15 infrastructure investors (the "Investor Consortium"). The acquisition was effected  
16 through a merger of a subsidiary of DQE (an acquisition vehicle created by the  
17 Investor Consortium), and DLH thereby making DLH a subsidiary of DQE, and  
18 making DQE the indirect parent of DLH's wholly-owned subsidiary Duquesne  
19 Light. The \$3.1 billion transaction was funded as follows:

20 **DQE Holdings LLC – Sources of Funds**

21	Investor Consortium Cash Contribution	\$1,130M
22	Assumed Preferred Shares	136M
23	Assumed Existing Debt	763M

1	New DLH Bank Debt	1,070M
2	Total	\$3,100M

3

4 The \$1.13 billion cash contribution to DQE provided by the Investor Consortium  
5 was the “last-in-line” capital in the structure, meaning that all claims of creditors  
6 of any subsidiary in the group needed to be satisfied before any distributions were  
7 made to the Investor Consortium.

8

9 An important objective of the acquisition financing outlined above was to  
10 maintain an investment grade rating for DLH. This rating was an important part of  
11 the plan to refinance the new DLH bank debt at or prior to its 2012 maturity.  
12 Following the acquisition, Standard & Poor’s assigned a BBB- rating with a  
13 stable outlook to DLH while Moody’s assigned its Ba1 rating with a stable  
14 outlook.

15

#### 16 The Notes

17 Shortly after the closing of the acquisition, the Investor Consortium exchanged  
18 \$700 million of its equity in DQE for \$695 million of promissory notes (“Notes”)  
19 issued by DQE (the “Exchange”). The \$5 million difference represents a  
20 withholding tax payment on the Exchange including an immaterial distribution to  
21 certain Consortium Investors with lower withholding tax obligations. The Notes  
22 were held by the same investors as those comprising the Investor Consortium in  
23 the same proportion as their equity ownership, so the percentage of the equity

1 held, and the total capital invested, by each Consortium Investor before and after  
2 the Exchange was constant. For the purpose of this testimony, “Investors” will  
3 refer to the Consortium Investors and the Note investors since the ownership of  
4 both instruments is held in the same proportion.

5  
6 The terms of the Notes, which are substantially the same for all Notes held by the  
7 Investors, are summarized below. A copy of a Note is attached as Exhibit AMC-  
8 1.

Aggregate Amount of all Notes	\$695 million
Maturity	June 20, 2017
Interest Rate	13.0% p.a. payable quarterly
Payment-in-Kind	Until June 2010, If DQE does not have sufficient cash to pay interest on a quarterly interest payment date, it may defer all or a portion of the amount due until the earlier of (i) the date when cash is available; (ii) the third anniversary of the deferral date; or (iii) June 20, 2012, with interest continuing to accrue until such amounts are paid. Deferred interest and interest accrued thereon must be paid in full by the fifth anniversary of the issuance of the notes.
Holders	Investors of DQE, with the amount of Notes held by each equity investor being in the same proportion as its equity interest in DQE.
Transferability	Note holder may assign its Note to affiliates. Any transfer to a non-affiliate may be made with DQE consent, such consent to be given or withheld by DQE in its sole discretion.
Prepayment	DQE may prepay Note at any time at par without penalty.

1 Q. Given that all Investor contributions are last in line, what are the fundamental  
2 differences between the Investors' contributions being held as debt versus equity?

3  
4 A. First, holding a portion of their capital contributions as debt allowed certain of the  
5 Investors to point to the Notes as a source of yield, notwithstanding the interest  
6 deferral feature. Second, interest income is taxed differently than dividends.  
7 Further, the tax treatment of the interest income is different for each of the  
8 Investors. For international investors, both interest income and dividends are  
9 subject to U.S. withholding tax in addition to income tax in their home country.  
10 Certain exemptions are available; however the ability to access these varies by  
11 Investor. Third, the interest on the Notes was an income tax deduction for DQE.

12

13 Q. Did the rating agencies treat the Notes as debt?

14 A. No. The rating agencies treated all the Investor capital contribution to DQE,  
15 whether in the form of Notes or equity, as equity when rating DLH and Duquesne  
16 Light.

17

18 Q. Did the Notes have any effect on the bond ratings of Duquesne Light?

19 A. No.

20

21 Q. In the event of a default on the Notes, could a Note holder have any rights with  
22 respect to the assets of DLH or Duquesne Light?

1 A. No. The Notes are unsecured obligations of DQE and have no rights with respect  
2 to the assets of DLH or Duquesne Light.

3

4 Q. What issues arose with respect to the financial performance of Duquesne Light  
5 during the financial crisis in 2008?

6 A. During 2008 Duquesne Light's financial performance declined principally  
7 because (i) Duquesne Light's loads declined, (ii) Duquesne Light's bad debt  
8 expense increased due to customers' inability to pay electric bills, and (iii)  
9 Duquesne Light continued to invest in infrastructure and incur increased costs  
10 without rate relief.

11

12 Second, the value of the assets held by Duquesne Light's defined benefit pension  
13 plan declined by about 30%, causing Duquesne Light's defined pension plan to  
14 shift from over-funded status at year-end 2007 to a \$270M under-funded position  
15 as of December 2008. Under the recently enacted Pension Protection Act,  
16 Duquesne Light was required to make accelerated cash contributions over 7 years  
17 to address the unfunded liability. This funding need is explained by witnesses  
18 Bordo and Beebe in their testimony.

19

20 Q. What was the effect of the financial crisis, and the declining financial  
21 performance of Duquesne Light referenced above, on DLH's bond rating?

22 A. The combined effect of declining financial performance at Duquesne Light along  
23 with Standard & Poor's greater scrutiny on investment grade bond ratings in light

1 of a significant number of downgrades of mortgage related debt led Standard &  
2 Poor's to revise its outlook on its BBB- rating of DLH from "stable" to  
3 "negative" in June 2008. (See Exhibit AMC-2 attached).

4  
5 Q. What actions did the Investor Consortium take in response to the matters that  
6 arose in 2008 and early 2009?

7 A. Upon review of the capital needs of DLH and Duquesne Light and the changing  
8 economic conditions, the DLH Board suspended all distributions to DQE that  
9 were not required to support the ongoing incidental costs of DQE after the first  
10 quarter of 2009. Accordingly, DQE stopped all distributions and deferred Note  
11 interest payments to the Investors from this date forward. In evaluating this  
12 situation, the Management and the Investors believed that it was very important  
13 to maintain DLH's investment grade rating from Standard & Poor's given (i)  
14 DLH's need to fund equity capital to support Duquesne Light's capital program  
15 and fund its pension shortfall; and (ii) the need to refinance DLH's acquisition  
16 debt prior to March 2012. Accordingly, the Management and Investors engaged  
17 Standard & Poor's Rating Advisory Service to opine on the options they were  
18 considering implementing to sustain the rating. That work concluded that to fund  
19 the pension shortfall and Duquesne Light's capital needs in the then current  
20 business environment, the DLH balance sheet needed substantial strengthening  
21 (i.e. deleveraging) through additional equity investments and reduced  
22 distributions to the Investors. Management and the Investors recommended:

- 23 • The Investors retain no payments (via Note interest and/or distributions on  
24 DQE equity) from DQE for 3 years beginning March 2009.

1           • The Investors contribute \$200M of new equity to DQE which would be  
2           contributed to DLH to reduce debt and fund capital outlays at Duquesne  
3           Light.

4           • DLH take steps to reduce its 2012 refinancing risk through staged  
5           refinancing of its debt.

6           Throughout 2009, Management and the Investors executed the foregoing plan.

7           Specifically,

8           • The Investors received no distributions beginning in March 2009.

9           • In December 2009, all interest on the Notes that had been deferred during  
10          2009 was paid in full, and an equivalent amount of equity was contributed  
11          by the Investors. A similar arrangement of interest payments being made,  
12          and an equivalent amount of equity being reinvested back into the  
13          business, will continue for every interest payment made by DQE through  
14          March 2012.

15          • On December 31, 2009, the Investors completed a \$200M equity capital  
16          injection in DQE.

17          • In March 2010, the Board affirmed the agreement reached amongst the  
18          Investors, described in the first two bullets above, which results in the  
19          Investors retaining no payments from DQE from March 2009 through  
20          March 2012.

21          • Duquesne Light will fund cash contributions to its defined benefit pension  
22          plan to address the unfunded liability as required by the Pension  
23          Protection Act.

24          • DLH has documented and is ready to market a \$300M 10 year bond  
25          offering and proceeds will be used to repay DLH bank debt.

26          With respect to the Notes, the Investors concluded that DQE needed more  
27          flexibility with respect to interest payments than the Notes with the interest  
28          deferral provision could provide. Accordingly, the Investors committed, as part  
29          of their approval of the \$200M equity injection in December 2009, to convert  
30          their respective Notes into DQE equity. The conversion shall occur when all  
31          Investors are contractually able to do so which is expected when DUET pays off

1 or refinances its credit facility that is secured in part by a pledge of its Notes. The  
2 maturity of such facility is August 2013. Should DUET sell its interest in DQE as  
3 planned, such conversion would occur upon the sale date. (See attached  
4 Transaction Agreement, Exhibit AMC-3, for further detail with respect to the  
5 \$200M equity injection and conversion of the Notes).

6  
7 Q. Please clarify why interest on the Notes is treated differently from distributions on  
8 equity in your description above.

9 A. The Investors' objective was to retain all cashflow, after payment of DLH's  
10 obligations and DQE's operating expenses, in the business. The Investor  
11 Consortium could agree to suspend all distributions, however non-payment on the  
12 Notes would result in a default. Therefore, until the Notes are converted to equity  
13 or March 2012, whichever comes earlier, the Investors have agreed that for every  
14 interest payment that they receive from DQE, they will invest an equivalent  
15 amount of equity back into the business. The commitment to reinvest interest  
16 payments results in no cash from DQE, equity distributions or interest income,  
17 being retained by the Investors through March 2012.

18  
19 Q. How was the \$200 million in capital used?

20 A. The capital was provided to DLH in December 2009, and \$90 million was used to  
21 repay debt issued by DLH at the acquisition. The remainder will be used to meet  
22 capital requirements of Duquesne Light's construction program in 2010 and other

1 general corporate purposes together with the retained and reinvested funds from  
2 the Investors.

3  
4 Q. What has been the effect of these actions?

5 A. On 12/17/2009, Standard & Poor's improved its outlook on DLH debt from  
6 Negative to Stable, citing the company's efforts to improve its credit profile, and  
7 the Investors decisions to retain free cash in the business and inject the \$200M  
8 equity into DQE, in particular. In this regard, I note that the actions that were  
9 ultimately reflected in the Transaction Agreement executed in December 2009,  
10 had been fully explained to Standard & Poor's prior to its action.

11  
12 The Investors believe that they have taken the proper actions to secure the DLH  
13 bond ratings and preserve the financing capacity of DLH and Duquesne Light. As  
14 part of that credit improvement process, the Notes, which were based on business  
15 conditions at acquisition, will be converted to DQE equity. As a consequence of  
16 the agreement to convert the Notes to equity under the Transaction Agreement,  
17 any payments on the Notes will no longer be deductible in determining income  
18 taxes.

19  
20 Q. Please summarize the actions taken by the Investors.

21 A. The crisis in 2008 dramatically changed the investment plans and expectations of  
22 the Investor Consortium. Appropriate changes have been made to the financing

1 of the companies to reflect the capital needs of Duquesne Light, to deleverage  
2 DLH and to maintain credit ratings under very difficult circumstances.

3

4 Q. Does this conclude your testimony?

5 A. Yes, it does.

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THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). NO TRANSFER, SALE OR OTHER DISPOSITION OF THIS NOTE MAY BE MADE UNLESS A REGISTRATION STATEMENT WITH RESPECT TO THIS NOTE HAS BECOME EFFECTIVE UNDER THE ACT, OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION.

**AMENDED AND RESTATED PROMISSORY NOTE**

USD\$43,039,960

Dated as of: June 20, 2007

**FOR VALUE RECEIVED**, the undersigned, DQE Holdings LLC, a Delaware limited liability company ("Borrower"), hereby unconditionally promises to pay to the order of STC Funds Nominee Pty Limited, a company incorporated in New South Wales, Australia, as trustee for the Duquesne Utilities Trust, its successors and assigns ("Lender"), the principal sum of USD\$43,039,960 on June 20, 2017 (the "Maturity Date") in lawful money of the United States of America, with interest calculated at the Interest Rate (as defined below) on the principal sum outstanding from time to time, such interest to be computed from the date of this Note through the date that the loan evidenced hereby (the "Loan") is repaid in full, and on the terms hereinafter provided.

A. Interest Payments.

1. The Borrower promises to pay interest on each March 31, June 30, September 30 and December 31 (each, a "Quarterly Payment Date") in each year commencing on September 30, 2007 at a fixed rate equal to thirteen percent (13.00%) per annum (the "Interest Rate") on the unpaid principal amount hereof until the principal hereof is repaid in full.
2. In the event that the Borrower does not have sufficient cash reserves to pay the interest due on any Quarterly Payment Date that falls on or before June 21, 2010 (any such Quarterly Payment Date, a "Deferrable Payment Date"), the Borrower may defer all or a portion of such payment (i.e., such amount is not yet due and payable) until the earliest of (the "Deferred Interest Due Date") (i) the date when cash reserves become available, (ii) the third anniversary of the Deferrable Payment Date, or (iii) June 20, 2012, in each case, with interest continuing to accrue at the Interest Rate. The failure of the Company to pay all deferred interest (together with interest accrued thereon) by such Deferred Interest Due Date shall constitute an Event of Default under Section C(1)(a).
3. Interest accruing for any Interest Period shall accrue for the period from and including the first day of such Interest Period to and including the last day of the Interest Period. Interest shall be computed on the basis of a

360-day year and the actual number of days elapsed. "Interest Period" means (i) in the case of the initial Interest Period, the period from, and including, the date of this Note to, but excluding, the first Quarterly Payment Date; and (ii) thereafter, the period from, and including, the Quarterly Payment Date immediately following the last day of the immediately preceding Interest Period to, but excluding, the next succeeding Quarterly Payment Date.

4. All payments made pursuant to this Note shall be made by wire transfer to Lender's office. All payments shall be made in immediately available funds of such transferable coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

B. Covenants. The Borrower covenants and agrees that so long as this Note is in effect and until the Loan has been paid in full, it will not suffer or permit to occur or exist any of the following events or conditions, without the prior written approval of the Lender:

1. Limitation on Indebtedness. The Borrower shall not incur any additional indebtedness, other than under this Note and the other notes being issued to the shareholders in the Borrower and/or their affiliates on the date hereof (the "Authorized Notes"), so long as the Loan remains outstanding.
2. Limitation on Liens. Subject to any obligations of the Borrower and its subsidiaries under that certain Credit Agreement, dated as of December 20, 2006 (as amended, amended and restated, supplemented and/or modified and in effect from time to time, the "Credit Agreement"), among DQE Merger Sub Inc., a Pennsylvania corporation, the Lenders named therein, Barclays Bank PLC, as Facility Agent, and Barclays Bank PLC, as Issuing Bank, the Borrower shall not incur, create, assume or suffer to exist any lien, charge, encumbrance, security interest, pledge or other restriction (each, a "Lien"), upon any property or other assets of the Borrower, whether now owned or hereafter acquired, except for Liens for taxes, assessments and other governmental charges either (i) not yet payable or (ii) being contested in good faith by appropriate proceedings.
3. Repayment. The Borrower shall not make any payments (including prepayments and deferred payments) on any of the other Authorized Notes (whether in repayment of interest, principal or otherwise) unless a pro rata payment (including pro rata prepayments) shall concurrently be made on this Note; provided, that a pro rata interest payment covering two quarterly interest payments under this Note and each of the other Authorized Notes, other than the Authorized Note issued to DUET Investment Holdings Limited (the "DUET Note"), shall be made on a semi-annual basis under the DUET Note; provided, further that if all or a portion of a quarterly

interest payment is made on the Authorized Notes and not on the DUET Note (the "Unpaid Amount"), no further payments may be made on any of the Authorized Notes other than the DUET Note until a payment in respect of such Unpaid Amount has been made on the DUET Note as part of a semi-annual interest payment or otherwise. For the avoidance of doubt, if no Unpaid Amount is outstanding, and deferred payments shall become payable pursuant to Section A(2), any such deferred payments shall be made pro rata on each of the Authorized Notes. Notwithstanding the foregoing, the Borrower may prepay an Authorized Note if there has been a Change of Control (as defined in Schedule B) in the lender of such Authorized Note that has not been approved by the Borrower, without making a pro rata prepayment on the other Authorized Notes.

C. Events of Default.

1. Events of Default. The following conditions or events shall constitute "Events of Default" hereunder (and any condition which, with notice or the lapse of time or both, would become an Event of Default shall be deemed a "Default" hereunder):
  - (a) the failure to pay, within thirty days after the date when due, any payment of principal or interest on the Note or any other payment due hereunder;
  - (b) a default by the Borrower in the observance or performance of any of the covenants and agreements contained in this Note and such default continues unremedied for a period of 30 days;
  - (c) the entry of a decree or order for relief by a court having jurisdiction in respect of the Borrower, in an involuntary case under the Federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable Federal or state insolvency or other similar law, for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) for the Borrower, or for any substantial part of any of its property, or the issuance of an order for the winding-up or liquidation of any of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of sixty (60) consecutive days;
  - (d) the commencement by the Borrower of a voluntary case under the Federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable Federal or state insolvency or other similar law, or the consent by the Borrower to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) for the Borrower or for any substantial part of its property, or the making by it of

any assignment for the benefit of creditors, or the failure to pay its debts as such debts become due, or the taking of any action to authorize or effect any of the foregoing;

- (e) Borrower (A) fails to make payment within thirty days of when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), regardless of amount, in respect of any indebtedness including this Note and any other Authorized Notes, (B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition shall exist, under any agreement or instrument relating to any such indebtedness, if the effect of such failure, event or condition is to cause, or to permit, with or without the giving of notice or lapse of time or both, the holder or holders or beneficiary or beneficiaries of such indebtedness to cause, such indebtedness to be declared to be due and payable prior to its stated maturity (or as a result of a demand), or (C) shall be required by the terms of such indebtedness to offer to prepay or repurchase such indebtedness prior to the stated maturity thereof (or as a result of a demand); and
  - (f) the occurrence of any material adverse change in the financial condition or operations of the Borrower and such material adverse change continues unremedied for a period of 30 days.
2. Remedies. Following the occurrence and during the continuation of an Event of Default specified in Section C(1)(a), (c), (d), or (e), the Lender may by written notice to the Borrower at any time declare the principal amount of the Loan, all interest accrued and unpaid thereon and all other amounts owing or payable hereunder or under the Note to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower to the extent permitted by law. Following the occurrence and during the continuation of an Event of Default specified in Section C(1), the Interest Rate shall be increased to fifteen percent (15.00%) per annum. The rights provided for in this Note are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity or under any other instrument, document or agreement now existing or hereafter arising.

D. General.

- 1. The Note shall rank *pari passu* with the other Authorized Notes and senior to all other existing and future indebtedness of the Borrower. The Borrower represents and warrants that, as of the date hereof, the principal amount outstanding under this Note is in the same proportion to the principal amount outstanding under all of the Authorized Notes as the

units of limited liability company interests in the Borrower (the "Shares") held by the Lender is in proportion to all of the outstanding Shares.

2. All payments to be made by the Borrower hereunder shall be reduced by all applicable withholding taxes imposed or levied by or on behalf of the United States or any authority in the United States having the power to tax. The Borrower will provide all proof of liability and payment documentation as requested by the Lender in relation to the withheld amounts. The Borrower will be responsible for recovering any overpaid withholding tax.
3. If, in the discretion of Lender, it becomes necessary to employ counsel to collect this obligation, whether or not suit is brought, Borrower agrees to pay Lender's reasonable attorneys' fees, including fees on appeal.
4. The Borrower represents and warrants that each of the other Authorized Notes is identical in form to the form of this Note on the date hereof (except that the principal amount of each of the other Authorized Notes may differ from the principal amount of the Note and except that the DUET Note will (i) have semi-annual rather than quarterly interest payments and (ii) will include a provision that will allow it to grant a security interest over its right, title and interest in and to its Authorized Note and its Shares). This Note may be discharged, terminated, amended, supplemented or otherwise modified only (i) by an instrument in writing signed by the Borrower and the Lender (and/or its permitted assignees) and (ii) if such discharge, termination or modification is also made to each of the other Authorized Notes.
5. Borrower hereby waives presentment for payment, demand, notice of demand, notice of nonpayment or dishonor, protest and notice of protest of this Note, and all other notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note, and agrees that Borrower's liability shall not be affected in any manner by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Lender.
6. Lender shall not be deemed, by an act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by Lender, and then only to the extent specifically set forth in such writing. A waiver of one event shall not be construed as continuing, or as a bar to, or waiver of, any right or remedy with respect to a subsequent event.
7. Any notice, demand, request or other communication which Borrower or Lender shall desire to give the other hereunder shall be deemed sufficient if in writing and mailed by certified mail, postage prepaid, or sent by

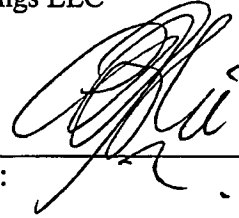
overnight courier or sent by facsimile transmission with a copy also sent by overnight courier, addressed to the address hereinabove set forth or to such other address as either party may hereafter designate in writing.

8. If any provision of this Note is held to be invalid or unenforceable by a court of competent jurisdiction, the other provisions of this Note shall remain in full force and effect and shall be liberally construed in favor of Lender in order to effect the provisions of this Note.
9. Notwithstanding any other provision of this Note or any other document to the contrary, in no event shall the rate of interest under this Note exceed the maximum rate of interest permitted to be charged by applicable law, and any interest paid in excess of the permitted rate shall be refunded by Lender.
10. Borrower may prepay any or all amounts due under this Note at any time, and from time to time, without penalty.
11. Lender may assign this Note in whole or in part to any of its Affiliates (as defined in Schedule B). Lender may assign this Note to any Person other than an Affiliate with the prior written consent of the Borrower (which may be given or withheld by the Borrower in its sole discretion); provided that Lender may assign a security interest in the Loan to any Person who is a financial institution that has provided one or more loans to Lender without the prior written consent of the Borrower. For purposes of this Note, "Person" means a natural person, general or limited partnership, limited liability company, trust, estate, association, corporation, custodian, nominee or any other person or entity in its own or any representative capacity.
12. The Lender covenants to the Borrower that the Lender will not effect a Change of Control of the Lender without the prior written consent of the Borrower.
13. The Borrower and the Lender covenant, agree and acknowledge the terms of liability with respect to Trustees (as defined on Schedule A hereto) and the responsible entity attached hereto as Schedule A.
14. The Borrower and the Lender acknowledge that a return of capital has been made to the Lender in connection with its investment in the Borrower and that the proceeds of such return of capital are being used by the Lender to fund the Loan.
15. **THIS NOTE IS MADE UNDER AND IS TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.** Any legal action or proceeding with respect to this Note may be brought in the courts of the State of New York

or, if requisites of jurisdiction obtain, of the United States of America for the Southern District of New York located in The City of New York, and, by execution and delivery of this Note, Borrower hereby agrees to be subject to the personal jurisdiction of the aforesaid courts and accepts for itself and in respect of property, generally and unconditionally, the jurisdiction of aforesaid courts. Nothing herein, however, shall affect the right of the holder(s) of this Note to commence legal proceedings or otherwise proceed against Borrower in any other jurisdiction. WITH RESPECT TO ANY SUCH LEGAL ACTION OR PROCEEDING, BORROWER HEREBY IRREVOCABLY WAIVES TRIAL BY JURY, AND BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS. SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE MADE BY THE HOLDER(S) HEREOF ON EITHER BORROWER BY MAILING A COPY OF THE SUMMONS AND ANY COMPLAINT TO BORROWER, BY REGISTERED OR CERTIFIED MAIL, RETURN RECEIPT REQUESTED, AT Access Capital Advisers, Sydney NSW 2000 Australia, Sydney NSW 2000 Australia, (CONTACT: Patrick Jilek, (612) 9220 0600 (telephone) and (612) 9220 0601 (facsimile)).

DQE Holdings LLC

By

A handwritten signature in black ink, appearing to be 'DQE', written over a horizontal line.

Name:

Title:

*(Signature page to State Super Note)*

## SCHEDULE A

### **Liability of Trustee and Responsible Entities**

If (a) a Person (“Trustee”) enters into this Note as trustee or responsible entity of a trust (“Trust”) and (b) the Trustee notifies the Borrower or another party that it is acting as trustee or responsible entity of the Trust, the following provisions shall apply in respect of the Trustee and the Trust:

(i) if the Trustee enters into this Note only in its capacity as responsible entity or trustee (as applicable) of the Trust and in no other capacity: to the fullest extent permitted by law, a liability arising under or in connection with this Note is limited to, and can be enforced against the Trustee only to, the extent to which it can be satisfied out of the assets of the Trust out of which the Trustee is actually indemnified for such liability. To the fullest extent permitted by law, this limitation of the Trustee’s liability applies despite any other provision of this Note and extends to all liabilities and obligations of the relevant party in any way connected with any representation, warranty, conduct, omission, agreement or transaction related to this Note;

(ii) to the fullest extent permitted by law, no party may sue the Trustee in any capacity other than as responsible entity or trustee (as applicable) of the Trust, including to seek the appointment of a receiver (except in relation to property of the Trust), a liquidator, an administrator, or any similar person to the Trustee or prove in any bankruptcy, insolvency, liquidation, administration or arrangement of or affecting the Trustee (except in relation to property of the Trust);

(iii) the provisions of this Schedule A do not apply to any obligation or liability of the Trustee to the extent that it is not satisfied because under the agreement governing the Trust or by operation of law there is a reduction in the extent of the Trustee’s indemnification out of the assets of the Trust, as a result of the Trustee’s fraud, negligence or breach of trust;

(iv) no attorney, agent, receiver or receiver and manager appointed in accordance with this Note has authority to act on behalf of the Trustee in a way which exposes the Trustee to any personal liability, and no act or omission of any such person will be considered fraud, negligence or breach of trust of the relevant party for the purpose of clause (iii);

(v) the Trustee warrants to each party to this Note that it has the rights of indemnification referred to in clause (i) (the “Trustee Indemnity”); and

(vi) the Trustee warrants to each party to this Note that it has not done and has omitted to do, and undertakes that it will not, during the term of this Note, do or omit to do, anything which has or would limit, affect, amend or in any manner whatsoever restrict the Trustee Indemnity.

## SCHEDULE B

### Change of Control

- (1) Unless otherwise noted herein, capitalized terms used herein shall have the meanings set forth in Section (6) of this Schedule B.
- (2) The following shall constitute a change of control ("Change of Control") of a lender of an Authorized Note (an "Authorized Note Lender"):
- (A) If the Authorized Note Lender is not and does not hold an Authorized Note for a Fund, any Person (other than an Affiliate and other than a Nominee) (an "Acquirer") acquires Control, directly or indirectly, of the Authorized Note Lender other than:
- (I) where, despite the acquisition, the same Person continues to ultimately Control the Authorized Note Lender;
  - (II) by way of acquisition of securities of the Authorized Note Lender if securities of the Authorized Note Lender were listed or traded on an international recognized national securities exchange or automated quotation system at the time the Authorized Note Lender first became an Authorized Note Lender; or
  - (III) by way of acquisition of securities of a Person which ultimately Controls the Authorized Note Lender if securities of the Person were listed or traded on an international recognized national securities exchange or automated quotation system at the time the Authorized Note Lender first became an Authorized Note Lender.
- (B) if the Authorized Note Lender is or holds an Authorized Note for a Fund, an Acquirer acquires Control, directly or indirectly, of a manager or adviser of the Authorized Note Lender or the Fund or the manager or adviser is removed and not replaced by an Affiliate of such original manager or adviser other than:
- (I) where, despite that acquisition, the same Person continues to ultimately Control the manager or adviser;
  - (II) by way of acquisition of securities of the manager or adviser if securities of the manager or adviser were listed or traded on an international recognized national securities exchange or automated quotation system at the time the Authorized Note Lender first became an Authorized Note Lender; or
  - (III) by way of acquisition of securities of a Person which ultimately Controls the Authorized Note Lender if securities of the Person were listed or traded on an international recognized national securities exchange or

automated quotation system at the time the Authorized Note Lender first became an Authorized Note Lender.

(3) Notwithstanding anything to the contrary contained in this Schedule B, a Change of Control of an Authorized Note Lender that is or holds an Authorized Note for a trustee of a complying superannuation fund for the purposes of the Australian Superannuation Industry (Supervision) Act 1996, shall not constitute a Change of Control of the Authorized Note Lender.

(4) Notwithstanding anything to the contrary in this Schedule B, a Change of Control of AMPCI Macquarie Infrastructure No. 2 Limited as responsible entity of Diversified Utility and Energy Trust No. 3 ("DUET") only occurs if:

(A) the responsible entity or manager for DUET is removed or replaced; or

(B) there is a Change of Control of the responsible entity or manager for DUET whereby:

(I) the Macquarie Group and the AMP Group (in aggregate, irrespective of each party's individual interest) ceases to hold at least forty percent (40%) of the shares in the responsible entity or manager for DUET; or

(II) the Person who obtains Control of the responsible entity or manager for DUET:

(1) does not have appropriate expertise in infrastructure assets;

(2) does not have appropriate financial means to manage DUET; or

(3) is not of good standing and reputation.

For the avoidance of doubt, a Change of Control of DUET under which the units in DUET are distributed to DUET security holders shall not constitute a Change of Control of DUET.

(5) Notwithstanding anything in this Schedule B, a Change of Control of Industry Fund Services Pty Ltd whereby Members Equity Bank Pty Limited (ABN 56 070 887 679) (or any of its Affiliates) obtains Control of Industry Fund Services Pty Ltd shall not constitute a Change of Control of IFM.

(6) The following definitions will apply to the following terms when used in this Schedule B:

*"Affiliate"* means:

(a) with respect to an Authorized Note Lender that is a Fund or holds an Authorized Note for a Fund, any other Person or Fund or subsidiary of a Fund (other than a Fund which is or is proposed to be listed or quoted on an investment exchange with a purpose of effectively achieving an indirect listing or quotation of the shares of the Borrower) which is advised by, or the business, operations or assets of which are managed (whether solely or jointly with others) from time to time by or whose parent is managed by, the manager or adviser of the Fund (or a Person that, directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with, that manager or adviser); provided, however:

(i) the term “adviser” shall mean an entity which provides a Person with advice in relation to the management of investments of that Person, which, in the case of a Fund (other than in relation to actually making decisions to implement such advice), is substantially the same as the services which would be provided by a manager of the Fund and such adviser effectively forms part of the structure of the Fund, except that Macquarie Bank Limited and its Affiliates will not be treated as an adviser of a Fund solely as a result of any services provided or agreed to be provided by Macquarie Bank Limited or any of its Affiliates to the Fund under an agreement pursuant to which those services are to be provided solely in relation to an investment by the Fund in Parent;

(ii) the term “manager” with respect to any Fund shall mean any general partner, trustee, responsible entity, nominee, manager, adviser or other entity performing a similar function with respect to such Fund; and

(iii) no Person which is or holds an Authorized Note for a complying superannuation fund for the purposes of the Australian Superannuation Industry (Supervision) Act 1996 shall be deemed to be an Affiliate of any Person which is or holds an Authorized Note for any other such Fund by reason of this definition.

Notwithstanding any of the above, as of the date of this Note:

(I) members of the Macquarie Group are currently Affiliates of CLH, DUET and GIF2-MFIT and are not Affiliates of IFM, MTAA and State Super; and

(II) AMP Managed Funds are currently Affiliates of DUET.

In addition:

(I) members of the Macquarie Group will cease to be Affiliates of DUET should members of the Macquarie Group own less than forty percent (40%) of the responsible entity or manager of DUET; and

(II) AMP Managed Funds will cease to be Affiliates of DUET should the AMP Group own less than forty percent (40%) of the responsible entity or manager of DUET.

(b) With respect to any Person that is not a Fund and does not hold an Authorized Note for a Fund, any other Person that, directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such Person.

“*AMP Group*” means AMP Limited and its Subsidiaries.

“*AMP Managed Funds*” means any Fund managed by a member of the AMP Group.

“*CLH*” means CLH Holdings, GP, a Delaware general partnership

“*Control*,” “*Controls*” or “*Controlled*” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of securities, by contract or otherwise, which, for the avoidance of doubt, shall include through a Person’s capacity as general partner, trustee, responsible entity, nominee, manager or adviser or otherwise.

“*Fund*” means any unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, pension fund, insurance company or any body corporate or other entity, in each case, the business, operations or assets of which are managed professionally for investment purpose.

“*GIF2-MFIT*” means GIF2-MFIT United Pty Limited (ACN 121 021 574), a company incorporated in Victoria, Australia.

“*IFM*” means Industry Funds Management (Nominees) Limited (ABN 56 003 969 891), a company incorporated under the laws of New South Wales, Australia and whose registered address is at Level 29, Casselden Place, 2 Lonsdale Street, Melbourne 3000, Victoria, Australia, in its capacity as trustee of the IFM (International Infrastructure) Wholesale Trust

“*Macquarie*” or “*Macquarie Bank Limited*” means Macquarie Bank Limited (ABN 46 008 583 542), a company incorporated with limited liability in the Commonwealth of Australia.

“*Macquarie Group*” means Macquarie Bank Limited and its Subsidiaries and Related Bodies Corporate, including Funds managed or advised by Macquarie Bank Limited and its Subsidiaries and Related Bodies Corporate.

“*MTAA*” means MTAA Superannuation Fund (Duquesne Light Holdings) Infrastructure Pty Ltd, a company incorporated in Victoria, Australia, as trustee for the MTAA Superannuation Fund (Duquesne Light Holdings) Infrastructure Trust.

“*Nominee*” means a nominee or trustee who holds all of the Authorized Notes of an Authorized Note Lender transferred to it by such Authorized Note Lender on such Authorized Note Lender’s behalf or pursuant to a custodial or similar arrangement with

such Authorized Note Lender, where such nominee or trustee is not an Authorized Note Lender but rather remains an assignee of such Authorized Notes.

*“Related Body Corporate”* has the meaning set forth in Section 50 of the Corporations Act 2001 of the Commonwealth of Australia.

*“State Super”* means STC Funds Nominee Pty Limited, a company incorporated in New South Wales, Australia, as trustee for the Duquesne Utilities Trust

*“Subsidiary”* means with respect to a Person, any other Person of which at least a majority of the voting power represented by the outstanding capital stock or other voting securities or interests having voting power under ordinary circumstances to elect directors or similar members of the governing body of such corporation or entity or fifty percent (50%) or more of the equity interests in such corporation or entity shall at the time be owned or controlled, directly or indirectly, by such Person and/or by one or more of its Subsidiaries.

The logo for Standard & Poor's, featuring the words "STANDARD" and "& POOR'S" in a serif font, stacked vertically and underlined.

## My Credit Profile

### Duquesne Light Holdings Inc., PA - 'BBB-/Negative/NR'

#### Table of Contents

- Rationale
- Outlook
- Ratings List

## Research Update: Duquesne Light Holdings Inc. Outlook Revised To Negative, 'BBB-' Credit Rating Affirmed

**Publication date:** 23-May-2008  
**Primary Credit Analyst:** Gerrit Jepsen, CFA, New York (1) 212-438-2529;  
gerrit\_jepsen@standardandpoors.com

### Rationale

On May 23, 2008, Standard & Poor's Ratings Services revised its outlook on Duquesne Light Holdings Inc. (DLH) and its electric utility subsidiary Duquesne Light Co. to negative from stable to reflect the weakening financial profile. This is largely due to lower operating cash flows and increasing debt leverage that constrain consolidated financial measures.

At the same time, Standard & Poor's affirmed its 'BBB-' long-term corporate credit rating on DLH and Duquesne Light. Pittsburgh-based DLH had \$1.8 billion of total debt and \$108 million in preferred stock as of Dec. 31, 2007.

Debt increased following the investor consortium's acquisition of DLH, and has led to constrained consolidated financial measures. These measures are further constrained now that payments for capacity costs due to the PJM reliability pricing model (RPM) will further erode operating cash flow over the next several years despite the company's planned exit from the PJM market to the Midwest Independent System Transmission Operator market.

The business risk profiles of the companies are considered excellent following numerous assets sales and the end of synthetic fuel operations after the 2007 expiration of federal tax credits. However, the financial risk profile is considered highly leveraged given the weak financial measures and expected lower operating cash flows.

### Liquidity

Given current needs, liquidity is adequate at DLH and Duquesne Light. However, with the incremental costs related to capacity payments and no recovery mechanism available, liquidity could be constrained without any increase in its availability. Although internally generated cash flow has been bolstered with an electric transmission rate rider that provides annual incremental rate relief, the additional cash flow has at least partly gone to service the higher debt leverage and shareholder distributions. Due to these cash needs along with capital expenditures, DLH will require the company to seek external financing for incremental capital expenditures.

## Outlook

The negative outlook reflects the potential for lower ratings due to a weakening financial risk profile from lower operating cash flows and increasing debt leverage. This condition could be exacerbated in the intermediate term if the RPM capacity payments are not recovered. The ratings could be lowered if operating cash flows deteriorated given the level of debt leverage. The outlook could be revised to stable if financial performance improves from stronger sustainable operating cash flows or debt leverage is materially reduced over the intermediate term.

## Ratings List

Outlook Revised, Rating Affirmed

Duquesne Light Co.	To	From
Corporate credit rating	BBB-/Negative/--	BBB-/Stable/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

TRANSACTION AGREEMENT

This TRANSACTION AGREEMENT, dated as of December 9, 2009 (this "Agreement"), is entered into by and among DQE Holdings LLC, a Delaware limited liability company ("DQE"), all members of DQE (each, a "Member", and collectively, the "Members") and all Affiliate DQE Promissory Note Holders.

RECITALS

WHEREAS, DQE, the Members and the Affiliate DQE Promissory Note Holders wish to recapitalize DQE in accordance with the terms and conditions set forth herein, with the objectives of (a) addressing in a positive manner the financial consequences of the extraordinary market and economic developments of 2008 and 2009, (b) preserving access to capital for the Subsidiaries of DQE by maintaining DLH's credit rating as of the date hereof and providing a meaningful demonstration of financial support to DQE and its Subsidiaries from the Members and the Affiliate DQE Promissory Note Holders, (c) confirming a plan for DQE to redeem all outstanding principal amounts of, and all accrued but unpaid interest (if any) on, the outstanding DQE Promissory Notes and reinvest the full redemption amounts in DQE as capital contributions as soon as all DQE Promissory Note Holders are legally and contractually able to cause DQE to so redeem their respective outstanding DQE Promissory Notes and (d) preserving each Member's existing economic ownership and voting power percentages in DQE (the "Transaction");

WHEREAS, each of the Members wishes to make, at the Closing, a capital contribution to DQE in an aggregate amount of \$200,000,000.00 for all Members, with the amount of such capital contribution by each Member specified in Schedule A (the "\$200 Million Capital Contribution"), and DQE wishes to contribute the proceeds from the \$200 Million Capital Contribution to DLH;

WHEREAS, in connection with the \$200 Million Capital Contribution and concurrently with the execution and delivery of this Agreement, DQE, each of the Members and The Bank of New York Mellon acting as the escrow agent (the "Escrow Agent") will enter into an escrow agreement dated as of the date hereof (the "Escrow Agreement"), pursuant to which, among other things, each Member agrees to deposit or cause to be deposited, at least three (3) Business Days prior to the Closing Date, funds sufficient to make its capital contribution to DQE in the \$200 Million Capital Contribution into an interest bearing escrow account to be maintained with the Escrow Agent (the "Escrow Account");

WHEREAS, AMPCI Macquarie Infrastructure No. 2 Limited (ABN 99 108 014 062) (as responsible entity of Diversified Utility and Energy Trust No. 3 (ARSN 124 997 986)) ("AMPCI", together with DUET Investment Holdings Limited (ABN 22 120 456 573) ("DUET Investment Holdings"), "DUET") have indicated that they are currently subject to certain restrictions under the DUET Existing Financing Arrangements which limit their ability to cause DQE to redeem its outstanding DQE Promissory Note, and as a result the parties hereto wish to agree that (a) all existing DQE Promissory Notes (representing an aggregate principal amount of \$694,999,999.00) will remain outstanding in accordance with their respective terms, (b) each DQE Promissory Note Holder will agree that it will cause DQE to mandatorily redeem the outstanding principal amounts of, and all accrued but unpaid interest (if any) on, its DQE

Promissory Notes (and DQE will agree that each DQE Promissory Note Holder will have the right to cause such mandatory redemption) and that it will simultaneously and mandatorily reinvest the full redemption amount of its outstanding DQE Promissory Note in DQE as a capital contribution, as soon as all DQE Promissory Note Holders are legally and contractually able to cause DQE to so redeem their respective outstanding DQE Promissory Notes (the date such redemption and reinvestment occur, the “DQE Promissory Note Redemption Date”, which shall occur within thirty (30) calendar days after the first date on which all DQE Promissory Note Holders are legally and contractually able to cause DQE to so redeem their respective outstanding DQE Promissory Notes) and provided that the DQE Promissory Note owned by AMPCI as of the date hereof is so redeemed, which commitment will have no legally binding effect on any party hereto until December 31, 2009, (c) each DQE Promissory Note Holder will represent to each other party hereto that it reasonably expects to be able to cause DQE to so redeem its outstanding DQE Promissory Note within thirty (30) calendar days after August 31, 2013, and (d) as a result of the Transaction, interest to be paid on outstanding DQE Promissory Notes will no longer be deductible under the Internal Revenue Code of 1986, as amended (the “Code”);

WHEREAS, (a) the Members, by Super Majority Approval, wish to require each Member to invest in DQE until December 31, 2010 by making capital contributions to DQE in amounts equal to all interest paid on or after April 1, 2009 until December 31, 2010 on outstanding DQE Promissory Note owned by such Member or any of its Affiliates, (b) the Members, by Super Majority Approval (but subject to the occurrence of the Closing), wish to permit the board of managers of DQE (“DQE Board”) to require, by Majority Approval and based upon the Annual Business Plan for DQE, each Member to invest in DQE, (i) for the period from January 1, 2011 to December 31, 2011 by a Majority Approval of DQE Board and (ii) for the period from January 1, 2012 to March 31, 2012 by a Majority Approval of DQE Board, by making capital contributions to DQE in amounts equal to up to all interest to be paid during such periods on outstanding DQE Promissory Note owned by such Member or any of its Affiliates (or part thereof if so approved by DQE Board) (in each case as described in clauses (a) and (b) above, subject to adjustment), and (c) the Members wish to agree that a Super Majority Approval of the Members may require any other investment by each Member in DQE of interest paid on outstanding DQE Promissory Note owned by such Member or any of its Affiliates (each of such reinvestment obligations of the Members under clauses (a), (b) and (c) above, a “Reinvestment Commitment”); provided that the Reinvestment Commitments shall have no legally binding effect until December 31, 2009; and as a result, the parties hereto will agree to invest in DQE under Reinvestment Commitments pursuant to Section 2.6;

WHEREAS, interest on the outstanding DQE Promissory Note owned by AMPCI is paid semiannually, while interest on the outstanding DQE Promissory Notes owned by the other DQE Promissory Note Holders is paid quarterly, but DUET wishes to agree to invest in DQE, pursuant to Section 2.6, with the other Members on a quarterly basis during the period in which a Reinvestment Commitment is in effect;

WHEREAS, interest on the outstanding DQE Promissory Note held by Codan Trust Company (Cayman) Limited (in its capacity as trustee of IFM Global Infrastructure (Cayman) Fund, “Codan”) is, as of the date of this Agreement, subject to withholding by DQE of United States withholding tax (the withholding on such interest being the “Codan Withholding Tax”), and therefore Codan wishes to agree to invest in DQE, pursuant to Section 2.6, with the other Members on a quarterly basis during the period in which a Reinvestment Commitment is in

effect an amount equal to the amount of the Codan Withholding Tax that is paid by DQE in respect of interest payments paid to Codan on its outstanding DQE Promissory Note during the period in which a Reinvestment Commitment is in effect;

WHEREAS, interest on the outstanding DQE Promissory Note held by any DQE Promissory Note Holder (other than Codan and AMPCI) may also be subject to withholding by DQE of United States withholding tax (the “Other Holder Withholding Tax”), and therefore each Member (other than Codan and DUET Investment Holdings) wishes to agree to invest in DQE, pursuant to Section 2.6, on a quarterly basis during the period in which a Reinvestment Commitment is in effect an amount equal to the amount of the Other Holder Withholding Tax (if any) that is paid by DQE in respect of interest payments paid to such Member or its Affiliate that is a DQE Promissory Note Holder on its outstanding DQE Promissory Note; and

WHEREAS, all Members, all Affiliate DQE Promissory Note Holders and DQE Board have each unanimously approved the transactions contemplated hereby and by the other Transaction Agreements.

NOW, THEREFORE, the parties hereto hereby agree as follows:

#### ARTICLE I DEFINITIONS

Section 1.1 Definitions. Unless otherwise defined in this Section 1.1 or elsewhere in this Agreement, all capitalized terms used herein shall have the meanings ascribed to them in the LLC Agreement. For purposes of this Agreement, the following terms shall have the following meanings:

“Affiliate DQE Promissory Note Holder” means any Affiliate of any Member that owns any DQE Promissory Note as of the date hereof.

“Annual Business Plan for DQE” means the five (5) year business plan as approved each year by Super Majority Approval of DQE Board, provided that if such a plan is not approved by December 31 of any year (other than 2009), the Annual Business Plan for DQE for that year shall be the annual budget of DQE as approved by Super Majority Approval of DQE Board.

“Codan Fiscal Year” means the period from July 1 through June 30 of the next year.

“Codan Parties” means Codan and the investors in IFM Global Infrastructure (Cayman) Fund.

“DLC” means Duquesne Light Company, a Pennsylvania corporation and wholly owned Subsidiary of DLH.

“DLH” means Duquesne Light Holdings, Inc., a Pennsylvania corporation and wholly owned Subsidiary of DQE.

“DQE Class A Interests” means the Class A Interests in DQE.

“DQE Promissory Note” means the promissory notes issued by DQE to the Members or the Affiliate DQE Promissory Note Holders that are outstanding as of the date hereof.

“DQE Promissory Note Holder” means a holder of DQE Promissory Notes as of the date hereof.

“DUET Existing Financing Arrangements” means DUET’s security agreements and arrangements (including related finance documents) relating to DUET’s credit facility agreement entitled “DUET Project Super Syndicated Facility Agreement” originally dated June 18, 2008 and with a maturity date of August 31, 2013.

“Estimated Reinvestment Adjustment Amount” means, with respect to each Reinvestment Commitment, (a) for Codan, an amount equal to the sum of (i) the Estimated Unrecoverable Codan Withholding Tax Liabilities for such Reinvestment Commitment plus (ii) the product of such Estimated Unrecoverable Codan Withholding Tax Liabilities multiplied by Codan’s Reinvestment Adjustment Ratio and (b) for each other Member, the product of such Estimated Unrecoverable Codan Withholding Tax Liabilities multiplied by such Member’s Reinvestment Adjustment Ratio.

“Fair Market Value” means, solely for the purposes of this Agreement, the value of each DQE Class A Interest determined on an as needed basis by applying a discounted cash flow methodology which shall use the cash flows shown in the valuation model provided by Macquarie Capital to each Member on a quarterly basis, discounted at a rate of twelve percent (12%). The valuation model shall include the cash flows in the Annual Business Plan for DQE for the first five (5) years, discounted at a rate of twelve percent (12%).

“Governmental Authority” means any federal, state, local or foreign governmental, legislative, judicial, administrative or regulatory authority, agency, commission, body, court or entity.

“LLC Agreement” means the Amended and Restated Limited Liability Company Agreement of DQE, effective May 31, 2007, as amended through the date hereof.

“PaPUC” means the Pennsylvania Public Utility Commission.

“Reinvestment Adjustment Amount” means, for each applicable Codan Fiscal Year, (a) for Codan, the sum of (i) the Unrecoverable Codan Withholding Tax Liabilities for such Codan Fiscal Year plus (ii) the product of such Unrecoverable Codan Withholding Tax Liabilities multiplied by Codan’s Reinvestment Adjustment Ratio, and (b) for each other Member, the product of such Unrecoverable Codan Withholding Tax Liabilities multiplied by such Member’s Reinvestment Adjustment Ratio.

“Reinvestment Adjustment Ratio” means, with respect to each Member set forth on Schedule C, the ratio set out next to its name on Schedule C.

“Transaction Agreements” means this Agreement, the Escrow Agreement and the Interest Escrow Agreement.

“Unrecoverable Codan Withholding Tax Liabilities” means, so long as Codan is in compliance with its obligations under Section 2.6(c), up to (a) \$2.682 million for the Codan Fiscal Year ending June 30, 2010, (b) \$2.092 million for the Codan Fiscal Year ending June 30, 2011 and (c) \$2.092 million for the Codan Fiscal Year ending June 30, 2012 (and pro-rated for any portion of the applicable Codan Fiscal Year during which a Reinvestment Commitment is

not in effect) of the Codan Withholding Tax paid by DQE in respect of periods during which a Reinvestment Commitment is in effect to the extent that the Codan Parties are not (having first applied all available tax credits, allowances, deductions, offsets and rebates of any Codan Party to any other liabilities of the Codan Parties) entitled to benefits by way of a tax credit, allowance, deduction, offset or rebate in an aggregate amount equal to or greater than the amount of such Codan Withholding Tax, provided that nothing in this Agreement shall be construed to require the Codan Parties to arrange their commercial or fiscal affairs in any particular manner.

## ARTICLE II THE TRANSACTIONS

Section 2.1 \$200 Million Capital Contribution. Upon the terms and subject to the conditions set forth herein, at the Closing, each of the Members shall make a capital contribution to DQE in an aggregate amount of \$200,000,000.00 for all Members, with each Member hereby agreeing that the amount of such capital contribution by each Member shall be as specified in Schedule A, representing such Member's ownership interests in DQE Class A Interests as of the date hereof.

Section 2.2 Closing of the \$200 Million Capital Contribution. The consummation of the \$200 Million Capital Contribution (the "Closing") shall take place at the offices of Sullivan & Cromwell LLP, 125 Broad Street, New York, New York, at 10:00 a.m., New York City time, on December 31, 2009 or such later date as occurs on the third Business Day following the date on which all conditions set forth in Article IV (other than the conditions that by their nature are to be satisfied at the Closing but subject to the satisfaction of, or to the extent permitted hereunder, written waiver of, such conditions) have been satisfied or, to the extent permitted hereunder, waived in writing, or at such other place, time and date as all of the parties hereto shall mutually agree (the date on which the Closing occurs, the "Closing Date").

Section 2.3 Escrow Arrangements for the \$200 Million Capital Contribution.

(a) Each Member shall, at least three (3) Business Days prior to the Closing, deposit or cause to be deposited into the Escrow Account funds sufficient to make its capital contribution to DQE in the amount of its share of the \$200 Million Capital Contribution set forth on Schedule A. The Escrow Agreement shall provide that the Escrow Agent shall confirm at least two (2) Business Days prior to the Closing Date in writing to DQE and each Member the amount deposited by each Member in the Escrow Account.

(b) Upon the terms and subject to the conditions set forth herein and in the Escrow Agreement, (i) at the Closing, all funds deposited by the Members and held in the Escrow Account shall be transferred by the Escrow Agent to DLH by wire transfer of immediately available funds to an account or accounts designated by DLH to the Escrow Agent, and (ii) any interest or other income earned on such funds deposited by any Member shall be returned by the Escrow Agent to such Member promptly after the first Business Day that is thirty (30) calendar days after the Closing Date as provided for in the Escrow Agreement by wire transfer of immediately available funds to an account or accounts designated by such Member to the Escrow Agent; provided, however, that any funds deposited in the Escrow Account by any Member (including any interest or other income earned thereon) that has defaulted in making its share of the \$200 Million Capital Contribution pursuant to the terms hereof shall continue to be held in

the Escrow Account for payments of any indemnification and damages claims of DQE and any other Member caused by such failure.

(c) All funds deposited by any Member and remaining in the Escrow Account (including any interest or other income earned thereon) shall be returned by the Escrow Agent to such Member promptly after the termination of this Agreement; provided, however, that any funds deposited in the Escrow Account by any Member (including any interest or other income earned thereon) that has defaulted in making its share of the \$200 Million Capital Contribution pursuant to the terms hereof shall continue to be held in the Escrow Account for payments of any indemnification and damages claims of DQE and any other Member caused by such failure.

#### Section 2.4 DQE Promissory Notes.

(a) Each DQE Promissory Note Holder hereby commits to (i) cause DQE to mandatorily redeem the outstanding principal amount of, and all accrued but unpaid interest (if any) on, its outstanding DQE Promissory Notes (and DQE agrees that each DQE Promissory Note Holder shall have the right to cause such mandatory redemption) and (ii) simultaneously reinvest the full redemption amount in DQE as a capital contribution, as soon as all DQE Promissory Note Holders are legally and contractually able to cause DQE to so redeem their respective outstanding DQE Promissory Notes and provided that the DQE Promissory Note owned by AMPCI as of the date hereof is so redeemed, which redemption and reinvestment shall occur within thirty (30) calendar days after the first date on which all DQE Promissory Note Holders are legally and contractually able to cause DQE to so redeem their respective outstanding DQE Promissory Notes, provided that such commitment shall have no legally binding effect on any party hereto until December 31, 2009. Each DQE Promissory Note Holder hereby represents to each other party hereto that it reasonably expects to be able to cause DQE to so redeem its outstanding DQE Promissory Note within thirty (30) calendar days after August 31, 2013. Each Member agrees to cause DQE to take all limited liability company action necessary to effect such redemption of all outstanding principal amounts of, and all accrued but unpaid interest (if any), on all outstanding DQE Promissory Notes and to effect such reinvestments of the full redemption amounts in DQE as capital contributions.

(b) DQE hereby approves the transfer of the DQE Promissory Note owned by AMPCI to DUET Investment Holdings and the DQE Promissory Notes owned by MSAM, MSAM2 and MFIT to GIF2-MFIT, respectively, within the thirty (30) calendar days period before the redemption of such DQE Promissory Notes provided in Section 2.4(a). Effective upon such transfer, (i) in the case of a transfer by AMPCI, DUET Investment Holdings, and (ii) in the case of a transfer by MSAM, MSAM2 and MFIT, GIF2-MFIT, hereby agrees to comply with the obligations of their respective transferors under this Agreement and any other Transaction Agreement to which their respective transferors are a party (including the making, at the time of such transfer, of the representations and warranties made by their respective transferors under this Agreement and the other Transaction Agreements). DQE and each other party hereto agree that, in the event any of such transfers has not been completed prior to the DQE Promissory Note Redemption Date, the simultaneous and mandatory capital contributions in DQE of the full redemption amounts upon the redemption of (i) the DQE Promissory Note owned by AMPCI shall be deemed to be made by DUET Investment Holdings and (ii) the DQE Promissory Notes owned by MSAM, MSAM2 and MFIT shall be deemed to be made by GIF2-MFIT, respectively.

(c) DUET (i) shall not enter into any new agreements, transaction arrangements or understandings (including, for the avoidance of doubt, the granting of any new pledge or extending the pledge existing as of the date hereof by DUET over its DQE Promissory Note after the date hereof, other than as a result of any enforcement action taken by one or more financiers or a security trustee in connection with the DUET Existing Financing Arrangements) and (ii) without prejudice to its obligations under Section 2.4(c)(i), shall not take any action, or fail to take any reasonable commercial action, where the effect of such agreement, arrangement, understanding, action or failure to take action is to prohibit, restrict or delay to a date after September 30, 2013 the redemption of the DQE Promissory Note owned by AMPCI or DUET Investment Holdings (as applicable) pursuant to the terms hereof, provided that nothing in this Section 2.4(c) is intended to impair the proper exercise by the directors or managers of DUET of their fiduciary responsibilities in the context of any pending or anticipated default by DUET under the DUET Existing Financing Arrangements following the receipt of advice from reputable outside counsel (and such proper exercise will not be a breach of this Section 2.4(c)); provided, further, that nothing in this Section 2.4(c) requires DUET to seek or obtain the consent of its financiers under the DUET Existing Financing Arrangements to enter into or implement the Transaction or to amend the DUET Existing Financing Arrangements in connection with the Transaction or to refinance the DUET Existing Financing Arrangements at a time or upon terms not deemed prudent by DUET in the exercise of reasonable commercial judgment.

(d) Each Member and Affiliate DQE Promissory Note Holder (other than DUET) agrees that it will not (i) enter into any agreements, transaction arrangements or understanding after the date hereof or (ii) without prejudice to its obligations under Section 2.4(d)(i), take any action, or fail to take any reasonable commercial action, where the effect of such agreement, arrangement, undertaking, action or failure to take action is to prohibit, restrict or delay the redemption of the DQE Promissory Notes owned by such Member or Affiliate DQE Promissory Note Holder pursuant to the terms hereof.

(e) Except for the transfer of DQE Promissory Notes contemplated by and in compliance with Section 2.4(b), in the event that any DQE Promissory Note or DQE Class A Interest is transferred or assigned to any Person, such transfer or assignment shall not become effective unless and until the transferee or assignee of such DQE Promissory Note or DQE Class A Interest (as applicable) agrees in writing with each party hereto that such transferee or assignee shall be bound by all of the obligations of the Person who holds such DQE Promissory Note or such DQE Class A Interest (as applicable) as of the date of this Agreement and each Member (or permitted assignee or transferee of such Member) that is an Affiliate of such Person who holds such DQE Promissory Note as of the date of this Agreement under the Transaction Agreements (for the avoidance of doubt, DUET Investment Holdings shall be an Affiliate of AMPCI and GIF2-MFIT shall be an Affiliate of MSAM, MSAM2 and MFIT, and the obligations shall include the obligations under Section 2.4, Section 2.5 and Section 2.6 and the making, at the time of such transfer or assignment, of the representations and warranties made by the assignor or transferor under this Agreement and the other Transaction Agreements), other than, subject to compliance with Section 2.4(c), any such transfer or assignment to a secured party or enforcing party of DUET under the DUET Existing Financing Arrangements or the refinancing thereof prior to August 31, 2013, so long as there is no lien or other encumbrance on the DQE Promissory Note owned as of the date hereof by AMPCI after August 31, 2013. Notwithstanding the foregoing, if following such transfer to such secured party or enforcing party of DUET under the DUET Existing Financing Arrangements, such secured party or enforcing party of DUET evidences an intention not to be bound by, declines to be bound by, or

fails to perform, the obligations of DUET under Sections 2.4, 2.5 or 2.6 of this Agreement or under the Interest Escrow Agreement, then the Reinvestment Commitments may be terminated by Majority Approval of the Members (excluding DUET and its Affiliates (other than any non-DUET party hereto) and such secured party or enforcing party of DUET under the DUET Existing Financing Arrangements and its Affiliates (other than any non-DUET party hereto)). Effective on the date specified in such Majority Approval (if any), all Reinvestment Commitments shall terminate with respect to interest payments on DQE Promissory Notes coming due after such date of termination.

(f) DUET agrees to notify DQE within five (5) Business Days when it is legally and contractually able to cause DQE to redeem the outstanding principal amount of, and all accrued but unpaid interest (if any) on, any DQE Promissory Note owned by it pursuant to Section 2.4(a).

(g) DQE agrees that from and after December 31, 2009, and for so long as any DQE Promissory Note is outstanding, DQE shall not claim as a deduction from its income any interest expense associated with such DQE Promissory Notes.

Section 2.5 Reinvestment Commitments. Each Member hereby agrees and approves, subject to the Closing having occurred, the following Reinvestment Commitments; provided that this Section 2.5 shall have no legally binding effect on any party hereto until December 31, 2009:

(a) Each Member shall invest in DQE an amount equal to all interest payments received (or deemed to be received) by such Member or any of its Affiliates that is a DQE Promissory Note Holder in respect of the outstanding DQE Promissory Note owned by such Member or its such Affiliate on or after April 1, 2009 until December 31, 2010 by making capital contributions in such amount to DQE (subject to adjustment pursuant to Section 2.7).

(b) DQE Board is hereby irrevocably authorized to require, acting by Majority Approval and based upon the Annual Business Plan for DQE, if thought fit to do so, investment in DQE by each Member of an amount up to all interest payments received (or deemed to be received) by such Member or any of its Affiliates that is a DQE Promissory Note Holder in respect of the outstanding DQE Promissory Notes owned by such Member or its such Affiliate for the following periods (in each case, subject to adjustment pursuant to Section 2.7):

(i) from January 1, 2011 to December 31, 2011, by a Majority Approval of DQE Board, and

(ii) from January 1, 2012 to March 31, 2012, by a Majority Approval of DQE Board,

by making capital contributions in such amount to DQE.

(c) The determination to require any Reinvestment Commitment shall be made by a Super Majority Approval of the Members for any Reinvestment Commitment period after March 31, 2012.

(d) For the avoidance of doubt, in the event an Annual Business Plan for DQE is not approved by DQE Board by December 31 of the applicable year (other than 2009), DQE Board shall still have the authority, subject to Section 2.5(c), to require investment in DQE pursuant to

this Section 2.5 based upon the annual budget of DQE for the applicable year or any future year in accordance with this Section 2.5 as approved by Super Majority Approval of DQE Board.

Section 2.6 Reinvestments by the Members. During the period in which a Reinvestment Commitment is in effect:

(a) DUET Investment Holdings shall deposit or cause to be deposited:

(i) at least three (3) Business Days prior to December 31, 2009, an amount equal to the amount of aggregate interest accrued but unpaid (including any capitalized interest) on the outstanding DQE Promissory Note owned by AMPCI for the second (2nd), third (3rd) and fourth (4th) calendar quarters of 2009; and

(ii) at least three (3) Business Days prior to each March 31, June 30, September 30 and December 31 of each calendar year commencing from March 31, 2010 (each, a "Quarterly Interest Payment Date") (if such Quarterly Interest Payment Date is not a Business Day, then the immediately following Business Day), an amount equal to the interest accrued but unpaid on the outstanding DQE Promissory Note owned by AMPCI from and including the immediately preceding Quarterly Interest Payment Date (or in the case of the first Quarterly Interest Payment Date, December 31, 2009) to but excluding such Quarterly Interest Payment Date (or a lesser amount required to be invested pursuant to such Reinvestment Commitment) (each, a "Quarterly Deposit Amount of DUET");

in each case, into an interest bearing escrow account (the "Interest Escrow Account") to be maintained with The Bank of New York Mellon acting as the interest escrow agent (the "Interest Escrow Agent") pursuant to an interest escrow agreement to be entered into concurrently with the execution and delivery of this Agreement by and among each party hereto and the Interest Escrow Agent dated as of the date hereof (the "Interest Escrow Agreement"), for the purpose of making capital contributions to DQE in the amount so deposited. DUET Investment Holdings shall be deemed to have made a capital contribution to DQE equal to such amount in satisfaction of its Reinvestment Commitment as of December 31, 2009 or the Quarterly Interest Payment Date (as applicable). The Interest Escrow Agent shall release from the Interest Escrow Account and pay to AMPCI:

(A) on January 22, 2010, an amount equal to the aggregate amount of interest accrued but unpaid (including any capitalized interest) on the outstanding DQE Promissory Note owned by AMPCI for the second (2nd), third (3rd) and fourth (4th) calendar quarters of 2009 as payment by DQE of interest on the outstanding DQE Promissory Note owned by AMPCI; and

(B) on each January 22 and July 22 of each calendar year commencing from July 22, 2010 (each, a "Semiannual Interest Payment Date") (or, if such Semiannual Interest Payment Date is not a Business Day, then the immediately following Business Day), an amount equal to the aggregate amount of the Quarterly Deposit Amount of DUET deposited by DUET Investment Holdings pursuant to Section 2.6(a)(ii) at least three (3) Business Days prior to each of the two (2) Quarterly Interest Payment Dates that immediately precedes such Semiannual Interest Payment Date as payment by DQE of interest on the outstanding DQE Promissory Note owned by AMPCI.

For the avoidance of doubt, any amount deposited by DUET Investment Holdings pursuant to this Section 2.6(a) but not released and paid from the Interest Escrow Account pursuant to the foregoing provisions of this Section 2.6(a) shall be held in the Interest Escrow Account until the following Semiannual Interest Payment Date.

(b) Each of the Members and any Affiliate of such Members that is a DQE Promissory Note Holder (other than DUET) and DQE shall execute and deliver to the Interest Escrow Agent an irrevocable letter of direction, pursuant to which each Member, each such Affiliate and DQE shall instruct the Interest Escrow Agent that:

(i) at least three (3) Business Days prior to December 31, 2009, such Member shall be deemed to have deposited into the Interest Escrow Account (without depositing any funds) an amount equal to the amount of aggregate interest accrued but unpaid (including any capitalized interest) on the outstanding DQE Promissory Note owned by such Member or its such Affiliate for the second (2nd), third (3rd) and fourth (4th) calendar quarters of 2009 (taking into account of any adjustment pursuant to Section 2.7) (in the case of Codan, such amount shall be net of any applicable Codan Withholding Tax, and in the case of any other Members or any of its Affiliates that becomes subject to withholding by DQE of the Other Holder Withholding Tax, such amount shall be net of any applicable Other Holder Withholding Tax) for the purpose of making capital contributions to DQE in the amount so deemed to be deposited, and on December 31, 2009, the amount of such interest shall be deemed to be released from the Interest Escrow Account and paid by the Interest Escrow Agent out of such amount so deemed to be deposited to such Member or its such Affiliate as payment by DQE of interest on the outstanding DQE Promissory Note owned by such Member or its such Affiliate and such Member shall be deemed to have made a capital contribution to DQE equal to such amount in satisfaction of its Reinvestment Commitment as of December 31, 2009; and

(ii) at least three (3) Business Days prior to each Quarterly Interest Payment Date (if such Quarterly Interest Payment Date is not a Business Day, then the immediately following Business Day), such Member shall be deemed to have deposited into the Interest Escrow Account (without depositing any funds) an amount equal to the quarterly interest on the outstanding DQE Promissory Note owned by such Member or its such Affiliate (or a lesser amount required to be invested pursuant to such Reinvestment Commitment, taking into account of any adjustment pursuant to Section 2.7) (in the case of Codan, such amount shall be net of any applicable Codan Withholding Tax, and in the case of any other Members or any of its Affiliates that becomes subject to withholding by DQE of the Other Holder Withholding Tax, such amount shall be net of any applicable Other Holder Withholding Tax) for the purpose of making capital contributions to DQE in an amount so deemed to be deposited, and on such Quarterly Interest Payment Date, such quarterly interest then due on the DQE Promissory Note owned by such Member or its such Affiliate shall be deemed to be released from the Interest Escrow Account and paid by the Interest Escrow Agent in an amount equal to the amount so deemed to be deposited by such Member to such Member or its such Affiliate as payment by DQE of Interest on the DQE Promissory Note owned by such Member or its such Affiliate and such Member shall be deemed to have made a capital contribution to DQE equal to such amount in satisfaction of its Reinvestment Commitment as of the Quarterly Interest Payment Date.

(c) Codan and each other Member (or any of its Affiliates that is a DQE Promissory Note Holder, as applicable), other than DUET, that becomes subject to withholding by DQE of the Other Holder Withholding Tax shall deposit or cause to be deposited:

(i) at least four (4) Business Days prior to December 31, 2009, an amount equal to the amount of the Codan Withholding Tax or the Other Holder Withholding Tax (as applicable) applicable to the aggregate interest accrued but unpaid (including any capitalized interest) on the outstanding DQE Promissory Note owned by Codan or such other Member or any of its Affiliates (as applicable) for the second (2nd), third (3rd) and fourth (4th) calendar quarters of 2009; and

(ii) at least four (4) Business Days prior to each Quarterly Interest Payment Date (if such Quarterly Interest Payment Date is not a Business Day, then the immediately following Business Day), an amount equal to the amount of the Codan Withholding Tax or the Other Holder Withholding Tax (as applicable) applicable to the quarterly interest on the outstanding DQE Promissory Note owned by Codan or such other Member or any of its Affiliates (as applicable) (or a lesser amount required to be invested pursuant to an effective Reinvestment Commitment);

in each case, into the Interest Escrow Account for the purpose of making capital contributions to DQE in the amount so deposited. The Interest Escrow Agent shall release from the Interest Escrow Account and pay to DQE as a capital contribution to DQE by Codan or such other Member (as applicable):

(A) at least three (3) Business Days prior to December 31, 2009, an amount equal to the amount deposited by Codan or such other Member (as applicable) pursuant to Section 2.6(c)(i); and

(B) at least three (3) Business Days prior to each Quarterly Interest Payment Date (if such Quarterly Interest Payment Date is not a Business Day, then the immediately following Business Day), an amount equal to the amount deposited by Codan or such other Member (as applicable) immediately preceding such Quarterly Interest Payment Date pursuant to Section 2.6(c)(ii).

(d) Notwithstanding the foregoing, if DUET Investment Holdings or any other Member (as applicable) defaults in depositing any amount into the Interest Escrow Account pursuant to Section 2.6(a) or 2.6(c) (as applicable) (a “Reinvestment Default”), DQE shall:

(i) cause DLH to declare and pay to DQE, at the time when such deposit shall be made (as applicable), a dividend in an amount equal to the amount that DUET Investment Holdings and such other defaulting Members fail to so deposit, subject to the requirements of applicable law and compliance with debt instruments to which DLH or DLC is a party;

(ii) at the time of such Reinvestment Default, issue the number of DQE Class A Interests to each non-defaulting Member equal to the result of (x) the sum of the amount that is deemed to be deposited into the Interest Escrow Account by such non-defaulting Member pursuant to Section 2.6(b) (if applicable) and the amount, if any, that is deposited into the Interest Escrow Account by such non-defaulting Member pursuant to

Section 2.6(a) or 2.6(c) (as applicable), divided by (y) the Fair Market Value on the date such amounts are deemed deposited or due to be deposited, as the case may be; and

(iii) have the right to offer to the non-defaulting Members for purchase such number of DQE Class A Interests equal to the aggregate deposit amount that DUET Investment Holdings or such other defaulting Member has failed to make pursuant to this Section 2.6 divided by ten percent (10%) of the Fair Market Value at the time of such offer (the “Reinvestment Default Shares”) at a purchase price of ten percent (10%) of Fair Market Value at the time of such offer through the process set forth below in Section 5.1, where, for the purposes of this Section 2.6 only, the non-defaulting Members will be treated as “Non-defaulting Parties” and Reinvestment Default Shares will be treated as “SOI Shares” as used in that Section 5.1;

provided that any issuance or offer to sell DQE Class A Interests that requires any approval of the PaPUC or any other Governmental Authorities shall be deferred pending receipt of such approval; and provided, further, that if such approval is not obtained, DQE shall issue or offer to sell to each of the non-defaulting Members on a proportionate basis up to the number of DQE Class A Interests so calculated so that such approval is not required. Notwithstanding the foregoing, in the event DUET is the defaulting Member, the remedies set out in sub-clauses (ii) and (iii) of this Section 2.6(d) shall only be effective if at the time of the default, no “event of default” has occurred and is subsisting under the DUET Existing Financing Arrangements.

(e) Notwithstanding the foregoing, if the amount required to be so invested pursuant to an effective Reinvestment Commitment is less than the amount of the quarterly or semiannual interest (as applicable) due on any outstanding DQE Promissory Note, the difference of the amount of such quarterly or semiannual interest (as applicable) and such lesser amount shall be paid by DQE to the holder of such DQE Promissory Note as part of payment of such quarterly or semiannual interest (as applicable) and the amount of the Codan Withholding Tax or Other Holder Withholding Tax (as applicable) required to be paid under Section 2.6(c) shall be limited to the amount of withholding tax payable by DQE on that lesser part of the quarterly interest required to be so invested.

#### Section 2.7 Reinvestment Commitment Adjustments.

(a) With respect to each Reinvestment Commitment, the amount required to be invested by each Member shall be initially reduced by the amount, if any, of such Member’s Estimated Reinvestment Adjustment Amount for such Reinvestment Commitment, and shall be further adjusted pursuant to Section 2.7(b) to reflect such Member’s actual Reinvestment Adjustment Amount.

(b) Notwithstanding Section 2.6(b), in the case of the Reinvestment Commitment in the fourth (4th) calendar quarter of 2009, on December 31, 2009, and in the case of each other Reinvestment Commitment, on the applicable Quarterly Interest Payment Date, DQE shall deposit into the Interest Escrow Account cash in an amount equal to the Estimated Reinvestment Adjustment Amount for the applicable Reinvestment Commitment, if any, for each Member, which amount shall be deemed as payment by DQE of interest on the applicable DQE Promissory Note on December 31, 2009 or the applicable Quarterly Interest Payment Date (as the case may be). With respect to Reinvestment Commitments in any Codan Fiscal Year, on the earlier of June 30 of the following Codan Fiscal Year and the date on which a Codan

Withholding Tax Notice for such Codan Fiscal Year is delivered to the Interest Escrow Agent pursuant to Section 2.7(c), an amount equal to the lesser of (i) each Member's aggregate Estimated Reinvestment Adjustment Amount for all Reinvestment Commitments in such Codan Fiscal Year and (ii) such Member's Reinvestment Adjustment Amount for such Codan Fiscal Year shall be transferred from the Interest Escrow Account to the relevant DQE Promissory Note Holder and the remaining amount, if any, shall be transferred to DQE. The amount transferred to DQE shall be deemed to have been reinvested by the relevant Member as part of its Reinvestment Commitments in such Codan Fiscal Year. With respect to the Reinvestment Commitments in any Codan Fiscal Year, if no Codan Withholding Tax Notice is delivered by Codan pursuant to Section 2.7(c) on or before June 30 of the following Codan Fiscal Year, then the entire amount deposited by DQE for Reinvestment Commitments in such Codan Fiscal Year pursuant to this Section 2.7(b) shall be transferred to DQE. At least fifteen (15) calendar days prior to December 31, 2009 or each Quarterly Interest Payment Date (as applicable), Codan shall provide DQE in writing a good faith estimate of the Unrecoverable Codan Withholding Tax Liabilities (including the basis and calculation for such estimate) for the relevant Reinvestment Commitment (the "Estimated Unrecoverable Codan Withholding Tax Liabilities"), provided that the Estimated Unrecoverable Codan Withholding Tax Liabilities shall not be greater than \$1.629 million for the Reinvestment Commitment in the fourth (4th) calendar quarter of 2009, and \$0.527 million for each other Reinvestment Commitment.

(c) In the event Codan incurs any Unrecoverable Codan Withholding Tax Liabilities for any Codan Fiscal Year, within twelve (12) months after the end of such Codan Fiscal Year, Codan shall deliver to DQE a notice of the amount of such Unrecoverable Codan Withholding Tax Liabilities substantially in the form of Exhibit B stating in reasonable detail the basis of such liabilities together with, a written opinion of an internationally recognized tax accounting firm familiar with IFM Global Infrastructure (Cayman) Fund's general tax position that the amount set out in the Codan Withholding Tax Notice is correct based on relevant tax filing(s) submitted by the Codan Parties to tax authorities in respect of the period to which the Unrecoverable Codan Withholding Tax Liabilities relates (such notice, together with, if applicable, such written opinion, the "Codan Withholding Tax Notice"). Codan shall be responsible and pay for any fees and expenses of any tax accounting firm referred to in this Section 2.7(c) in connection with any Codan Withholding Tax Notice. Upon receipt of the Codan Withholding Tax Notice, DQE shall deliver such Codan Withholding Tax Notice along with any certificate required under the Interest Escrow Agreement to the Interest Escrow Agent.

Section 2.8 Approval of the Transaction. Each party hereto hereby agrees that the execution and delivery of this Agreement by such party shall conclusively evidence such party's approval of the transactions contemplated hereby and by the other Transaction Agreements to the extent such approval is required under the LLC Agreement, any of the DQE Promissory Notes, any constitutional documents of DQE, and any other agreements, instruments and documents or any law applicable to DQE or the transactions contemplated by any Transaction Agreement. Each party hereto hereby agrees that Article IV of the LLC Agreement does not apply to this Agreement or the transactions contemplated by this Agreement. Without prejudice to any DQE Promissory Note Holder's rights, entitlements and remedies under its DQE Promissory Note (and its ability to enforce such rights, entitlements and remedies), each party hereto hereby irrevocably waives and agrees not to enforce and not to take any action to enforce any rights and remedies that such party may have under the LLC Agreement against any other party hereto arising solely from, as a result of or in connection with the transactions contemplated hereby or by any other Transaction Agreement.

Section 2.9 Transaction Agreements; Further Assurance; Commercially Reasonable Efforts.

(a) From time to time, as and when requested by one party hereto of any other party hereto, such other party hereto shall, as promptly as reasonably practicable, execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions, as are reasonably necessary to consummate the transactions contemplated hereby and by the other Transaction Agreements.

(b) On the terms and subject to the conditions set forth herein, each party hereto shall use its commercially reasonable efforts to cause the Closing to occur as soon as practicable, including taking all reasonable actions necessary to comply promptly with requirements of applicable law that may be imposed on it or any of its Affiliates with respect to the Closing.

(c) DQE hereby agrees to cause DLH and DLC to notify each Member immediately upon receipt of any written notice of default of any of their respective material outstanding debt.

(d) Each Member agrees that it shall, within fifteen (15) calendar days after the end of each calendar quarter, provide a certificate to DQE stating whether or not it and any of its Affiliates that is a DQE Promissory Note Holder is legally and contractually able to cause DQE to redeem its outstanding DQE Promissory Note pursuant to Section 2.4(a), and if not setting out the reasons for its inability to cause DQE to so redeem.

ARTICLE III  
REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of DQE. DQE represents and warrants to each Member and each Affiliate DQE Promissory Note Holder as follows:

(a) It is duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) It has all requisite limited liability company power and authority to enter into this Agreement and the other Transaction Agreements to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by it of this Agreement and the other Transaction Agreements to which it is a party and the performance of its obligations hereunder and thereunder have been duly authorized by all necessary action on the part of it. This Agreement and the Escrow Agreement have been, and the other Transaction Agreement to which it is a party will be at the Closing, duly executed and delivered by it. Assuming due authorization, execution and delivery of this Agreement and the other Transaction Agreements by the parties hereto and thereto, each of this Agreement and the other Transaction Agreements to which it is a party constitutes the valid and binding obligation of it, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general applicability affecting the enforcement of creditors' rights and the application of general principles of equity (collectively, the "Equitable Enforcement Exceptions").

Section 3.2 Representations and Warranties of Each Member and Each Affiliate DQE Promissory Note Holder. Each of the Members and the Affiliate DQE Promissory Note Holders,

severally and not jointly, represents and warrants to DQE, each other Member and each other Affiliate DQE Promissory Note Holder as follows:

(a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization or formation.

(b) It has all requisite corporate or similar power and authority to enter into this Agreement and the other Transaction Agreements to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery by it of this Agreement and the other Transaction Agreements to which it is a party and the performance of its obligations hereunder and thereunder have been duly authorized by all necessary action on the part of it. This Agreement and the Escrow Agreement to which it is party have been, and the other Transaction Agreement to which it is a party will be at the Closing, duly executed and delivered by it. Assuming due authorization, execution and delivery of this Agreement and the Escrow Agreement to which it is a party by DQE and of the other Transaction Agreements by the parties thereto, each of this Agreement and the other Transaction Agreements to which it is a party constitutes the valid and binding obligation of it, enforceable against it in accordance with its terms, except as such enforceability may be limited by the Equitable Enforcement Exceptions.

(c) No vote of any holders of any class or series of any capital stock in it is necessary or required to approve this Agreement or any other Transaction Agreements or the transactions contemplated hereby or thereby.

(d) Other than in the case of DUET, it or its Affiliate that is an Affiliate DQE Promissory Note Holder is a holder of record and a beneficial owner of DQE Promissory Note, holding and owning such DQE Promissory Note free and clear of any lien thereon or affecting the title thereto.

(e) Other than in the case of DUET, it or its Affiliate that is an Affiliate DQE Promissory Note Holder has not (i) entered into any agreement, transaction arrangement or understanding, or (ii) taken any action, or failed to take any reasonable commercial action, where the effect of such agreement, arrangement, undertaking, action or failure to take action would prohibit, restrict or delay the redemption of the DQE Promissory Notes owned by it or its Affiliate that is an Affiliate DQE Promissory Note Holder pursuant to the terms hereof.

(f) It acknowledges that the additional DQE Class A Interests issued pursuant to the terms hereof have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws. It is acquiring such securities pursuant to an exemption from registration under the Securities Act, solely for its own account, solely for the purpose of investment and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act or any other applicable securities laws.

(g) To the extent it has entered into this Agreement or any other Transaction Agreements in its capacity as a trustee or responsible entity for another entity (such other entity, the "Trust"), it (i) has full rights to indemnification or reimbursement from assets of such Trust in connection with the performance of all of its obligations hereunder and thereunder, including the payment or contribution of all funds required to be paid or contributed by it hereunder or thereunder, (ii) no approval or consent by any Governmental Authority, third party or any other entity is necessary or required in order for it to exercise its such rights to indemnification or

reimbursement, and it has not taken or omitted to take any action that would eliminate or limit its such rights to indemnification or reimbursement, and (iii) such Trust has sufficient assets from which to satisfy all of its obligations hereunder and thereunder, including the payment or contribution of all funds required to be paid or contributed by it hereunder or thereunder.

Section 3.3 Representations and Warranties of DUET. DUET represents and warrants to DQE, each other Member and each other Affiliate DQE Promissory Note Holder as follows:

(a) The restrictions under the DUET Existing Financing Arrangements prohibiting or restricting DUET from causing DQE to redeem its DQE Promissory Note at the Closing will, upon full and final repayment of all outstanding amounts payable under the DUET Existing Financing Arrangements at maturity, terminate in accordance with their terms. Other than the restrictions under the DUET Existing Financing Arrangements, there is no current or, to DUET's knowledge, pending, legal action, suit or proceeding or lien, pledge, encumbrance or charge that (i) would prohibit, restrict or delay to a date after September 30, 2013 the redemption of DUET's DQE Promissory Note or (ii) would at that time require, demand or impose on it any obligation to enter into any new agreements, transaction arrangements or understandings following the date hereof (other than as a result of any enforcement action taken by one or more financiers or a security trustee in connection with the DUET Existing Financing Arrangements) that prohibit, restrict or delay to a date after September 30, 2013 the redemption of DUET's DQE Promissory Note.

(b) Perpetual Trustee Company Limited, as custodian of AMPCI's assets in accordance with the terms of a custody agreement between AMPCI and Perpetual Trustee Company Limited, is the holder of record, and AMPCI is the beneficial owner, of DUET's DQE Promissory Note, holding and owning DUET's DQE Promissory Note free and clear of any lien thereon or affecting the title therefrom except for security interest over DUET's DQE Promissory Note under the DUET Existing Financing Arrangements.

#### ARTICLE IV CONDITIONS TO CLOSING

Section 4.1 Conditions to Obligations of DQE. The obligations of DQE to consummate the \$200 Million Capital Contribution are subject to the satisfaction or waiver by DQE at or prior to the Closing of each of the following conditions:

(a) The representations and warranties of each Member and each Affiliate DQE Promissory Note Holder set forth in this Agreement shall be true and correct in all material respects as of the Closing Date as though made on and as of the Closing Date.

(b) All covenants and agreements contained in this Agreement to be performed or complied with by each Member and each Affiliate DQE Promissory Note Holder on or prior to the Closing shall have been performed or complied with in all material respects.

(c) Each Member shall have, at least three (3) Business Days prior to the Closing Date, deposited or caused to be deposited into the Escrow Account funds sufficient to make its capital contribution to DQE in the \$200 Million Capital Contribution.

Section 4.2 Conditions to Obligations of Each Member and Each Affiliate DQE Promissory Note Holder. The obligations of each Member and each Affiliate DQE Promissory

Note Holder (other than DUET with respect to Section 4.2(a)(ii)) to consummate the \$200 Million Capital Contribution are subject to the satisfaction or waiver by all Members and all Affiliate DQE Promissory Note Holders at or prior to the Closing of each of the following conditions:

(a) The representations and warranties of (i) DQE set forth in this Agreement and (ii) DUET set forth in Section 3.3 shall be true and correct in all material respects as of the Closing Date as though made on and as of the Closing Date.

(b) All covenants and agreements contained in this Agreement to be performed or complied with by DQE on or prior to the Closing shall have been performed or complied with in all material respects.

(c) The Members shall have received such legal and tax opinions addressing the matters set forth on Exhibit A attached hereto, in each case subject to qualifications and limitations customary for opinions addressing such matters.

(d) Since the date hereof, there shall not have been any event, circumstance, fact, development, change or effect that, individually or in the aggregate, has constituted a default (or with the giving of notice or lapse of time, or both, would constitute a default) under any material debt instrument to which DLH or DLC is a party.

## ARTICLE V DEFAULT

### Section 5.1 Forced Sale.

(a) In the event any Member fails to deposit funds into the Escrow Account pursuant to Section 2.3(a) or otherwise defaults in making its capital contribution to DQE in the \$200 Million Capital Contribution pursuant to this Agreement (such Member, the “Defaulting Party”), (x) DQE shall, on the Closing Date, issue the number of DQE Class A Interests to each of the non-defaulting Members (the “Non-defaulting Parties”) equal to the amount of such Non-defaulting Party’s capital contribution to DQE in the \$200 Million Capital Contribution divided by the Fair Market Value on the Closing Date, and (y) DQE shall have the right to offer to the Non-defaulting Parties for purchase such number of DQE Class A Interests equal to the aggregate capital contribution amount that the Defaulting Party has failed to make in the \$200 Million Capital Contribution divided by the Fair Market Value at the time of such offer (such DQE Class A Interests, “SOI Shares”) at a purchase price of ten percent (10%) of such Fair Market Value per SOI Share through the process set forth below:

(i) DQE shall notify and solicit interest from all Non-defaulting Parties to purchase the SOI Shares on a *pro rata* basis in accordance with their respective ownership percentages in DQE Class A Interests as of the date hereof.

(ii) Any Non-defaulting Party may offer to purchase a number of the SOI Shares on such *pro rata* basis within five (5) Business Days of its receipt of such notice from DQE.

(iii) Each offer made by a Non-defaulting Party to purchase any SOI Shares shall become irrevocable upon acceptance by DQE of such offer.

(iv) In the event that any Non-defaulting Party declines to offer to purchase the SOI Shares available for it to purchase under this Section 5.1(a), the other Non-defaulting Parties shall have the right to purchase the SOI Shares that such declining Non-defaulting Party is entitled to offer to purchase at the purchase price set forth in this Section 5.1(a) on a *pro rata* basis in accordance with their respective ownership percentages in DQE Class A Interests as of the date hereof. The right of the Non-defaulting Parties to purchase the SOI Shares under this Section 5.1(a) shall be exercisable continuously on a *pro rata* basis in accordance with their respective ownership percentages in DQE Class A Interests as of the date hereof until no Non-defaulting Party is willing to purchase the remaining SOI Shares available for purchase under this Section 5.1(a).

(b) Whether or not the SOI Shares have been purchased or agreed to be purchased by the Non-defaulting Parties pursuant to Section 5.1(a), DQE shall have the right to issue, upon authorization by DQE Board, acting by a Majority Approval, to all Non-defaulting Parties (but no Non-defaulting Party shall have an obligation to purchase) a further number of DQE Class A Interests (the “Additional Shares”), at the purchase price of the Fair Market Value at the time of such issuance per DQE Class A Interest so that the gross proceeds to be received by DQE in the \$200 Million Capital Contribution shall equal the amount that DQE would otherwise have received if the Defaulting Party had not defaulted in making its capital contribution to DQE in the \$200 Million Capital Contribution pursuant to this Agreement (together with the sale of the SOI Shares pursuant to Section 5.1(a), a “Forced Sale”).

(c) Each party hereto hereby approves the issuance of additional DQE Class A Interests pursuant to Sections 5.1(a) and (b). Notwithstanding Section 5.1(a) and (b), any issuance of DQE Class A Interests pursuant to Section 5.1(a) or (b) that requires any approval of the PaPUC or any other Governmental Authorities shall be deferred pending receipt of such approval.

Section 5.2 Liabilities of Defaulting Party. Any Defaulting Party shall (a) be liable to DQE and all Non-defaulting Parties for any damages and liabilities (including the aggregate purchase price for the SOI Shares and the Additional Shares) suffered or incurred by DQE or any Non-defaulting Party as a result of or in connection with the Defaulting Party’s failure to make its capital contribution to DQE in the \$200 Million Capital Contribution pursuant to the terms hereof and (b) indemnify and hold DQE harmless for performing the role as the agent of such Defaulting Party in selling such SOI Shares or such Additional Shares or offering such SOI Shares or Additional Shares for sale to any Non-defaulting Party in any Forced Sale.

## ARTICLE VI TERMINATION

Section 6.1 Termination. This Agreement may be terminated at any time prior to the Closing Date:

(a) by any Member, any Affiliate DQE Promissory Note Holder or DQE, if (i) any Member defaults in making its capital contribution to DQE in the \$200 Million Capital Contribution, (ii) the Non-defaulting Parties have not agreed to purchase by the Closing Date the SOI Shares resulting from such default and (iii) the Additional Shares are not authorized by DQE Board to be issued pursuant to Section 5.1(b) or the Non-defaulting Parties have not agreed to purchase the Additional Shares authorized to be issued pursuant to Section 5.1(b);

(b) by any Member, any Affiliate DQE Promissory Note Holder or DQE, in each case, upon or after a Super Majority Approval of the Members to terminate this Agreement;

(c) by any Member, any Affiliate DQE Promissory Note Holder or DQE if the Closing shall not have occurred by January 15, 2010 (the “Initial Termination Date”); provided that no party hereto shall have the right to terminate this Agreement pursuant to this Section 6.1(c) if such party has breached any of its representations or warranties contained in this Agreement or failed to perform any of its obligations hereunder in a manner that shall have proximately caused the failure of the Closing to occur on or prior to the Initial Termination Date; provided, further, that if on the Initial Termination Date the approval of PaPUC and other Governmental Authorities required for the purchase of SOI Shares or Additional Shares pursuant to Section 5.1(c) have not been obtained, the right of any Member or any Affiliate DQE Promissory Note Holder to terminate this Agreement pursuant to this Section 6.1(c) shall not be effective until thirty (30) calendar days after a final order is issued in all such regulatory proceedings.

(d) by any Member, any Affiliate DQE Promissory Note Holder or DQE if any federal or state law, regulation, rule or order shall have been adopted or issued, which has the effect of prohibiting the transactions contemplated hereby, or if any court of competent jurisdiction in the United States or any state shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the transactions contemplated hereby, and such order, judgment or decree shall have become final and non-appealable;

(e) by any Member or any Affiliate DQE Promissory Note Holder if DQE has breached in any material respect any representations or warranties made by DQE in this Agreement or any covenants or agreements contained in this Agreement to be performed by DQE, which breach shall have made it impossible for the Closing to occur;

(f) by DQE if any Member or any Affiliate DQE Promissory Note Holder has breached in any material respect any representations or warranties made by such Member or such Affiliate DQE Promissory Note Holder in this Agreement or any covenants or agreements contained in this Agreement to be performed by such Member or such Affiliate DQE Promissory Note Holder, which shall have made it impossible for the Closing to occur; or

(g) by any Member if DLH or DLC shall be in default of any of their respective material outstanding debts and such default shall have not been cured within fifteen (15) Business Days after written notice of such default has been given to DLH or DLC, as applicable, by a creditor of DLH or DLC, as applicable, under such outstanding debts.

Section 6.2 Effect of Termination. In the event of a termination of this Agreement pursuant to Section 6.1, this Agreement shall become void and of no effect, with no liability to any Person on the part of any party hereto or on the part of any director, officer, partner, agent or attorney of or advisor to any party hereto; provided, however, that (a) the provisions of Section 2.3(c), Section 5.2, this Section 6.2 and Article VII shall survive any termination of this Agreement, and (b) nothing herein shall relieve any party hereto from any liabilities or damages to the other parties hereto resulting from any fraud, willful misconduct or material breach of this Agreement that occurred prior to such termination.

ARTICLE VII  
MISCELLANEOUS

Section 7.1 Costs and Expenses. DQE shall reimburse all Members, all Affiliate DQE Promissory Note Holders, the Escrow Agent and the Interest Escrow Agent for consortium related reasonable, documented transaction-specific costs and expenses incurred by the Members, the Affiliate DQE Promissory Note Holders, the Escrow Agent or the Interest Escrow Agent in connection with the documentation and implementation of the transactions contemplated hereby, by the Escrow Agreement or by the Interest Escrow Agreement; provided, however, that any advisory or other costs and expenses incurred by any Member or any Affiliate DQE Promissory Note Holder relating specifically to its own situation with respect to the transactions contemplated hereby, by the Escrow Agreement or by the Interest Escrow Agreement shall not be reimbursed by DQE.

Section 7.2 Notices. All notices and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt except as otherwise set forth herein) by delivery in person, by overnight courier service, by facsimile with receipt confirmed (followed by delivery of an original via overnight courier service) or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties hereto at the following addresses (or at such other address for a party hereto as shall be specified in a notice given in accordance with this Section 7.2):

(a) If to DQE, to:

DQE Holdings, LLC  
Level 15, 125 West 55th Street  
New York, New York 10019  
Phone: (212) 231-1686  
Fax: (212) 231-1838  
Attn: Chris Leslie

(b) If to the Members and the Affiliate DQE Promissory Note Holders, to:

The address set forth in Schedule B.

Section 7.3 Amendment and Waiver. Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party hereto, or in the case of a waiver, by the party hereto against whom the waiver is to be effective. Any waiver of breach of this Agreement or of any term or condition contained herein shall not be construed as a waiver of any subsequent breach or any subsequent waiver of the same term or condition, or a waiver of any other term or condition contained herein. No failure or delay by any party hereto in exercising any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right.

Section 7.4 Entire Agreement. This Agreement and the other Transaction Agreements constitute the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof.

Section 7.5 Severability. Any term or provision hereof that is held by a court of competent jurisdiction to be invalid, void or unenforceable in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions of this Agreement or the validity or enforceability of the offending term or provision in any other jurisdiction.

Section 7.6 Interpretation. The words “hereof,” “herein” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement. When a reference is made in this Agreement to any Section, Exhibit or Schedule, such reference shall be to a Section of, an Exhibit to or a Schedule to this Agreement, respectively, unless otherwise indicated. For the avoidance of doubt, the parties hereto hereby agree that to the extent any provisions of, or actions required, authorized or contemplated by, this Agreement are inconsistent with any provision of the LLC Agreement, the provisions of this Agreement shall control.

Section 7.7 Counterparts; Effect. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement. Each Member and each Affiliate DQE Promissory Note Holder shall become bound by this Agreement immediately upon affixing its signature hereto or agreeing to become bound hereby, independently of the signature or agreement to be bound of any other Member or any other Affiliate DQE Promissory Note Holder.

Section 7.8 No Third-Party Beneficiaries. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and its assignee permitted hereunder, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement.

Section 7.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without giving effect to the principles of conflicts of law thereof.

Section 7.10 Venue. Each of the parties hereto irrevocably agrees that any legal action or proceeding with respect to this Agreement or the transactions contemplated hereby brought by any other party hereto or its successors or permitted assigns shall be brought and determined only in the United States District Court for the Southern District of New York or, if such court shall not have subject matter jurisdiction, in the Supreme Court of the State of New York in New York County. Each of the parties hereto irrevocably submits with regard to any such action or proceeding for itself and in respect of its property, generally and unconditionally, to the personal jurisdiction of the aforesaid court. Each of the parties hereto irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement or the transactions contemplated hereby, to the fullest extent permitted by the applicable law, that (a) the suit, action or proceeding in such court is brought in an inconvenient forum, (b) the venue of such suit, action or proceeding is improper or (c) this Agreement or the subject matter hereof may not be enforced in or by such courts.

Section 7.11 WAIVER OF JURY TRIAL AND CERTAIN DAMAGES. EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, (a) ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, WHETHER IN

TORT OR IN CONTRACT, AND (b) ANY RIGHT IT MAY HAVE TO RECEIVE DAMAGES FROM ANY OTHER PARTY BASED ON ANY THEORY OF LIABILITY FOR ANY SPECIAL, INDIRECT, CONSEQUENTIAL (INCLUDING LOST PROFITS) OR PUNITIVE DAMAGES, EXCEPT AS SPECIFICALLY PROVIDED HEREIN.

Section 7.12 Assignment. Except as specifically provided herein, neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any party hereto (whether by operation of law or otherwise) without the prior written consent of the other parties hereto and, to the extent required under applicable law, any regulatory or other governmental approvals. DUET may assign its rights and obligations under this Agreement (with rights and obligations being assigned together at the same time) to its financiers under the DUET Existing Financing Arrangements from time to time in accordance with and subject to the limitations set forth herein (including for the avoidance of doubt, Section 2.4(c)) for the purpose of providing security to its financiers under the DUET Existing Financing Arrangements without the consent of the other parties hereto.

Section 7.13 Specific Performance; Costs. Each of the Members and the Affiliate DQE Promissory Note Holders recognizes and agrees that if for any reason any of the provisions of this Agreement is not performed in accordance with its specific terms or is otherwise breached by any Member or any Affiliate DQE Promissory Note Holder, immediate and irreparable harm or damage may be caused to DQE for which money damages would not be an adequate remedy. Accordingly, each of the Members and the Affiliate DQE Promissory Note Holders agrees that, in addition to any other available remedies, DQE shall be entitled to seek to enforce specifically the terms and provisions of this Agreement or an injunction restraining any breach or violation or threatened breach or violation of any term or provision of this Agreement by such Member or such Affiliate DQE Promissory Note Holder without the necessity of posting a bond or other form of security. In the event that any action should be brought in equity by DQE against any Member or any Affiliate DQE Promissory Note Holder to enforce any term or provision of this Agreement, such Member and such Affiliate DQE Promissory Note Holder shall not allege, and hereby waives the defense, that there is an adequate remedy at law. Each party hereto agrees that in the event of a failure by any Member or Affiliate DQE Promissory Note Holder to cause DQE to redeem its DQE Promissory Note when required to do so hereunder and a final determination by a court that such failure constituted a breach of this Agreement, then the breaching Member or Affiliate DQE Promissory Note Holder shall, in addition to any other remedies available to DQE or any other party hereto, pay all reasonable costs and expenses incurred by DQE and any other party hereto in enforcing this Agreement.

Section 7.14 Confidentiality. Each of the Members and the Affiliate DQE Promissory Note Holders acknowledges and agrees that the existence and contents of this Agreement and the transactions contemplated hereby constitute Confidential Information under the LLC Agreement and that it shall comply with its obligations under Section 14.2 of the LLC Agreement with respect to such Confidential Information. Notwithstanding the foregoing, DQE and/or DUET may disclose the existence and contents of this Agreement and the transactions contemplated hereby to the extent required by Moody's Investors Service or Standard & Poor's in connection with their ratings of the outstanding debts issued by DLH or any of its Subsidiaries and, in respect of DUET, DUET's corporate credit rating from Standard & Poor's.


Section 7.15 Limitation of Liabilities. If any party hereto has entered into this Agreement in its capacity as a trustee or responsible entity for a Trust, the liabilities of such party

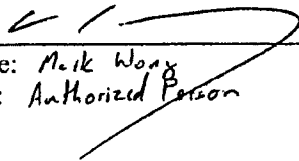
under this Agreement shall be subject to the terms of liability with respect to trustees and responsible entities provided in Schedule B of the LLC Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]


IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officers of the parties hereto as of the date first written above.


DQE HOLDINGS LLC

By:   
Name: Chris Lystic  
Title: Authorized Person


And By:   
Name: Mark Wong  
Title: Authorized Person

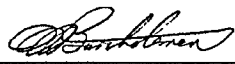
DUET INVESTMENT HOLDINGS LIMITED

By:   
Name: Peter Barry  
Title: Chief Executive Officer

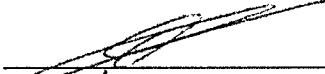
And By:   
Name: David Bartholomew  
Title: Chief Operating Officer

AMPCI MACQUARIE INFRASTRUCTURE NO 2  
LIMITED, AS RESPONSIBLE ENTITY OF  
DIVERSIFIED UTILITY AND ENERGY TRUST NO  
3

By:   
Name: Peter Barry  
Title: Chief Executive Officer

And By:   
Name: David Bartholomew  
Title: Chief Operating Officer

CODAN TRUST COMPANY (CAYMAN) LIMITED,  
IN ITS CAPACITY AS TRUSTEE OF IFM GLOBAL  
INFRASTRUCTURE (CAYMAN) FUND

By:   
Name: JOSHUA LIM  
Title: Attorney

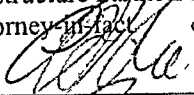
And By:   
Name: PHILIP DOWNMAN  
Title: Attorney

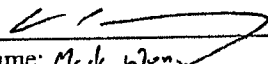
CLH HOLDINGS, GP ("CLH")

By: MACQUARIE INFRASTRUCTURE PARTNERS  
CANADA, L.P.

By: Macquarie Infrastructure Partners Canada GP  
Ltd., its general partner

By: Macquarie Infrastructure Partners Inc., its  
manager and attorney-in-fact

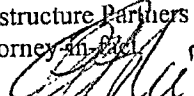
By:   
Name: Chris Leslie  
Title: President

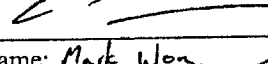
And By:   
Name: Mark Wong  
Title: Treasurer

By: MACQUARIE INFRASTRUCTURE PARTNERS  
A, L.P.

By: Macquarie Infrastructure Partners U.S. GP  
LLC, its general partner

By: Macquarie Infrastructure Partners Inc., its  
manager and attorney-in-fact

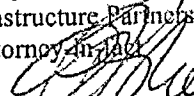
By:   
Name: Chris Leslie  
Title: President

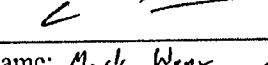
And By:   
Name: Mark Wong  
Title: Treasurer

By: MACQUARIE INFRASTRUCTURE PARTNERS  
INTERNATIONAL, L.P.

By: Macquarie Infrastructure Partners U.S. GP  
LLC, its general partner

By: Macquarie Infrastructure Partners Inc., its  
manager and attorney-in-fact

By:   
Name: Chris Leslie  
Title: President

And By:   
Name: Mark Wong  
Title: Treasurer

GIF2-MFIT UNITED PTY LIMITED ("GIF2-MFIT")

By: \_\_\_\_\_

Name: *Chris Leslie*

Title: *Attorney*

MACQUARIE SPECIALISED ASSET  
MANAGEMENT LIMITED, AS RESPONSIBLE  
ENTITY FOR MACQUARIE GLOBAL  
INFRASTRUCTURE FUND II (A) ("MSAM")

By: \_\_\_\_\_

Name: *Chris Leslie*

Title: *Attorney*

MACQUARIE SPECIALISED ASSET  
MANAGEMENT 2 LIMITED, AS RESPONSIBLE  
ENTITY FOR MACQUARIE GLOBAL  
INFRASTRUCTURE FUND II (B) ("MSAM2")

By: \_\_\_\_\_

Name: *Chris Leslie*

Title: *Attorney*

MACQUARIE SPECIALISED ASSET  
MANAGEMENT LIMITED, AS TRUSTEE AND  
MANAGER FOR MACQUARIE-ESS  
INFRASTRUCTURE TRUST (MFIT)

By: \_\_\_\_\_

Name: *Chris Leslie*

Title: *Attorney*

MTAA SUPERANNUATION FUND (DUQUESNE  
LIGHT HOLDINGS) INFRASTRUCTURE PTY LTD,  
AS TRUSTEE FOR THE MTAA  
SUPERANNUATION FUND (DUQUESNE LIGHT  
HOLDINGS) INFRASTRUCTURE TRUST ("MTAA")

By: Michael Delaney  
Name: MICHAEL DELANEY  
Title: DIRECTOR

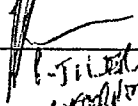
[Transaction Agreement]

STC FUNDS NOMINEE PTY LIMITED AS  
TRUSTEE FOR THE DUQUESNE UTILITIES  
TRUST ("STATE SUPER")

By:

Name:

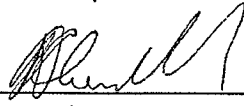
Title:

  
Name: *[Handwritten]*  
Title: *[Handwritten]*

And By:

Name:

Title:

  
Name: *David Chessell*  
Title: *Attorney*

Schedule A

Members	Contribution Amount
DUET	\$57,907,157.35
CODAN	\$45,662,100.76
CLH	\$44,234,285.27
GIF2-MFIT	\$26,540,571.16 (GIF2 \$13,270,285.58, MFIT \$13,270,285.58)
MTAA	\$13,270,285.58
STATE SUPER	\$12,385,599.88

Address of the Members and the Affiliate DQE Promissory Note Holders

<u>PARTY</u>	<u>NOTICE INFORMATION</u>
DUET/AMPCI	DUET Investment Holdings Limited Level 11, 1 Martin Place Sydney NSW 2000 Australia Attention: Peter Barry, Chief Executive Officer Phone: (612) 8232 4491 Fax: (612) 8232 4713
CODAN	Codan Trust Company (Cayman) Limited PO Box 2681, Cricket Square, Hutchins Drive, Grand Cayman, KY1-111, Cayman islands Attention: Managing Director Phone: (345) 945 3901 Fax: (345) 945 3902  Cc: Industry Funds Management Pty Limited Level 29 Casselden Place, 2 Lonsdale Street Melbourne Victoria 3000 Australia Attention: Joshua Lim Fax: (613) 9923 7189
CLH	Mark Wong CLH Holdings GP 125 West 55th St New York, NY 10019 United States of America Phone: 1 (212) 231 1839 Fax: 1 (212) 231 1838
GIF(2)- MFIT/MSAM/MSAM2/MFIT	Macquarie Specialised Asset Management Limited On behalf of GIF2-MFIT United Pty Limited Level 11, 1 Martin Place Sydney NSW 2000 Australia Attention: Company Secretary Phone: (612) 8232 3333 Fax: (612) 8232 4713

PARTY  
MTAA

NOTICE INFORMATION  
Motor Trades Association of  
Australia Superannuation Fund Pty Limited  
Michael Delaney, Principal Executive Officer  
And Fund Secretary  
Level 3, MTA House  
39 Brisbane Avenue  
Barton, ACT, 2600 Australia  
Phone: (612) 6273 4333  
Fax: (612) 6273 2738

STATE SUPER

Patrick Jilek  
Access Capital Advisers  
Level 9, 20 Hunter Street  
Sydney NSW 2000 Australia  
Phone: (612) 9220 0600  
Fax: (612) 9220 0601

Schedule C

Members	Reinvestment Adjustment Ratios
DUET	0.000000
CODAN	0.153474
CLH	0.148675
GIF2-MFIT	0.155557 (GIF2 0.044603, MFIT 0.110954)
MTAA	0.110954
STATE SUPER	0.103557

Opinion Matters

DLC = Duquesne Light Company  
DLH = Duquesne Light Holdings, Inc.  
DQE = DQE Holdings LLC  
P&S = Post & Schell PC  
RLF = Richards, Layton & Finger, P.A.  
S&C = Sullivan & Cromwell LLP

Opinion	Counsel
Due authorization, execution and delivery by DQE of the Transaction Agreements	RLF
Enforceability of the Transaction Agreements	S&C
The transactions contemplated by the Transaction Agreement do not violate any existing Pennsylvania utility regulatory law or order applicable to DQE, DLH or DLC.	P&S
Section 163(l) of the Code and withholding tax on interest payments on DQE Promissory Note under the Code	S&C

Form of Codan Withholding Tax Notice

To: DQE Holdings LLC  
Level 15  
125 West 55th Street  
New York, NY 10019  
Attn.: [insert name]

[insert date]

Capitalized terms used but not otherwise defined herein have the meanings given to them in the Transaction Agreement, entered into as of December 9, 2009 (the "Transaction Agreement"), by and among DQE Holdings LLC, a Delaware limited liability company ("DQE"), the members of DQE party thereto (the "Members"), and certain Affiliates of those Members.

Pursuant to Section 2.7(c) of the Transaction Agreement, this is a Codan Withholding Tax Notice (this "Notice"), and we hereby notify you as follows:

1. The relevant "Codan Fiscal Year" for which this Notice is given is from July 1, [insert year] to June 30, [insert year] ("Relevant Period").
2. For the Relevant Period:
  - A. the aggregate amount which Codan has deposited into the Interest Escrow Account pursuant to Section 2.6(c) of the Transaction Agreement ("Codan Withholding Tax Reinvestment") was US\$[insert amount];
  - B. the aggregate amount of the Codan Withholding Tax Reinvestment that the Codan Parties were entitled to recover, by way of a tax credit, allowance, deduction, offset or rebate, having first applied all available tax credits, allowances, deductions, offsets and rebates of any Codan Party to any other liabilities of the Codan Parties, was US\$[insert amount]; and
  - C. the aggregate amount of the Unrecoverable Codan Withholding Tax Liabilities that the Codan Parties were not able to recover, by way of a tax credit, allowance, deduction, offset or rebate, having first applied all available tax credits, allowances, deductions, offsets and rebates of any Codan Party to any other liabilities of the Codan Parties, was US\$[insert amount].
3. We attach, as Attachment A hereto, a written opinion of [insert name of an internationally recognized accounting firm] who are familiar with the tax effects of IFM Global Infrastructure (Cayman) Fund attesting that the amounts set out in this Notice are correct, based on the relevant tax filing(s) of the Codan Parties to relevant tax authorities in respect of the Relevant Period.

Codan Trust Company (Cayman) Limited,  
in its capacity as trustee of IFM Global  
Infrastructure (Cayman) Fund

By: \_\_\_\_\_  
Name:  
Title:

Attachment A

Opinion of the Internationally Recognized Accounting Firm

**BEFORE THE**  
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company**

**DLC Statement No. 3**

**Direct Testimony of David B. Bordo**



1 **Q. Are you sponsoring any exhibits as part of your direct testimony?**  
2 A. Yes, I am. I am responsible for all of the recorded historical accounts, as well as  
3 the budgeted and projected accounts of the Company. As such, I am sponsoring  
4 all of the Company's financial statements, including income statements and  
5 balance sheets for the Historic Test Year ending March 31, 2010. I am  
6 sponsoring the Company's budget for the Future Test Year ending March 31,  
7 2011. I am also sponsoring Duquesne Light's capital structure and cost of capital  
8 schedules. With regard to the Pennsylvania Public Utility Commission's  
9 ("Commission") data filing requirements filed with this proceeding, I sponsor the  
10 responses related to the Company's financial statements and regarding measures  
11 of value and operating income. Please see Exhibit DBB-1 to my testimony for the  
12 listing of data filing requirements that I am sponsoring. My name is at the top of  
13 each data filing requirement that I sponsor.

14  
15 **Q. Did you prepare or supervise the preparation of exhibits presented in your**  
16 **testimony?**

17 A. Yes, various exhibits were either prepared by me or under my direction. Exhibits  
18 and data filing requirements relating to the Historic Test Year ending March 31,  
19 2010 and the Future Test Year ending March 31, 2011 generally reflect the  
20 Company's financial results for the historic test year and budgeted financial  
21 results for the future test year, respectively.

22  
23 **Q. Could you please describe the material presented on Schedules B-1 through**  
24 **B-4 and Schedules B-6 through B-8 of DLC Exhibits 2 and 3?**

25 A. All of the data shown in Schedules B-1 through B-4 and Schedules B-6 through  
26 B-8 were derived from either the books and records of Duquesne Light for the  
27 twelve months ended March 31, 2010 and prior, or the budget for Duquesne Light  
28 for the twelve months ending March 31, 2011. Schedules B-1 shows the  
29 budgeted balance sheet of Duquesne Light as of March 31, 2011, and the actual  
30 balance sheet as of March 31, 2010. In accordance with FERC requirements,  
31 these balance sheets are presented using the equity method of accounting for

1 subsidiary companies. Schedules B-2 include the statements of Duquesne Light's  
2 operating income for the twelve months ended March 31, 2010 and budgeted for  
3 the twelve months ending March 31, 2011. Details of actual and budgeted  
4 operating revenues are provided in Schedules B-3. Schedules B-4 provide the  
5 actual and budgeted operations and maintenance expenses of Duquesne Light by  
6 FERC account, including the major categories of expense, such as purchased  
7 power, transmission, distribution, customer accounts, customer service, and  
8 administrative and general expenses. Schedules B-6 and B-7 present the  
9 embedded cost of debt and preferred stock as of March 31, 2010 and 2011. The  
10 capital structure of Duquesne Light for the test year and prior years is shown on  
11 Schedules B-8. We have made certain limited refinements in these financial  
12 exhibits to reflect changes in Company plans since our budget was prepared in  
13 early 2010, to properly present the distribution operations of the Company, and to  
14 remove Act 129 costs and revenues from the filing.

15  
16 **Q. Could you explain the accounting system that the Company uses?**

17 A. Duquesne Light maintains its accounting records on SSA Global's  
18 Masterpiece/Net general ledger package. The accounting records are maintained  
19 in accordance with the FERC's Uniform System of Accounts ("USofA").  
20 Financial statements for Duquesne Light are also prepared in accordance with  
21 generally accepted accounting principles ("GAAP").

22  
23 Duquesne Light maintains its property, plant and equipment accounting records  
24 on the Power Plan Consultant's fully integrated asset accounting system, referred  
25 to as PAAM. The USofA requires that utilities record all construction and  
26 retirements of electric plant by means of work orders. The work order system  
27 must show the nature of each addition to, or retirement from, electric plant, the  
28 total cost thereof, and the plant account or accounts affected. Duquesne Light  
29 uses such a work order system, and under this system, an authorized work order is  
30 used for all capital work performed.

31

1 **Q. How do you account for new plant put into service and associated**  
2 **retirements of existing plant?**

3 A. Costs of new construction are tracked in the system by specific work order  
4 numbers. At the completion of each project, asset accounting receives reports  
5 from the operations personnel that show the date the project was placed in service  
6 and the listing of property constructed. Based on this information, the constructed  
7 property is placed in service and ultimately unitized, or charged to the correct  
8 units of property in the plant accounting system. At month end, journal entries  
9 are automatically generated and posted to the general ledger for these new in-  
10 service dollars. In addition, the system calculates the allowance for funds used  
11 during construction (“AFUDC”), spreads overheads, and calculates depreciation  
12 expense, processes unitized additions and processes plant retirements. The related  
13 journal entries are created and automatically posted to our general ledger.

14  
15 **Q. Please explain why Duquesne Light is requesting permission to recover**  
16 **AFUDC for land held for future use?**

17 A. Duquesne Light has not included land held for future use in rate base in this  
18 proceeding because the land is not currently providing service to customers.  
19 However, larger projects often have relatively long lead times from  
20 commencement to completion. While Duquesne Light is authorized to record  
21 AFUDC on the project expenditures once the project commences, Duquesne  
22 Light frequently must acquire land or land rights before construction begins. It is  
23 appropriate to allow Duquesne Light to record AFUDC on land acquired to  
24 provide future service and add such amount to rate base when the project is used  
25 to provide service to customers.

26  
27 **Q. Do you have an internal audit program?**

28 A. Yes, Duquesne Light has an Internal Audit Department, which implements the  
29 annual internal audit program approved by the Audit Committee of our Board of  
30 Directors. This department reports to the Audit Committee, as well as the Chief

1 Executive Officer. They perform a slate of annual internal audit and analysis  
2 projects to ensure the Company maintains strong internal controls.

3  
4 **Q. Do you have an external audit conducted periodically?**

5 A. Yes, both Duquesne Light Holdings and Duquesne Light (“Companies”) have  
6 external audits conducted annually by Deloitte & Touche LLP. Deloitte &  
7 Touche LLP recently completed their audits of the financial statements of the  
8 Companies for 2009, the results of which were unqualified opinions on the  
9 consolidated financial statements of the Companies as of December 31, 2009.

10  
11 Deloitte & Touche LLP also performs an annual audit of Duquesne Light’s  
12 regulatory financial statements that are included in the FERC Form 1. Deloitte &  
13 Touche LLP has completed their audit of the December 31, 2009 regulatory  
14 financial statements included in the December 31, 2009 FERC Form 1. Their  
15 audit resulted in an unqualified opinion.

16  
17 In addition to the annual audits performed by Deloitte & Touche LLP, both the  
18 FERC and the Commission have performed periodic audits of Duquesne Light.

19  
20 **Q. Have any major accounting changes occurred during the past several years?**

21 A. There have been a number of accounting changes that have occurred since our last  
22 distribution rate case in response to new pronouncements that have been issued by  
23 the Financial Accounting Standards Board (“FASB”) and others. The Company  
24 has implemented these new standards and pronouncements in order to maintain  
25 their accounting records in accordance with GAAP. Please refer to data filing  
26 requirement II-D-12 that outlines the accounting changes that have occurred since  
27 our last rate case filing.

28  
29 **Q. Are you responsible for the budget process for the Future Test Year?**

30 A. Yes, I oversee the budgeting process for Duquesne Light. The Budget  
31 Department accumulates all of the budget data from various sources within the

1 company each year to prepare a full income statement, balance sheet and cash  
2 flow budget for the Company for the year.

3  
4 **Q. Please describe the Company's budget process.**

5 A. Each year there is an annual planning process that begins in August. The budget  
6 process requires the active participation of many employees, managers and  
7 executives throughout the organization. Retail sales of electricity are budgeted by  
8 our Economic Analysis Department, while other revenues such as pole and duct  
9 attachment, rental of electric property, etc are budgeted by our operations group.  
10 Operations and maintenance expenses are budgeted by individual cost center  
11 managers within the Company. Our Human Resources Department provides  
12 input on employee levels, salary increase assumptions and fringe benefit costs.  
13 The Tax Department assists in budgeting the taxes other than income taxes, as  
14 well as income tax expense. Asset Accounting prepares the budget for  
15 depreciation and amortization expense, as well as AFUDC, based in part on  
16 information received from the Operations Group for expected capital  
17 expenditures. Our Treasury Department assists by preparing financing plans,  
18 budgeting the interest expense and preferred dividends we expect to incur, and  
19 calculating the amortization of debt discounts, premiums, etc. The information  
20 necessary for the budget is summarized by the Budgeting Department in cost  
21 element detail, which shows total labor, fringes, outside services, etc. See Exhibit  
22 DBB-2 to my testimony which describes the cost elements we use to budget and  
23 Exhibit DBB-3 for a listing of the individual cost centers within Duquesne Light.

24  
25 **Q. Does the Company typically prepare its budget by FERC account?**

26 A. No, we typically prepare the budget for Duquesne Light by cost element detail as  
27 this level of detail facilitates the reviews by our cost center managers and assists  
28 them in estimating their expenses for budgeting purposes. To satisfy the  
29 requirements for this rate filing, our cost element budget was allocated to FERC  
30 accounts. Certain cost element budget amounts could be specifically assigned to  
31 certain FERC accounts as they are easily identifiable to those accounts. For other

1 cost element budget amounts, an allocation to FERC accounts was performed  
2 based on the same relationship to the total as the actual costs shown for the  
3 Historic Test Year operating and maintenance expenditures, which were reported  
4 by both cost element and FERC account. Once this allocation was performed, the  
5 results were reviewed to ensure they appeared reasonable, and adjustments were  
6 made as necessary to reflect expected variances. This process is more fully  
7 described in the testimony of Mr. Robert O'Brien.

8  
9 **Q. Has the operating budget historically provided a reasonable estimate of**  
10 **actual expenditures?**

11 A. Yes, over the past three years the total operations and maintenance budget has  
12 reasonably approximated the actual costs incurred.

13  
14 **Q. Are you aware of the requirement that a comparison of actual to budget data**  
15 **is to be supplied quarterly when you utilize a Future Test Year?**

16 A. Yes, Exhibit DBB-4 has been provided showing a breakdown of revenues and  
17 expenses for the Future Test Year. We will provide quarterly comparisons of  
18 actual results to the budget numbers presented as the actual data for each quarter  
19 becomes available.

20  
21 **Q. Have you made any adjustments in your Future Test Year to account for**  
22 **known and measurable changes?**

23 A. Yes we have. Mr. Robert O'Brien is sponsoring all the adjustments that are  
24 known and measurable and his testimony will address those items specifically.

25  
26 **Q. How were the budgeted retail sales derived?**

27 A. Mr. Habberfield prepares a detailed budget for retail sales based on extensive  
28 econometric analysis. Please see his testimony in Statement No. 4 for details  
29 regarding this budget process.

30

1 **Q. How were the other operating revenues budgeted?**

2 A. Other operating revenues may be divided into two categories, operationally-  
3 oriented and miscellaneous. Our Operations Group provides the budgeted  
4 amounts for operationally-oriented revenues such as pole and duct attachment,  
5 rental of electric property, miscellaneous transmission charges and other  
6 miscellaneous operationally-oriented revenue. The miscellaneous categories are  
7 determined based on historical trends adjusted for known changes or initiatives  
8 being undertaken. These amounts include late payment charges, returned check  
9 fees and reconnect fees.

10  
11 **Q. How do cost center managers prepare their budgets for operations and  
12 maintenance expenses?**

13 A. Cost center managers across the Company are provided with budgeting  
14 instructions and a budget template to fill out and submit to the Company's  
15 Manager of Budgeting and Forecasting, who reports to me. This template  
16 identifies and requires cost center managers to budget using cost elements that the  
17 company uses to develop, track and report on its budget. Cost center managers  
18 use their knowledge of the employee salary costs in their cost center and guidance  
19 provided in the budgeting directions on employee levels and management salary  
20 increases to determine the budgeted wages. Throughout the year, these cost  
21 center managers receive monthly reports that compare their actual spending to  
22 budgeted expenses. Cost center managers are required to explain any significant  
23 deviations from budget as they occur throughout the year. This reporting and the  
24 related accountability helps managers to improve each successive year's budget  
25 and more accurately quantify the various costs that they expect to incur during the  
26 coming year, such as outside consultants, materials and supplies, etc.

27  
28 **Q. Do these cost center managers budget for costs that are expected to be  
29 capitalized, as well as expensed?**

30 A. Yes they do. The Operations Group and other groups that spend capital dollars  
31 are provided with budget templates including all of the cost elements that are

1 budgeted for capital. They use their understanding of the capital projects that  
2 have been planned for the next several years, as well as projections of the  
3 operating costs that they incur on an annual basis, to accurately project the capital  
4 spending for their cost center. During the year, these cost center managers  
5 receive monthly reports of the actual capital work they have performed to help  
6 them manage their costs and plan their work activities in a manner consistent with  
7 their budget.

8  
9 **Q. Do you have an administrative services agreement that allows Duquesne**  
10 **Light employees to provide services to affiliates?**

11 A. Yes, Duquesne Light has an administrative services agreement in place with its  
12 affiliates. This agreement has been filed with the Commission, and is updated  
13 periodically as necessary. This agreement is explained and included as part of the  
14 response to data filing requirement II-D-8.

15  
16 **Q. Do you consider work that Duquesne Light employees may be doing for**  
17 **affiliates in the budgeting process?**

18 A. Yes, cost center managers provide information in the budgeting process regarding  
19 any work that their department is doing for any affiliate company. In addition, the  
20 Company maintains an electronic time recording system (E-Time) in which  
21 employees are required to record and allocate their time between various affiliates  
22 and projects on a bi-monthly basis. Employee costs are budgeted using actual  
23 historical allocation data from E-Time, adjusted for information received from  
24 cost center managers about changing circumstances or project assignments. A  
25 projected allocation of all employees costs between the Company and its affiliates  
26 is prepared in this manner. The cost charged to any affiliate includes the  
27 employee's salary and related benefits. A total of all of the allocation amounts is  
28 calculated and is included in the budget process as a reduction in Duquesne  
29 Light's expense, which we refer to as subsidiary reimbursements.

30

- 1 **Q. Does Duquesne Light share office space with its affiliates, and are the**  
2 **affiliates charged for this space?**
- 3 A. Duquesne Light leases office spaces in the same building with several of its  
4 affiliates and those affiliates have separate lease agreements with the building  
5 owner for the space they utilize. Utility costs are embedded in the lease costs,  
6 resulting in each affiliate being charged for their own utility costs. Additional  
7 rent and building costs are allocated as part of the employee hourly rate used to  
8 allocate the cost of Company employees who are doing work for affiliates.  
9
- 10 **Q. How do you budget for fringe benefits provided to employees?**
- 11 A. This process varies, depending on the type of fringe benefits. However, common  
12 benefit programs are provided to employees of Duquesne Light and its affiliates.  
13 Therefore, the initial step is determining the total cost expected to be incurred.  
14 Employees from Human Resources review each of the health coverage plan costs  
15 for the current year and then the budget is developed taking into consideration the  
16 present number of eligible employees, projected changes in the numbers of  
17 eligible employees, anticipated changes in employee contribution levels and  
18 estimated cost increases. Once the total cost has been established, the percentage  
19 of that total cost that is applicable to Duquesne Light employees and affiliate  
20 employees is determined on a pro-rated basis. The respective cost allocable to  
21 each company is then charged to the appropriate company.  
22
- 23 **Q. Do you allocate the cost of fringe benefits to both capital jobs and expense?**
- 24 A. Yes we do. This allocation is calculated based on the total amount of budgeted  
25 labor costs to be incurred from the annual budgeting process. Based on past  
26 experience and their knowledge of planned capital projects, cost center managers  
27 separately budget the amount of labor and fringes that will be charged to O&M  
28 expense or to capital. The result is used to allocate the benefit costs so that the  
29 benefit costs are allocated between expense and capital in a manner that is  
30 proportionate to the related labor costs.  
31

1 **Q. What types of benefits do you provide to Duquesne Light employees?**

2 A. Benefits for 2010 include medical and dental coverage, flexible spending  
3 accounts, life insurance, accident insurance, business travel insurance, disability  
4 benefits, an employee assistance program and tuition reimbursement. In addition,  
5 we maintain a retirement plan to provide pensions for eligible full-time employees  
6 hired prior to June 2007. Upon retirement, an eligible employee receives a  
7 monthly pension based on his or her length of service and compensation. The  
8 cost of funding the pension plans is determined by the unit credit actuarial cost  
9 method. Our policy is to budget using the actuarially determined net periodic  
10 pension cost calculated by our actuaries under the provisions of the Statement of  
11 Financial Accounting Standards (SFAS 87). All employees can also participate in  
12 the Company's defined contribution retirement plan, however, employees hired  
13 after May 2007 receive expanded levels of Company matching funds in lieu of  
14 pension benefits.

15  
16 **Q. Is the Company self-insured for any employee benefits, and if so, how is the  
17 budget for those benefits estimated?**

18 A. Yes, Duquesne Light is self insured for its employee medical coverage, which is  
19 administered by Highmark Blue Cross Blue Shield under a national Preferred  
20 Provider Organization (PPO) arrangement. The budget estimates are developed  
21 based on the previous year's claim costs with adjustments for anticipated changes  
22 in the number of eligible employees, employee contribution levels and cost  
23 increases based on healthcare industry outlook. Duquesne Light does maintain  
24 stop-loss insurance coverage to cover individual claims that are over \$215,000 per  
25 incident.

26  
27 **Q. How has Duquesne Light tried to minimize healthcare coverage costs?**

28 A. Over the past several years, Duquesne Light has taken various steps to mitigate  
29 the high cost of healthcare, such as promoting employee wellness programs,  
30 performing dependent eligibility audits, increasing employee contribution levels  
31 and negotiating reductions in Highmark's administrative fees.

- 1 **Q. How is Duquesne Light’s pension plan managed?**
- 2 **A.** Duquesne Light’s Board of Directors periodically reviews the Plan’s ongoing  
3 performance and approves any changes to the Plan’s allocation between  
4 investment categories to ensure the portfolio is properly diversified. Plan  
5 performance is evaluated by reviewing the performance of individual money  
6 managers against established benchmarks. The Board delegates responsibility for  
7 implementing the approved allocation to a group of executives that compose the  
8 Pension Investment Committee. This Committee meets on a regular basis to  
9 review investment performance, interview managers of funds in which the Plan is  
10 invested and make the day to day decisions involved in managing the pension  
11 plan’s investment portfolio. The Committee utilizes an outside investment  
12 advisory firm, Bilkey Katz Investments, to provide technical analysis and  
13 administrative support in its work.  
14
- 15 **Q. What is the historical and current funded status of Duquesne Light’s pension  
16 plan?**
- 17 **A.** Historically, Duquesne Light maintained pension plans that were funded to a high  
18 percentage in the aggregate. Due largely to losses sustained in the market  
19 correction of 2008, Duquesne Light’s plan, like most other corporate pension  
20 plans, became underfunded. The Plan’s funded status on a GAAP basis as of  
21 December 31, 2009 is a deficit of approximately \$266 million.  
22
- 23 **Q. How does Duquesne Light determine the amounts it will contribute to the  
24 pension plan?**
- 25 **A.** Duquesne Light’s contributions to its pension plans are typically the larger of  
26 either the minimum amount required under the Pension Protection Act of 2006  
27 (PPA) or the amount required to fulfill regulatory commitments.  
28  
29  
30

1 **Q. Has Duquesne Light made the pension contributions agreed to in its 2006**  
2 **Distribution Rate Case?**

3 A. In the settlement of Duquesne Light's 2006 distribution rate case, the Company  
4 agreed to make pension contributions amounting to \$20 million per year.  
5 Including contributions slated for the balance of 2010, Duquesne Light will have  
6 made \$80 million in contributions over the 4 year period since its last rate case  
7 went into effect, thus complying with the provisions it agreed to in its last  
8 distribution rate case.

9  
10 **Q. Are you claiming the actuarially determined net periodic pension cost for**  
11 **pensions in this rate proceeding?**

12 A. No, we are not. Consistent with our 2006 distribution rate case, we are requesting  
13 recovery of the annual contributions that we plan to make to the pension plans.  
14 These contributions reflect the minimum contribution amounts required under  
15 PPA. Therefore the expense claim for pensions in this proceeding is based on  
16 projected pension plan contributions required under PPA. The criteria used to  
17 determine these contributions are different from the criteria required to be used to  
18 determine pension costs under ASC 715 (formerly SFAS 87).

19  
20 **Q. Please explain the proposed future accounting treatment with regard to**  
21 **pensions.**

22 A. The Company is required to accrue an amount for pensions on its books of  
23 account each year determined in accordance with ASC 715 (formerly SFAS 87).  
24 While the procedures used to determine the annual ASC 715 (formerly SFAS 87)  
25 expense and procedures used by the Company's actuaries to project the required  
26 pension contributions under PPA are related, the annual accrual will differ from  
27 the pension contribution on a year-to-year basis. However, over an extended  
28 period of time the total contributions will be essentially the same as the sum of the  
29 annual accruals. For this reason, the Company requests that the Commission  
30 authorize the Company to record annually the difference between the pension  
31 reimbursement received in rates and the ASC 715 (formerly SFAS 87) pension

1 expense as either a regulatory asset or liability. These amounts will then be  
2 reversed over time in the future. As of March 31, 2010, the Company had  
3 recorded a regulatory asset of approximately \$280 million related to the excess of  
4 plan liabilities over plan assets at that date.

5  
6 **Q. How has the Company incorporated the varying levels of required pension  
7 contributions into its rate requirements?**

8 A. The Company's cash pension contributions over the next several years are  
9 currently anticipated to be as follows (in millions):

10

<u>Twelve Months Ended</u> <u>3/31/2011</u>	<u>Twelve Months Ended</u> <u>3/31/2012</u>	<u>Twelve Months Ended</u> <u>3/31/2013</u>
\$106.5	\$50.4	\$46.6

11 Because of the significant difference between the contribution required in the  
12 twelve months ended March 31, 2011 and that required in other years, the  
13 Company has incorporated a three year average into its ratemaking calculations  
14 for the portion of contributions that will be recovered as an expense for  
15 ratemaking purposes. Mr. O'Brien explains this calculation in his testimony.  
16 Three years was selected as the most appropriate average because it is consistent  
17 with the typical and anticipated timing between distribution rate cases.

18  
19 **Q. Is there a specific provision that should be included in the Commission's  
20 final order related to pensions?**

21 A. Yes, the provision is as follows:

22 "The Company has calculated and accrued on its books of account its pension  
23 liability incurred for its present and former employees under the terms of ASC  
24 715 (formerly SFAS 87). The Company makes cash contributions into its  
25 qualified trust to fund its pension. The minimum contribution amount required  
26 under PPA is determined annually. The criteria required to be used to determine  
27 these contributions are different from the criteria required to be used to determine  
28 pension costs under ASC 715 (formerly SFAS 87). The Company records the

1 difference between ASC 715 (formerly SFAS 87) expense and pension  
2 reimbursement collected in rates as a regulatory asset or regulatory liability. For  
3 ratemaking purposes in the future, the Company will continue to use cash  
4 contributions plus pension administrative costs as the basis for its ratemaking  
5 claim for pension expense.”  
6

7 **Q. What other postretirement benefits (“OPEBs”) does Duquesne Light provide**  
8 **to its employees?**

9 A. In addition to pension benefits, the Company provides certain healthcare benefits  
10 and life insurance for retired employees. The retiree life insurance plan is non-  
11 contributory. Retirees participating in the health care plan do make contributions,  
12 which have increased as part of our efforts to control costs. Health care benefits  
13 terminate when a retiree reaches age 65. We currently fund the greater of benefit  
14 payments or actuarially determined expenses for benefit obligations into a  
15 Voluntary Employee Beneficiary Associated (VEBA) trust. The Company  
16 accrues the actuarially determined costs of the aforementioned postretirement  
17 benefits over the period from the date of hire until the date the employee becomes  
18 fully eligible for benefits.  
19

20 **Q. Are you claiming the actuarially determined net periodic cost for**  
21 **postretirement benefits in this rate proceeding?**

22 A. Yes we are. In accordance with the Commission’s Policy Statement  
23 implementing ASC 715(formerly SFAS 106), 52 Pa. Code § 69.351b(4),  
24 Duquesne Light has established trusts for our postretirement benefits. The policy  
25 statement requires that any amounts recovered that exceed the “pay-as-you-go”  
26 amount must be deposited in the trusts. Since our last rate case Duquesne Light  
27 has deposited the full ratemaking allowance into the VEBA trusts and paid the  
28 amounts for benefits directly out of the trust, with the result that the amounts  
29 deposited in excess of actual expenditures will accumulate in the trusts.  
30

1 **Q. Is Duquesne Light requesting that the difference between the rate allowance**  
2 **and the annual OPEB expense accrual be deferred as a regulatory asset or**  
3 **liability?**

4 A. Yes. Any difference between the annual book accrual and the ratemaking  
5 allowance will be deferred and amortized over a reasonable period as an increase  
6 or decrease to the rate allowance for OPEBs in the next rate proceeding. This  
7 procedure is consistent with the Commission's requirement that the rate  
8 allowance be placed in the trust without regard to the actual annual accrual. It is  
9 also consistent with the Commission's treatment of OPEBs for other utilities and  
10 in the Company's last rate case. As of March 31, 2010, the company had  
11 recorded a regulatory asset of approximately \$90,000 related to OPEBs. While  
12 this asset is not included for recovery in this current proceeding, we are requesting  
13 permission to continue to record the difference as a regulatory asset, as authorized  
14 by the Commission in our last distribution rate case, and recover it in a future  
15 proceeding.

16  
17 **Q. Is there specific language that should be included in the Commission's final**  
18 **order on the subject of OPEBs?**

19 A. Yes, Duquesne asks for the same treatment as its last distribution case when the  
20 following provision was adopted:  
21 "The Company accounts for and funds OPEBs through a Voluntary Employees  
22 Beneficiary Associated (VEBA) trust, into which we deposit the higher of the full  
23 amount of payments calculated by the Company's actuary pursuant to SFAS 106  
24 or the amounts needed to pay actual claims. Retiree OPEBs and administrative  
25 costs of maintaining the trusts and/or accounts are paid from amounts deposited.  
26 The Company accounts for the difference between the net periodic postretirement  
27 benefit expense determined annually by the actuary in accordance with SFAS 106  
28 and the amount of SFAS 106 postretirement benefit expense reimbursement  
29 included in rates. That difference is recorded as a regulatory asset or liability and  
30 will be expensed or credited in future rate proceedings in determining net periodic  
31 OPEB expenses."

1 **Q. How do you budget for depreciation expense?**

2 A. Our Asset Accounting Department prepares the budget for depreciation and  
3 amortization expense based on current property, plant and equipment accounts  
4 and projected capital expenditures, including estimated in-service dates, for the  
5 coming year.

6  
7 **Q. How are income taxes and taxes other than income taxes budgeted?**

8 A. Our Tax Department performs calculations to project income taxes and each type  
9 of taxes other than income taxes for budgeting purposes. Budgeted pre-tax book  
10 income is used to project income taxes based on statutory tax rates. The process  
11 of budgeting taxes other than income differs based on the type of tax. Gross  
12 receipts tax is based on estimated taxable revenues multiplied by the expected tax  
13 rate, currently 59 mills. The capital stock tax is budgeted based on the statutory  
14 formula of capital stock value multiplied by the expected tax rate, currently 189  
15 mills. The Public Utility Realty Tax (“PURTA”) and other real estate taxes are  
16 budgeted based on the amounts paid in the prior year, adjusted for any major  
17 additions or sales of real estate property. Payroll taxes are budgeted based on the  
18 expected tax rates applied against the estimated payroll costs to be incurred.  
19 Miscellaneous taxes are budgeted based on the expected amounts expected to be  
20 incurred for items such as business privilege tax or sales and use tax audits.

21

22 **Q. Please describe how interest expense and the amortization of debt discounts,  
23 etc. are calculated for the budget.**

24 A. Our Treasury Department calculates the interest and preferred dividend costs by  
25 multiplying the outstanding debt and preferred stock balances by the applicable  
26 interest and dividend rates. Annual amortization expense is determined by  
27 dividing the original unamortized balance of costs and premiums by the original  
28 life of the debt issuance. New financings are modeled into the budget when  
29 capital requirements exceed cash sources. The expected costs for these new  
30 financings, such as the expected interest rates and costs to be incurred are  
31 provided by outside financial institutions.

1 **Q. Would you please provide a general description of the process used by the**  
2 **Company to determine its distribution revenue requirement?**

3 A. The Company first developed the 2010 and 2011 budget for construction  
4 expenditures, operating revenues, operating expenses and other elements. From  
5 these calendar budgets, a budget for the twelve months ending March 31, 2011  
6 was developed. Next, each of the budget elements were analyzed to determine  
7 where pro forma adjustments would be required to reflect the future test year  
8 under normalized conditions. The pro forma results for the FTY were used to  
9 prepare a jurisdictional separation to show the distribution plant, revenue and  
10 expenses for the Company's Pennsylvania jurisdiction only.  
11

12 **Q. Can you provide more detail on the overall process you described?**

13 A. Yes, I can. I will use the operating budget as the example, but each of the  
14 measures of value, revenue and expense elements were determined following the  
15 same basic procedures. I was responsible for the development of the overall  
16 Duquesne Light budget for the future test year. With regard to the operating  
17 expenses, Mr. Robert O'Brien converted the Company's future test year budget  
18 from the cost element format that we use, to a FERC format, which is presented  
19 on DLC Exhibit 2, Schedule B-4 and included on DLC Exhibit 2, Schedule D-2.  
20 Mr. O'Brien, working with myself and other Company personnel, developed pro  
21 forma adjustments to the budget expenses by cost element, as shown on DLC  
22 Exhibit 2, Schedules D-7 through D-15. Each of these adjustments was  
23 distributed to the appropriate FERC account as shown on DLC Exhibit 2,  
24 Schedule D-3. These processes provided a total Duquesne Light pro forma level  
25 of expenses by FERC accounts for the future test year ending March 31, 2011.  
26 Mr. Crowley then used these pro forma expenses in preparation of his  
27 Jurisdictional Separation Study, which is summarized on DLC Exhibit 2,  
28 Schedules C-1 and D-1.  
29  
30

- 1 **Q. Was this process followed for each of the elements included in the**  
2 **Company's revenue requirement presentation?**
- 3 A. Yes it was. For example, Mr. Robert O'Brien used the Company's budget for  
4 construction expenditures, construction closed to plant, plant retirements,  
5 depreciation expense, and other measures of value components as a starting point  
6 for pro forma adjustments. The resulting total Company pro forma measures of  
7 value was used by Mr. Crowley in his Jurisdictional Separation Study to  
8 determine the amounts for the Pennsylvania jurisdiction. A comparison of the  
9 total Company and Pennsylvania jurisdictional pro forma measure of value  
10 amounts is shown on DLC Exhibit 2, Schedule D-1, page 3. In addition, Mr.  
11 O'Brien used the Company's budget calculation for depreciation expense and  
12 made pro forma adjustments to reflect the use of the year-end plant in service for  
13 the FTY ended March 31, 2011, using the depreciation rates recommended by Mr.  
14 Spanos and pro forma plant additions to determine the total pro forma  
15 depreciation expense for the total Company. Mr. Crowley used this data to  
16 determine the portion assigned to the Pennsylvania jurisdiction on a pro forma  
17 basis for the test year.  
18
- 19 **Q. Please briefly describe the process used to calculate the pro forma**  
20 **jurisdictional measure of value, net operating income and required revenue**  
21 **increase for the Pennsylvania jurisdiction.**
- 22 A. The process began with the Company's 2010 and 2011 calendar year budgets by  
23 cost elements, which are determined by total Company requirements and can be  
24 compared to budget and recorded amounts from prior years. The budgeted cost  
25 elements were then distributed to FERC accounts where necessary. Pro forma  
26 adjustments were made to the Company's budget amounts that allow for easy  
27 comparison for each adjustment. Finally, the total pro forma amounts were  
28 separated to the Pennsylvania jurisdictional level in the aggregate as opposed to  
29 making this calculation for each budget element and each pro forma adjustment.  
30  
31

1 **Q. Please describe how the Company's request for an increase in its electric**  
2 **distribution rates is supported by your data.**

3 A. The requested increase is supported by the Company's budgeted financial data.  
4 In Schedule C-1 and D-1 of DLC Exhibit 2, we summarize the revenues,  
5 expenses, rate base, and deficiencies in revenue for the Future Test Year.  
6 Duquesne Light is requesting an overall distribution rate increase for the total  
7 Pennsylvania Jurisdiction of \$87.3 million. Duquesne Light's capital structure is  
8 shown in DLC Exhibit 2, Schedule B-8, with the requested return on equity of  
9 11.25% reflected on DLC Exhibit 2, Schedule B-9.

10

11 **Q. Could you review Duquesne Light Company's current and future capital**  
12 **structure?**

13 A. The capital structure, as of March 31, 2010, was approximately 25.2% debt, 6.8%  
14 preferred stock and 68.0% equity. In the FTY, the Company will enter into  
15 intercompany loans with its parent and issue public debt to pay for planned  
16 growth capital expenditures, significant pension contributions and other general  
17 corporate purposes. In doing so, the Company will reduce its equity as a  
18 percentage of total capitalization, by increasing the amount of debt outstanding.  
19 As a result of these actions, the Company's equity capitalization will be reduced  
20 to 52.4% by the end of the FTY.

21

22 **Q. What is the cost of long-term debt for Duquesne Light?**

23 A. The total adjusted long-term cost of debt at March 31, 2010 for Duquesne Light is  
24 7.30%. Given current market rates and planned issuances of debt during the  
25 future test year, we expect this cost to decrease to approximately 6.07% by the  
26 end of the future test year.

27

28 **Q. What is the Company's current credit rating with the major ratings**  
29 **agencies?**

30 A. Moody's and Standard and Poors (S&P) have published issuer credit ratings for  
31 the Company of Baa2 and BBB-, respectively. These ratings are in the lower end

1 of the investment grade ratings spectrum and below most of Duquesne Light's  
2 peers.

3  
4 **Q. Why is it important for the Company to maintain its current credit ratings?**

5 A. Credit ratings provide investors with information used to determine whether and  
6 at what cost capital should be lent to a company. The lower the rating is, the  
7 higher the cost of capital. Any uncertainty and doubt as to the credit quality of a  
8 utility reduces the availability of capital and makes capital more expensive, which  
9 will eventually flow through to the Company's customers. Duquesne Light has  
10 ongoing needs to access the capital markets to refurbish important assets that help  
11 it maintain reliability at excellent levels and to meet its pension obligations under  
12 the PPA. The Company must be able to attract capital on reasonable terms to pay  
13 for these investments. With the widely-held expectation that intermediate and  
14 long term interest rates will continue to rise over time, it is therefore of immediate  
15 concern that regulatory decisions be made with a full understanding of the long-  
16 term consequences of those decisions to the companies being regulated and to the  
17 ratepayers of those entities.

18  
19 **Q. Are the results of this rate proceeding important to the Company's ability to  
20 maintain its current credit rating?**

21 A. The process of performing credit analysis is a complex activity involving the  
22 evaluation of quantitative and qualitative factors including, but not limited to,  
23 standard cash flow and leverage ratios, the trends of those ratios, organizational  
24 structure, position relative to peers, industry dynamics, general economic  
25 conditions, accounting standards, and regulatory and political environment. A  
26 credit analyst will evaluate each factor and make a judgment about its effect on  
27 the overall rating. If it is determined that any of the factors have deteriorated, it  
28 could place downward pressure on the current rating. Given that the Company's  
29 issuer ratings are at the lower end the investment grade spectrum, the Company's  
30 cash flows following the distribution rate proceedings and the rating agencies  
31 evaluation of the regulatory environment in which the Company operates, will

1 continue to be critical factors in the formation of the Company's ratings going  
2 forward.

3  
4 **Q. What has the Company done over the past several years in terms of**  
5 **financing and related transactions?**

6 A. Duquesne Light issued \$100 million of first mortgage bonds via a private  
7 placement in March 2009 to fund growth capital expenditures and pay off  
8 amounts outstanding on its short-term revolving credit facility.

9  
10 **Q. What are the financing plans within the next several years for Duquesne**  
11 **Light?**

12 A. As stated, Duquesne Light plans to increase the amount of debt in its capital  
13 structure through a series of intercompany loans and publicly placed debt. During  
14 2010, Duquesne Light Company plans to utilize an intercompany loan facility  
15 approved by the Commission (Docket # S-2010-2161163 and Docket #G-2010-  
16 2162823) to borrow approximately \$254 million of long-term, fixed rate debt  
17 from its parent. The funds will be used to fund infrastructure improvements. The  
18 interest rate used for the intercompany long-term borrowings was determined in  
19 accordance with the method approved by PUC Order for the applicable affiliated  
20 interest agreement (Docket Number G-2010-2162823). In short, an indicative  
21 interest rate is requested from three independent investment banks for similar  
22 public debt instruments. Duquesne Light Company is then charged the lowest  
23 rate of the three interest rates received for its intercompany borrowings.

24  
25 In addition, the Company will issue approximately \$160 million in Pollution  
26 Control Revenue Bonds (PCRBs) in 2011 to meet Capital requirements, including  
27 the significant pension contribution the company is required to make in March of  
28 2011. The business plan also projects other PCRBs and First Mortgage bond  
29 issuances to refinance like instruments that mature over the next several years.

30

- 1 **Q. What capital structure ratios do you recommend be adopted for rate of**  
2 **return purposes in this proceeding?**
- 3 A. The Company recommends a capital structure ratio of approximately 42.1% debt,  
4 5.5 % preferred stock and 52.4% equity because this is how the Company will be  
5 capitalized at the end of the FTY after the debt issuances described previously.  
6 Mr. Paul Moul provides additional support for the Company's capital structure.  
7
- 8 **Q. What is your proposed cost of equity for Duquesne Light?**
- 9 A. As noted in Mr. Paul Moul's testimony we believe that Duquesne Light's cost of  
10 equity should be set at 11.25%. As outlined by Mr. Moul, this ROE is within the  
11 range of reasonableness and appropriate for Duquesne Light because of the  
12 Company's risk profile and the exemplary performance of the Company as  
13 explained by Mr. Eichenmiller.  
14
- 15 **Q. Does this conclude your direct testimony?**
- 16 A. Yes, it does.

<b><u>CITATION</u></b>	<b><u>DESCRIPTION</u></b>
<b>53.53 I</b>	<b>GENERAL FILING INFORMATION</b>
<b>53.53 I A</b>	<b>Summary of Filing</b>
53.53-A-3	Summary Tables
53.53-A-4	Generation Plant additions
<b>53.53 I B</b>	<b>General Description of Operations</b>
53.53-B-1	Corporate History
53.53-B-2	Description of the property of utilities
53.53-B-2a	Schedule of generating capability
53.53-B-2b	Generation outages
53.53-B-2c	Generation retirements
53.53-B-2d	Projected generation additions and retirements
<b>53.53 II</b>	<b>PRIMARY STATEMENTS OF RATE BASE &amp; OPERATING INCOME</b>
<b>53.53 II A</b>	<b>Rate Base</b>
53.53-II-A-1	Test Year rate base and rates of return – future
53.53-II-A-2	Test year rate base and rates of return – historic
53.53-II-A-3	Generation cost information
<b>53.53 II B</b>	<b>Rate Base Supporting Schedules</b>
53.53-II-B-1	Plant held for Future Use
53.53-II-B-2	Construction Work In Progress
53.53-II-B-3	Claim for materials and supplies
53.53-II-B-4	Cash working capital requirement – lead lag method
53.53-II-B-5	Compensating Bank balances
53.53-II-B-6	Additional Items in Measure Of Value
<b>53.53 II C</b>	<b>Operating Income Statement</b>
53.53-II-C-1a	Budgeted Income Statement
53.53-II-C-1c	Income Statement present rates after adjustments
53.53-II-C-1d	Adjustment for revenue increase
53.53-II-C-1e	Income Statement requested rates
53.53-II-C-2	Similar schedule historic test year

<b>53.53 II D</b>	<b>Income Statement Supporting Schedules</b>
53.53-II-D-1	Schedule of revenues & expenses for FTY& HTY & variance explanation
53.53-II-D-2	Summary of test year adjustments
53.53-II-D-3	Nonrecurring & extraordinary items
53.53-II-D-4	Extraordinary property losses
53.53-II-D-5	Reserve for uncollectible
53.53-II-D-6	Claim for rate case expense
53.53-II-D-7a	Miscellaneous general expenses
53.53-II-D-7b	Outside service expenses
53.53-II-D-7c	Regulatory commission expenses
53.53-II-D-7d	Advertising expenses
53.53-II-D-7e	Research and Development
53.53-II-D-7f	Charitable and civic contributions
53.53-II-D-8	Affiliate charges for FTY and HTY
53.53-II-D-9	Social and Service organization memberships
53.53-II-D-10	Payroll and Employee Benefits Data
53.53-II-D-10a	Avg & year-end # of employees & payroll & benefit expense – union
53.53-II-D-10b	Avg & year-end # of employees & payroll & benefit expense - non-union
53.53-II-D-1-c	Avg & year-end # of employees & payroll & benefit expense - mgt
53.53-II-D-10d	Wage rate, salary & benefit changes
53.53-II-D-10e	Claimed test year expense and employee benefit expense
53.53-II-D-10f	Percentage of O&M portion and basis
53.53-II-D-11	Leasing costs and method for calculating
53.53-II-D-12	Past & anticipated accounting changes & internal/external audit reports
53.53-II-D-13	Gross salvage, CR, net salvage for 4 previous years
53.53-II-D-26	Other items
<b>53.53 II E</b>	<b>Budgeted Data</b>
53.53-II-E-1	Copies of budgets & explanation of process
53.53-II-E-2	Budgets (operating & capital) for 3 years
<b>53.53-III</b>	<b>RATE OF RETURN</b>
<b>53.53-III-A</b>	<b>Claimed Rate of Return</b>

53.53-III-A-1	Capital structure, derivation of costs & changes for previous period
53.53-III-A-2	Same for 2 previous periods
<b>53.53-III-B</b>	<b>Embedded Cost of Long-term Debt</b>
53.53-III-B-1	Detailed schedule of cost of LTD
53.53-III-B-2	Claim for true or economic cost if any
53.53-III-B-3a	Lines of credit
53.53-III-B-3b	Average daily balances of each note
53.53-III-B-3c	Interest rate on each note
53.53-III-B-3d	Purpose of each note
53.53-III-B-3e	Prospective future need
53.53-III-B-4	Other short-term debt information
53.53-III-B-5	LTD reacquisition information by issue for company & parent
<b>53.53-III-C</b>	<b>Embedded Cost of Preferred Stock</b>
53.53-III-C-1	Detailed schedule of cost of preferred stock
<b>53.53-III-D</b>	<b>Cost of Common Equity</b>
53.53-III-D-1	Complete support for claimed ROE
53.53-III-D-2	Stock dividends, splits, etc for 2 years
53.53-III-D-3	Common stock issuances for last 2 years
53.53-III-D-4	Detailed information on stock offerings for parent & company last 5 years
<b>53.53-III-E</b>	<b>Parent - Subsidiary Relationship</b>
53.53-III-E-1	Reasons for claim if based on consolidated capital structure
53.53-III-E-2	Capital structure for parent for last 2 years
53.53-III-E-3	Balance sheet and income statement consolidated/parent
53.53-III-E-4	Organizational chart
<b>53.53-III-F</b>	<b>General Financial Data</b>
53.53-III-F-1	Quarterly and annual reports
53.53-III-F-2	Projected capital requirements & sources for FTY & 3 projected years
53.53-III-F-3	Coverage requirements
53.53-III-F-4	Financial data & ratios last 2 years
<b>53.53-V</b>	<b>PLANT &amp; DEPRECIATION</b>
<b>53.53-V-A</b>	<b>Adjusted original cost with accumulated depreciation</b>
53.53-V-A-1	Schedule of plant in service by function
53.53-V-A-3	Supporting schedules
53.53-V-A-4	Schedule of rate case adjustments

**53.53-VI**

**UNADJUSTED BALANCE SHEETS AND INCOME STATEMENTS**

53.53-VI-a

Balance sheet - 3 years

53.53-VI-b

Income Statement - 3 years

53.53-VI-c

Plant in Service - 3 years

53.53-VI-d

Accumulated depreciation - 3 years

## Cost Elements

<u>Cost Element</u>	<u>Description</u>
10	Labor
11	Overtime Labor
14	Rent
15	Incentive Compensation
20	Stores Issues and Returns
23	Materials Purchased
24	Utilities
30	Transportation
40	Telephone Services
42	Other Rent
43	Software Leases
44	Insurance
45	Mobile Phone / Pager Costs
50	Healthcare & Misc. Benefits
51	Employee Expenses
57	Hardware Maintenance
59	Outside Services
60	Pension Costs
61	Transmission Expenses
65	Uncollectible Accounts
67	Reimbursements
71	Temporary Labor
72	Mailing Costs
75	Memberships / Dues
76	Business Meals
88	Subsidiary Reimbursements
99	Miscellaneous

<u>Group</u>	<u>Cost Center</u>	<u>Description</u>
<b>Accounting &amp; Treasury</b>	435	Credit & Cash Management
	438	Treasury Operations
	406	Director Accounting & Finance
	422	Accounts Payable & Payroll
	496	Billing
	497	Payment Processing
	410	Financial Accounting
	407	Tax Reporting
	404	Pension/PSSP Costs
	<b>Customer Care</b>	032
495		Universal Services
490		Customer Services
480		Act 129
847		Major Proj & Customer Accounts
<b>External Affairs</b>	492	Governmental Aff. & Comp. Services
	006	Legal & Environmental Services
	850	Transmission Planning
	470	Rates & Tariff Services
<b>Human Resources</b>	301	Legal - HR - Mktg - Admin
	512	HR - Benefits Dept
	311	Training
	513	Misc. Employee Benefits
	599	Healthcare & Dental
<b>Operations</b>	502	Vegetation Management
	503	Construction Management
	820	Engineering & New Business
	840	Operations
	849	Outage Coord & Field Operation
	832	Maint & Serv - Penn Hills
	833	Maint & Serv - McKeesport
	838	Maint & Serv - Raccoon
	839	Maint & Serv - Edison
	845	Maint & Serv - Preble
	855	Underground Transmission
	836	City of Pgh Street Lighting
	852	Substation Raccoon
	853	Substation Preble Avenue
<b>Operations Services</b>	530	Facilities Management
	586	Supply Chain - Shops & Testing
	582	Outside Services
	848	Security
	572	Transportation
<b>Risk Management</b>	449	Corporate Development
<b>Sr. Mgmt / IA</b>	001	CEO
	003	Internal Audit
	300	Office Legal & Admin Services
	400	Finance & Customer Service
<b>Technology</b>	445	Program Office
	450	Smart Meters
	546	Enterprise Infrastructure
	498	Meter Operations
	549	Communication Systems

Exhibit DBB-4

Page 1 of 1

DUQUESNE LIGHT COMPANY  
STATEMENT OF INCOME  
Operating Budget

	1st Qtr Ending 6/30/2010	2nd Qtr Ending 9/30/2010	3rd Qtr Ending 12/31/2010	4th Qtr Ending 3/31/2011	Total 12 Mos. End 3/31/11
<b>UTILITY OPERATING INCOME</b>					
Operating Revenues (400)	\$ 208,411,328	\$ 249,773,068	\$ 217,140,725	\$ 232,549,491	907,874,612
<b>Operating Expenses</b>					
Operation Expenses (401)	114,713,047	140,834,103	125,789,806	140,888,665	522,225,622
Maintenance Expenses (402)	9,598,041	9,241,295	8,662,326	8,083,747	35,585,409
Depreciation Expense (403)	19,232,039	19,232,039	19,232,039	20,686,656	78,382,774
Amort. & Depl. Of Utility Plant (404-405)	2,097,849	2,097,849	2,097,849	2,097,849	8,391,397
Regulatory Debits (Credits), net (407.3,407.4)	-	-	-	-	-
Taxes Other Than Income Taxes (408.1)	13,597,431	16,042,264	14,140,950	15,160,232	58,940,877
Income Taxes - Federal (409.1)	2,917,965	3,750,173	2,827,280	2,750,063	12,245,481
Income Taxes - Other (409.1)	3,268,927	4,201,229	3,167,334	3,080,830	13,718,319
Provision for Deferred Income Taxes, net (410.1,411.1)	(2,319,859)	(1,020,921)	37,992,432	(1,680,012)	32,971,640
Investment Tax Credit, net (411.7)	114,886	50,559	(1,881,488)	83,199	(1,632,845)
Total Utility Operating Expenses	163,220,326	194,428,590	212,028,528	191,151,228	760,828,672
<b>Net Utility Operating Income</b>	<b>45,191,002</b>	<b>55,344,477</b>	<b>5,112,197</b>	<b>41,398,263</b>	<b>147,045,940</b>
<b>OTHER INCOME AND DEDUCTIONS</b>					
<b>Other Income</b>					
Equity in Earnings of Subsidiary Companies (418.1)	-	-	-	-	-
Interest and Dividend Income (419)	125,000	125,000	125,000	125,000	500,000
Allowance for Other Funds Used During Construction (419.1)	704,121	704,121	704,121	704,121	2,816,482
Miscellaneous Nonoperating Income (421)	175,993	175,993	175,993	175,993	703,970
Gain on Disposition of Property (421.1)	-	-	-	-	-
Total Other Income	1,005,113	1,005,113	1,005,113	1,005,113	4,020,453
<b>Other Income Deductions</b>					
Loss on Disposition of Property (421.2)	-	-	-	-	-
Donations (426.1)	527,725	527,725	527,725	527,725	2,110,900
Penalties (426.3)	-	-	-	-	-
Exp. for Certain Civic, Political, & Related Activities (426.4)	30,000	30,000	30,000	30,000	120,000
Other Deductions (426.5)	13,349,047	19,767,025	20,020,153	17,623,024	70,759,250
Total Other Income Deductions	13,906,772	20,324,750	20,577,878	18,180,749	72,990,150
<b>Taxes Applicable to Other Income and Deductions</b>					
Income Taxes - Federal (409.2)	(2,000,274)	(3,021,906)	(3,062,200)	(2,680,618)	(10,764,999)
Income Taxes - Other (409.2)	(632,449)	(955,470)	(968,210)	(847,561)	(3,403,689)
Total Taxes on Other Inc. and Ded	(2,632,723)	(3,977,376)	(4,030,410)	(3,528,179)	(14,168,688)
<b>Net Other Income and Deductions</b>	<b>(10,268,936)</b>	<b>(15,342,261)</b>	<b>(15,542,355)</b>	<b>(13,647,457)</b>	<b>(54,801,009)</b>
<b>Interest Charges</b>					
Interest on Long-Term Debt (427)	6,519,303	6,519,303	6,600,107	7,343,657	26,982,371
Amortization of Debt Disc. and Expense (428)	169,269	169,269	203,609	220,779	762,926
Amortization of Loss on Reacquired Debt (428.1)	701,208	675,042	661,959	661,959	2,700,169
Amortization of Premium on Debt - Credit (429)	-	-	-	-	-
Amortization of Gain on Reacquired Debt - Credit (429.1)	-	-	-	-	-
Interest on Debt to Assoc. Companies (430)	-	-	-	-	-
Other Interest Expense (431)	-	-	-	-	-
Allowance for Borrowed Funds Used During Construction-Cr. (432)	(238,618)	(238,618)	(238,618)	(243,227)	(959,080)
Net Interest Charges	7,151,162	7,124,996	7,227,058	7,983,168	29,486,385
<b>Net Income</b>	<b>\$ 27,770,904</b>	<b>\$ 32,877,220</b>	<b>\$ (17,657,215)</b>	<b>\$ 19,767,638</b>	<b>\$ 62,758,546</b>

**BEFORE THE**  
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company**  
**DLC Statement No. 4**

**Direct Testimony of James Habberfield**

**DIRECT TESTIMONY OF JAMES HABBERFIELD**

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**Q. Please state your full name and business address.**

A. James Habberfield, 411 Seventh Avenue, Pittsburgh, Pennsylvania 15219.

**Q. What is your position at Duquesne Light Company (“Duquesne Light” or “Company”)?**

A. I am employed by Duquesne Light as Forecasting and Risk Management Specialist.

**Q. How long have you worked at Duquesne Light?**

A. I joined Duquesne Light in December 2008.

**Q. What are your current responsibilities?**

A. I produce all of the sales forecasts for the Duquesne Light Control Area, which includes all electrical customers in our load zone -- whether served by Duquesne Light Company procured supply or supply procured by an electric generation supplier (“EGS”). I conduct analysis of historical sales and weather-normalization. I also coordinate business risk analysis with our Risk Management team.

**Q. What are your qualifications, work experience and educational background?**

A. I graduated from the University of Pittsburgh in April 2006 and received a Bachelor of Arts degree with a dual major of Economics and Business. My coursework consisted heavily of macroeconomics, econometric modeling and statistics, business strategic management, and international finance.

Upon graduation, I took a position at General Nutrition Corporation as a Real Estate Business Analyst. I joined Duquesne Light directly from GNC in December 2008.

1 **Q. What is the purpose of your direct testimony regarding Duquesne Light's**  
2 **request for increased rates?**

3 A. My purpose is to describe and explain the Company's sales-demand forecast for  
4 the test years.

5  
6 **Q. Are you sponsoring any exhibits as part of your direct testimony?**

7 A. Yes, I am. I am sponsoring Exhibit A, which is the past five years of Company  
8 sales segmented by customer class. I am also sponsoring Exhibit B, which is the  
9 Company's forecast of sales during the test period, also segmented by customer  
10 class. Finally, I am sponsoring Exhibit C, which displays the savings we expect  
11 to achieve through the Company's Act 129 Programs during the test period.

12  
13 **Q. Please explain how these exhibits were prepared?**

14 A. These exhibits were prepared by me, starting with Exhibit A, which is based off  
15 of internal Company sales records. Exhibit B comes from the results of the  
16 annual forecast models I develop, which will be further described in this  
17 testimony. Lastly, Exhibit C comes from the approved Act 129 filing that details  
18 Duquesne Light's expected energy efficiency savings.

19  
20 **Q. What procedures and methodology does Duquesne Light utilize for**  
21 **preparing its forecasts?**

22 A. The Company creates a series of econometric models for every tariffed rate  
23 schedule in our service territory, which are used to produce our long-term sales  
24 forecasts.

25  
26 **Q. What data do you utilize for the inputs into your forecasts?**

27 A. There are three main data inputs into each forecast model: monthly historical  
28 sales by rate class going back to 2002, 12-year historical daily weather for the  
29 Pittsburgh area, and historical and forecasted economic data for the Pittsburgh  
30 Metropolitan Area.

31

1 **Q Where do you obtain your data for inputs into your forecasts?**

2 **A** The historical kWh sales are provided internally. The daily temperature history is  
3 provided by Air Science Consultants, Inc. The economic data is provided by an  
4 international economics forecasting firm named IHS Global Insight.

5  
6 **Q Could you explain Duquesne Light Company's sales forecast for both the**  
7 **historic and future test year?**

8 **A.** Each of Duquesne Light's tariffed rate schedules is forecasted on an individual  
9 basis. Further, non-residential rates are divided into segments splitting small and  
10 large customers, and commercial and industrial customers. This increased level  
11 of granularity improves the accuracy of the forecast. These separate models are  
12 then rolled into one to create a Duquesne Light Control Area forecast. In the  
13 same way, forecasts can also be created for each customer class – Residential,  
14 Commercial, and Industrial. Each rate schedule model is created by aligning the  
15 economic and weather variables with the historical monthly sales data. The  
16 specific variables placed into the model are chosen to maximize the predictive  
17 power of the forecasts, in accordance with econometrics and statistical theory.  
18 The same process is separately done to forecast customer counts in each rate  
19 schedule. The end result is a monthly kWh and customer forecast for the entire  
20 test period.

21  
22 **Q. How are Duquesne Light Company's Pa. Act 129 Energy Efficiency and**  
23 **Conservation obligations factored into your forecasts?**

24 **A.** The Company has developed specific energy efficiency and conservation  
25 programs which fully comply with the state Act 129 requirements. The projected  
26 kWh savings from these programs are broken down in a number of ways. First,  
27 the programs are developed into a monthly implementation schedule, with the  
28 projected kWh savings from each program separated on a month-by-month basis.  
29 Second, each program is classified by which customer class it impacts:  
30 Residential, Commercial, or Industrial. Finally, the kWh savings for each  
31 customer class are summed together and subtracted from the initial Company

1 sales forecast described above. This results in a monthly Act 129-reduced  
2 forecast for each of the Company's customer classes.

3  
4 **Q. Could you explain Duquesne Light Company's peak load demand forecasts?**

5 A. Our peak load demand forecasts are provided to us by PJM, our Regional  
6 Transmission Organization. PJM develops peak load demand forecasts for each  
7 zone in its territory, and provides these forecasts to its members.

8  
9 **Q What are your overall conclusions regarding all three forecasts?**

10 A. Duquesne Light's Control Area consumption is expected to decline by 0.1%  
11 annually over the next three years. This can be broken down into the three  
12 separate customer classes:

13  
14 Residential usage makes up close to 32% of our annual sales, and residential  
15 usage is expected to increase 0.7% annually. While the number of residential  
16 customers is only projected to grow 0.1% annually, steady income growth in the  
17 Pittsburgh Metropolitan area is expected to result in increased electricity sales on  
18 a per-customer basis.

19  
20 Commercial usage makes up over 49% of Duquesne Light's annual sales, and this  
21 segment is expected to decline at an annual rate of less than 0.1%. Commercial  
22 customer counts are expected to grow 0.2% annually over the next three years,  
23 however, energy efficiency programs should reduce our Commercial use on a per-  
24 customer basis and result in this slight decrease in overall sales.

25  
26 Finally, Industrial usage makes up about 18.5% of the company's annual sales.  
27 This segment is expected to decrease by 1.8% annually over the next three years.  
28 The recent economic turbulence has not spared Pittsburgh and the Industrial  
29 segment has been the hardest hit. While some of the smaller Industrial rate  
30 schedules are expected to show increases in sales as the economy recovers, the  
31 largest Industrial rate schedules have shown steady declines in recent years. The

1 end result of these factors is the slight overall decrease in Industrial sales in the  
2 Duquesne Light territory.

3

4 **Q Does this conclude your direct testimony?**

5 A. Yes, it does.

6

Duquesne Light Company

**Annual Retail Sales (mWh) by Customer Class**

	2005	2006	2007	2008	2009
Residential	4,133,600	3,990,794	4,210,531	4,060,410	3,945,655
Commercial	6,606,052	6,473,627	6,715,489	6,631,217	6,537,414
Industrial	3,184,209	3,182,369	3,084,222	3,008,742	2,575,393
Lighting	68,534	67,553	67,180	66,811	64,351
<b>Total</b>	<b>13,992,395</b>	<b>13,714,343</b>	<b>14,077,421</b>	<b>13,767,180</b>	<b>13,122,813</b>

**Year to Year Change by mWh**

	2005	2006	2007	2008	2009
Residential		(142,806)	219,737	(150,121)	(114,755)
Commercial		(132,425)	241,862	(84,272)	(93,803)
Industrial		(1,840)	(98,147)	(75,480)	(433,349)
Lighting		(981)	(373)	(369)	(2,460)
<b>Total</b>		<b>(278,052)</b>	<b>363,078</b>	<b>(310,241)</b>	<b>(644,367)</b>

**Year to Year Change by Percentage**

	2005	2006	2007	2008	2009
Residential		-3.5%	5.5%	-3.6%	-2.8%
Commercial		-2.0%	3.7%	-1.3%	-1.4%
Industrial		-0.1%	-3.1%	-2.4%	-14.4%
Lighting		-1.4%	-0.6%	-0.5%	-3.7%
<b>Total</b>		<b>-2.0%</b>	<b>2.6%</b>	<b>-2.2%</b>	<b>-4.7%</b>

Duquesne Light Company

**Forecasted Retail Sales (mWh) by Customer Class**

	<b>4/2010-3/2011</b>	<b>4/2011-3/2012</b>	<b>4/2012-3/2013</b>
<b>Residential</b>	4,115,486	4,143,938	4,180,119
<b>Commercial</b>	6,413,192	6,408,917	6,405,684
<b>Industrial</b>	2,403,727	2,371,172	2,318,681
<b>Lighting</b>	63,892	63,886	63,959
<b>Total</b>	12,996,298	12,987,913	12,968,443

**Year to Year Change by mWh**

	<b>4/2010-3/2011</b>	<b>4/2011-3/2012</b>	<b>4/2012-3/2013</b>
<b>Residential</b>	161,296	28,452	36,181
<b>Commercial</b>	(119,572)	(4,275)	(3,233)
<b>Industrial</b>	(252,888)	(32,555)	(52,491)
<b>Lighting</b>	(299)	(6)	73
<b>Total</b>	(211,464)	(8,385)	(19,470)

**Year to Year Change by Percentage**

	<b>4/2010-3/2011</b>	<b>4/2011-3/2012</b>	<b>4/2012-3/2013</b>
<b>Residential</b>	4.1%	0.7%	0.9%
<b>Commercial</b>	-1.8%	-0.1%	-0.1%
<b>Industrial</b>	-9.5%	-1.4%	-2.2%
<b>Lighting</b>	-0.5%	0.0%	0.1%
<b>Total</b>	-1.6%	-0.1%	-0.1%

Duquesne Light Company

**Act 129 Program Savings (mWh) by Customer Class**

	<b>4/2010-3/2011</b>	<b>4/2011-3/2012</b>	<b>4/2012-3/2013</b>
<b>Residential</b>	67,993	110,070	157,903
<b>Commercial</b>	123,418	199,048	284,991
<b>Industrial</b>	45,674	73,617	105,314
<b>Lighting</b>	0	0	0
<b>Total</b>	<b>237,085</b>	<b>382,735</b>	<b>548,208</b>

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Docket No. R-2010-2179522**

**Duquesne Light Company  
DLC Statement No 5**

**Direct Testimony of Scott R. Ward**

**DIRECT TESTIMONY OF SCOTT R. WARD**

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**Q. Please state your full name and business address.**

A. My name is Scott R. Ward. My business address is 2825 New Beaver Avenue, Pittsburgh, PA 15233.

**Q. What is your position at Duquesne Light Company?**

A. I am the Manager of Major Construction and Scheduling, a group in the Operations Organization of Duquesne Light Company (“Duquesne Light” or the “Company”).

**Q. Please summarize your responsibilities and duties as they relate to this testimony.**

A. I am responsible for developing the Operations Organization work plan and budget. Among other things, my duties include working with other Operations group personnel to assemble all of the capital improvement work, assign resources, develop the required budget, and track work progress to ensure all planned work is completed.

**Q. Please provide your educational background and describe your professional experience.**

A. I received a Bachelor of Science degree in Systems Engineering from the United States Naval Academy in 1990. I completed the Navy’s nuclear propulsion training program and served three years onboard a nuclear powered submarine

1 holding various positions involving plant operations. I am a licensed  
2 Professional Engineer in the Commonwealth of Pennsylvania and have the  
3 designation of Certified Energy Manager (CEM) from the Association of Energy  
4 Engineers.

5  
6 I have been employed by Duquesne Light since 2005 and have held two positions  
7 within the Operations group. From 2005 through 2007, I was responsible for the  
8 Company's emergency response plans and worked on several collateral  
9 assignments including projects involving transmission and distribution system  
10 capital improvements, system reliability, and system operations. I have held my  
11 current position since June 2007.

12  
13 **Q. What is the purpose of your direct testimony?**

14 A. The purpose of my testimony is to describe and explain Duquesne Light's capital  
15 additions during the future test year. Specifically, my testimony: (1) provides a  
16 brief description of Duquesne Light's electric delivery system, (2) explains  
17 Duquesne Light's planning process to ensure its electric system continues to meet  
18 the needs of its customers, (3) explains the process followed by Duquesne Light  
19 to determine which capital additions are necessary and when they must be added,  
20 (4) explains the primary reasons why Duquesne Light makes capital additions,  
21 and (5) describes major capital additions for the Future Test Year.

22  
23 **Q. Could you briefly describe Duquesne Light's electric system?**

1 A. Duquesne Light provides electric service to approximately 588,000 customers  
2 located in Allegheny and Beaver counties (including the city of Pittsburgh), a  
3 service territory of approximately 800 square miles. Duquesne Light delivers  
4 electricity from a variety of generation sources through a transmission and  
5 distribution system at the voltage and in the quantity required by our customers.  
6 The system includes approximately 45,000 miles of power lines, approximately  
7 500 substations, approximately 200,000 utility poles, and over 100,000  
8 transformers.

9  
10 The transmission system consists of a network of 345 kV, 138 kV, and 69 kV  
11 transmission lines that supply a series of substations. These lines move bulk  
12 power from various sources of supply, which are not owned by Duquesne Light,  
13 to the places in Duquesne Light's service territory where it is needed. These lines  
14 are the most reliable form of power delivery and are the most electrically  
15 efficient. They enable the movement of large quantities of bulk power with  
16 minimal energy loss or voltage drop. These transmission lines supply power to  
17 various types of substations within our service territory. Substation transformers  
18 then convert the transmission voltages to lower (distribution) voltages that are  
19 used for distribution to Duquesne Light's customers.

20  
21 Once converted down to distribution voltages (typically 23 kV or 4 kV, except in  
22 our downtown Pittsburgh network system where there is both 11 kV and 23 kV  
23 primary distribution voltage), electricity is delivered to customers through the

1 local distribution system. The local distribution system consists of distribution  
2 lines, transformers, switches, breakers, and other electrical equipment that  
3 Duquesne Light uses to deliver power from the various substations to the  
4 customer.

5  
6 **Q. Does Duquesne Light have a planning process to ensure its electric system**  
7 **continues to meet the needs of its customers?**

8 A. Yes. Duquesne Light's planning process encompasses a review of capital  
9 additions needed for service restoration, customer commitments, service capacity  
10 and reliability, and infrastructure support. This planning process addresses both  
11 our annual investment needs for capital additions and replacements as well as  
12 necessary investments in our energy delivery and support infrastructure to replace  
13 physical infrastructure that is either nearing obsolescence or unable to meet our  
14 customers' needs for capacity.

15  
16 **Q. Can you summarize the process used by Duquesne Light to determine which**  
17 **capital additions are necessary and when they must be added?**

18 A. Yes. Duquesne Light identifies the need and priority for capital additions by  
19 comparing knowledge regarding the condition and use of its assets to knowledge  
20 regarding the future performance requirements of those assets. In cases when a  
21 problem with future performance is predicted, or where a need to improve  
22 performance has been identified, Duquesne Light engineers develop a variety of  
23 reasonable alternatives to resolve the problem or meet the need. Each alternative

1 is then evaluated on its technical and financial merits and the alternative with the  
2 greatest customer value consistent with Duquesne Light's service and cost-  
3 effectiveness objectives is recommended.

4  
5 A company management team reviews these recommended capital additions and  
6 challenges the underlying technical and financial facts, assumptions, and  
7 conclusions. This process ensures that appropriate analytical rigor is applied to  
8 the decision-making process and ensures that each capital addition is considered  
9 within the context of all other capital needs. This is an iterative process that  
10 continues until a final decision is made on a capital addition.

11  
12 Approved capital additions are then included in an integrated work plan that is  
13 used by Duquesne Light planners, engineers, schedulers, and project managers to  
14 ensure optimum sequencing of the many different additions made during any  
15 given year. As projects are completed, field supervisors perform project reviews  
16 to assure the scope of work has been completed and then notify the plant  
17 accounting department to ensure proper accounting treatment of the capital  
18 project.

19  
20 **Q. Please explain the reasons why Duquesne Light makes capital additions.**

21 A. Duquesne Light makes capital additions in order to provide safe and reliable  
22 service to our customers. The specific capital additions for the future test year  
23 are necessary for four primary reasons and are categorized accordingly as: (1)

1 Service Restoration, (2) Customer Commitments, (3) Service Capacity and  
2 Reliability, and (4) Infrastructure Support. Duquesne Light's capital budget for  
3 distribution and infrastructure support spending for the period April 1, 2010  
4 through March 31, 2011 is \$169.8 million as described in the remainder of my  
5 testimony. In addition to this \$169.8 million budget, Duquesne Light has a  
6 budget of \$91.2 million for Transmission System Service Capacity and Reliability  
7 projects for April 1, 2010 through March 31, 2011. The Company is not claiming  
8 any capital costs for transmission projects in its rate base claim in this proceeding.  
9 Duquesne Light's Capital Budget for April 1, 2010 through March 31, 2011 is  
10 summarized in Exhibit SRW-1.

11  
12 **Q. Please explain "Service Restoration" as a primary reason for making capital**  
13 **additions.**

14 A. Duquesne Light customers expect their electric service to be restored promptly if  
15 it is interrupted. Service Restoration includes capital additions to replace  
16 equipment that has failed in service and either resulted in a service interruption to  
17 Duquesne Light customers or presented a significant risk of an imminent service  
18 interruption. Capital additions in this category include additions to replace  
19 equipment failures related to storms, adverse weather conditions, animal contacts,  
20 and equipment that fails due to reaching the end of its service life. This category  
21 also includes capital additions in response to outages caused by customers and/or  
22 their equipment including motor vehicle accidents.

23

1 Forecasts of capital additions needed for Service Restoration are estimated based  
2 on previous years' experience.

3  
4 **Q. Please summarize the types of capital additions that are included in the**  
5 **April 1, 2010 through March 31, 2011 ("Future Test Year") budget for**  
6 **"Service Restoration".**

7 A. In the time period April 1, 2010 through March 31, 2011 ("Future Test Year"),  
8 Duquesne Light's budget includes \$24.4 million for Service Restoration. The  
9 Future Test Year service restoration program provides funding for the restoration  
10 of equipment that may require replacement due to damage caused by storms,  
11 wind, ice, or heat. Replacement includes both overhead and underground  
12 facilities. It also includes funding to replace equipment that may fail and cause  
13 customer outages or has the potential for causing imminent outages to customers.  
14 In calendar year 2009, Duquesne Light spent approximately \$26 million on  
15 capital additions in the Service Restoration category, and the Company has spent  
16 approximately \$22 million in January through May 2010. The significant  
17 spending in 2010 is mostly associated with the significant storm activity and  
18 adverse weather this year.

19 **Q. Please explain "Customer Commitments" as a primary reason for making**  
20 **capital additions.**

21 A. Duquesne Light serves residential, commercial and industrial customers. All  
22 customer classes rely on us to provide service for new or remodeled homes and  
23 businesses, and also to upgrade existing services to meet new capacity

1 requirements they may have as a result of additional load such as computers, air  
2 conditioning, and modernization. Customer Commitments also include capital  
3 additions associated with relocations of Company facilities that are regularly  
4 requested by governmental agencies due to highway improvements or other  
5 rights-of-way interferences. These projects include road widening, bridge repairs,  
6 sewer and water main replacements/upgrades, or other infrastructure  
7 improvements.

8  
9 Forecasts of capital additions needed as a result of Customer Commitments are  
10 based upon forecasted economic conditions in the Duquesne Light service area,  
11 projected number of new customers, major customer projects that are known to  
12 us, and projects identified to us by state, county, city and local municipalities.

13  
14 **Q. Please summarize the types of capital additions that are included in the**  
15 **Future Test Year budget for “Customer Commitments”.**

16 A. In the Future Test Year, Duquesne Light’s budget for Customer Commitments is  
17 \$22.5 million. This amount funds hundreds of various sized projects to install  
18 overhead or underground distribution equipment requested by residential,  
19 commercial or industrial customers, or governmental agencies in accordance with  
20 Duquesne Light service policies.

21  
22 **Q. Please explain “Service Capacity and Reliability” as a primary reason for**  
23 **making capital additions.**

1 A. Duquesne Light customers expect our electric system to provide the equipment  
2 capacity needed to assure reliability and voltage stability. Capital additions to the  
3 Duquesne Light electric system are required to ensure that it continues to meet  
4 those needs as customer load grows or the location of load shifts within the  
5 Duquesne Light service territory. The types of additions required to ensure  
6 service capacity and reliability include substation upgrades, circuit extensions and  
7 conversions to ensure the distribution system meets our customers' voltage and  
8 load requirements, and the installation of new equipment to replace deteriorated,  
9 obsolete, or failed equipment.

10  
11 Forecasts of capital additions needed to ensure Service Capacity and Reliability  
12 are identified through analysis of inspection and maintenance program results,  
13 reliability data analysis, reviews of customer requests, and an engineering review  
14 of load growth in particular areas.

15  
16 **Q. Please summarize the types of capital projects or programs that are included  
17 in the Future Test Year budget for "Service Capacity and Reliability".**

18 A. The majority of Duquesne Light's additional capital spending is focused in the  
19 area of Service Capacity and Reliability. In the Future Test Year Duquesne Light  
20 will invest approximately \$91.2 million and \$100.1 million, respectively, for  
21 Transmission and Distribution Service Capacity and Reliability. Of the  
22 approximately \$100.1 million for distribution capital expenditures, approximately  
23 \$30.1 million is to fund equipment replacement programs to systematically

1 replace equipment identified to be at the end of its useful life due to operational  
2 inefficiency or obsolescence. Examples of these programs include the  
3 deteriorated pole replacement program, replacement of deteriorated or damaged  
4 line equipment, minor line hardware replacement, minor voltage or reliability  
5 improvement projects, and substation relay, breaker and switch replacement  
6 programs.

7  
8 The remaining balance of approximately \$70.0 million for distribution in the  
9 Future Test Year is to fund significant projects being constructed during the future  
10 test year. \$56.4 million is associated with eight major projects that I will discuss  
11 in more detail.

12  
13 **Q. Please describe each of the eight major capital projects included in the**  
14 **Distribution “Service Capacity and Reliability” budget for the Future Test**  
15 **Year.**

16 A. These major capital projects include additions such as replacing distribution  
17 circuit sectionalizing devices, increasing substation capacity, replacing end-of-life  
18 substation equipment, and rehabilitating deteriorated underground residential  
19 distribution circuits. The eight major projects are described as follows with a  
20 brief summary of need, work scope, and customer benefit for each of the eight  
21 projects:

22

1        Service Capacity and Reliability Major Project #1: Replacement of end-of-life  
2        sectionalizers and reclosers with state of the art technology equipment.

3  
4        This project encompasses the replacement of approximately 500 of Duquesne  
5        Light’s oldest GWC, GW, and VWE Sectionalizers and Reclosers with the S&C  
6        Electric, Inc. (“S&C”) IntelliRupter<sup>®</sup> PulseCloser (“IntelliRupter”). The  
7        IntelliRupter is a newly developed device from S&C that is a single package of  
8        fault interrupting and control components to provide fault isolation and circuit  
9        restoration functions on Duquesne Light’s overhead distribution system. The  
10       IntelliRupter device contains state of the art PulseClosing technology that tests for  
11       line faults without stressing system components or causing voltage sags for  
12       customers upstream of a fault. Duquesne Light’s existing GWC, GW, and VWE  
13       Sectionalizers are of 35 year-old technology, and are approaching the end of  
14       useful life.

15  
16       Duquesne Light’s customers will benefit from this project through improved  
17       system reliability. The new devices will help to reduce the number of cable, wire,  
18       and other equipment failures on Duquesne Light’s system, because unlike existing  
19       sectionalizers, these devices use pulse-closing and reduce surges on the  
20       distribution system. The project will also prevent outages that would occur due to  
21       failure of end-of-life sectionalizers.

1 The Company's capital budget includes \$22.4 million for the Sectionalizer  
2 Replacement Project in the Future Test Year.

3  
4 Service Capacity and Reliability Major Project #2: An ongoing long-term  
5 program to rehabilitate aging Underground Residential Distribution (URD)  
6 infrastructure needed to ensure reliability.

7  
8 The URD rehabilitation program is an ongoing, long-term program to  
9 systematically replace earlier URD designs that utilized submersible transformers  
10 and primary separable splicing junctions in galvanized steel or bituminous fiber  
11 vault housings installed below grade. Many of the vaults housing submersible  
12 transformers and splicing junctions are deteriorated which allow foreign material  
13 to enter the vault and either partially or completely cover our equipment. These  
14 installations create service restoration problems when a failure occurs, because  
15 the foreign material must be removed before repairs can begin. These URD  
16 systems within housing developments served by Duquesne Light were  
17 constructed in the late 1960's and early 1970's. Residential customers living in  
18 these areas are experiencing higher than normal equipment failure rates due to  
19 concentric neutral corrosion, underground cable faults, and splicing junction  
20 failures. These elevated failure rates are occurring as the equipment is reaching  
21 the end of the manufacturers' life expectancy for this type of equipment. The  
22 selection criteria used to prioritize URD rehabilitation included the number of  
23 service interruptions within a rolling twelve-month period, number of equipment

1 failures, type of URD construction and operating condition, number of customers  
2 within the plan, and date of original installation.

3  
4 Rehabilitation of these URD facilities will include the replacement of exposed  
5 concentric neutral primary cable with the current jacketed style. Also,  
6 submersible transformers and separable splicing junctions will be replaced with  
7 above grade equivalents.

8  
9 Duquesne Light's URD customers will benefit from improved reliability due to  
10 both a reduction of the number of outages and the duration of these outages. In  
11 addition, these customers will experience improved service restoration of future  
12 outages as a result of increased operational flexibility within the rehabilitated  
13 URD system.

14  
15 Projects to be completed in 2010 include URD-served residential customers in the  
16 Findlay Township, Monroeville, O'Hara, Hookstown, Plum Borough, White Oak,  
17 Fox Chapel, Daughterty, Verailles, and Moon areas.

18  
19 The URD rehabilitation projects include \$9.2 million of the spending in the  
20 budget in the Future Test Year.

21  
22 Service Capacity and Reliability Major Project #3: Increasing the capacity of a  
23 major distribution substation by adding switchgear.

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One of Duquesne Light’s large substations provides service to more than 20,000 customers in a densely populated area of the City of Pittsburgh. The importance of the station is enhanced by the fact that the Convention Center and three major hospitals are served by this substation. This project will install two bus sections, associated 23 kV switchgear, and connect the new equipment to an existing transformer at the substation.

This project will increase the capacity rating of the substation and provide better operational flexibility in the event of certain equipment failure scenarios. In addition, this substation will better serve as a back-up source for adjacent bulk supply substations. Duquesne Light customers served by this substation will benefit from this project through improved reliability based on increased capacity for additional customer load. Also, the number and duration of outages will be reduced due to an increase in operational flexibility provided by the additional bus sections.

The substation serves customers in numerous areas including the North Side, the Strip District, Bloomfield, Lawrenceville, Etna, Millvale, Oakland, Shadyside, East Liberty, Garfield, and the Hill District.

This project budget includes \$4.0 million in the Future Test Year.

1        Service Capacity and Reliability Major Project #4: Increasing the capacity of  
2        Elwyn Substation by replacing existing transformers with higher capacity  
3        transformers.

4  
5        Elwyn Substation is a bulk supply substation that was placed in service in 1959.  
6        The substation supplies the heavily populated South Hills area of Pittsburgh.  
7        Load growth in the area served by Elwyn substation has reached the point at  
8        which the substation requires additional capacity, and moderate load growth in  
9        this area is expected in the future. The Elwyn project replaces three 50 MVA  
10       transformers with three 100 MVA transformers. The project will alleviate an  
11       estimated overload projected for 2010, provides capacity to meet load growth  
12       projections over the next 10 years for customers served by Elwyn Substation, and  
13       will permit increased load transfer to Elwyn Substation from neighboring bulk  
14       supply substations in the event of an overload or failure at the other substations.  
15       Transfer of loads from other substations allows greater flexibility during  
16       maintenance activities and circuit interruptions caused by weather, equipment  
17       failure, and other events.

18  
19       Duquesne Light's customers will benefit from this project by continued reliable  
20       service as well as a reduction in the duration of potential future outages due to the  
21       increased operational flexibility of load transfers not currently available.

22

1 Elwyn Substation serves customers in numerous areas including Baldwin Boro,  
2 Pleasant Hills, Whitehall, Baldwin Township, Brentwood, Brookline, Edgebrook,  
3 Overbrook, Banksville, Beechview, Castle Shannon, Dormont, Mt. Lebanon, and  
4 Bethel Park.

5  
6 The Future Test Year capital budget includes \$3.9 million for the Elwyn  
7 Substation Project.

8  
9 Service Capacity and Reliability Major Project #5: Replacing end-of-life  
10 transformers at Forbes Substation.

11  
12 The Forbes substation provides service to downtown Pittsburgh, and two of the  
13 three transformers at the substation were placed in service in the late 1950s. The  
14 critical nature of the load and limited ability to provide service to the customers  
15 served by Forbes in the event of a transformer failure require the transformers and  
16 associated equipment to be at a high state of reliability. Also, the Forbes  
17 Substation is being converted from a 69 kV supply and air insulated bus design to  
18 a 138 kV supply and gas insulated bus design. Duquesne Light is performing  
19 this transmission work, because the 69-kV equipment at the substation is at end of  
20 life. (As the transmission supply portion of this project involves transmission  
21 assets, the cost of that portion is separate from the cost information included  
22 below.) The age of the two original transformers and the transmission work in the

1           substation requires that all three transformers and associated distribution  
2           equipment be replaced.

3  
4           Duquesne Light's customers will benefit from this project through continued  
5           reliable service to critical downtown Pittsburgh load. If the transformers were to  
6           fail there could be extended outages to critical portions of downtown Pittsburgh.

7  
8           The Future Test Year budget includes \$7.0 million for this project.

9  
10          Service Capacity and Reliability Major Project #6: Adding four distribution  
11          circuits to allow for the elimination of Ambridge Substation.

12  
13          Ambridge Substation was originally constructed in the mid 1920s, contains much  
14          of the original equipment, and is badly in need of significant rehabilitation or  
15          elimination. Most equipment at Ambridge, including the 23kV transformers, has  
16          been categorized as obsolete (i.e., a type or style that is no longer current) and/or  
17          has no replacement parts available. The station was also supplied from the 69kV  
18          transmission system. As part of Duquesne Light's program to convert 69-kV  
19          transmission lines to 138-kV transmission lines, substations located in Sewickley  
20          and Legionville were converted to 138-kV supply. These projects provided an  
21          opportunity to use these two upgraded substations to supply distribution load  
22          currently supplied by the Ambridge Substation. Since the newly upgraded  
23          Sewickley and Legionville Substations were sufficient in capacity to serve the

1 Ambridge Substation load, the decision was made to eliminate Ambridge  
2 Substation instead of investing in rebuilding Ambridge Substation.

3  
4 Prior to removing the Ambridge Substation the distribution load it serves must be  
5 connected to another source. This Ambridge Substation Elimination project  
6 involves constructing four distribution circuits – two that will serve customers  
7 from the Legionville Substation and two that will serve customers from the  
8 Sewickley Substation.

9  
10 Duquesne Light customers will benefit from this project by improved reliability  
11 as a result of replacing aged 4 kV infrastructure with new automated 23 kV  
12 distribution circuits and by the elimination of an old and near end-of-life  
13 substation.

14  
15 Ambridge Substation serves customers located in Ambridge, Bell Acres,  
16 Edgeworth, Franklin Park, Harmony, Leet Township, Leetsdale, and Sewickley  
17 Hills.

18  
19 The Ambridge Substation Elimination project has \$3.9 million in the Future Test  
20 Year capital budget.

21  
22 Service Capacity and Reliability Major Project #7: Upgrading the mobile  
23 substation fleet and purchasing several spare power transformers.

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Duquesne Light uses mobile substations as an alternate source of power for substations during specific substation maintenance and repair activities and as an alternate source in response to a major substation equipment failure. Duquesne Light's current fleet of five mobile substations is aging and subject to a higher likelihood of failure.. Four of the existing mobile substations range from 20 years old to 58 years old. As a result of the age of the existing fleet and the criticality of having mobile substations available for use, this project will purchase three new mobile substations to replace the two oldest units and add one unit to the fleet. This project also includes funding to purchase ten spare power transformers ranging in size from 333 kVA to 7.5 mVA that were identified as critical spares for being able to respond to customer transformer failures.

Duquesne Light customers will benefit in that Duquesne Light will remain ready to respond to substation equipment failures and be able to perform maintenance at substations without unnecessary outages.

The Future Test Year capital budget includes \$4.0 million for this project.

Service Capacity and Reliability Major Project #8: Conversion of a 4-kV circuit in the Bakerstown area to 23-kV and elimination of the Bakerstown Substation.

1 The Bakerstown Substation was placed in service in 1939, and the area served by  
2 the substation was primarily rural. Since then the Richland Township area served  
3 by this substation has experienced load growth with residential customers, and the  
4 existing 4kV circuit is near fully loaded with the substation equipment  
5 approaching end of life. This project will eliminate the substation. The  
6 equipment on the existing 4 kV circuit will be converted to 23 kV operation, and  
7 the load will be transferred to an adjacent 23 kV distribution circuit.

8  
9 Duquesne Light Customers served by this circuit will benefit by continued  
10 reliable service which would likely deteriorate due to the age of existing  
11 substation equipment and potential overload conditions. The project eliminates  
12 an aged 4 kV circuit, replaces it with automated 23kV distribution, and provides  
13 sufficient capacity to serve the residential areas.

14  
15 The Bakerstown Project has a Future Test Year budget of \$2.0 million.

16  
17 **Q. Please explain “Infrastructure Support” as a primary reason for making**  
18 **capital additions.**

19 A. Meeting the critical needs of Duquesne Light customers requires more than an  
20 electric distribution system. It requires assets to support the workforce who  
21 operate and maintain that system and provide other services to our customers.  
22 Infrastructure Support capital additions include items such as new vehicle  
23 purchases needed to replenish our fleet, information processing system

1 improvements needed to provide customer account, billing, and payment  
2 processing services, upgrades to existing facilities, and the construction of new  
3 facilities needed to support our workforce.

4  
5 Forecasts of capital additions for Infrastructure Support are based on past  
6 experience for items such as facility upgrades, and on analysis of needs for items  
7 such as new facilities, vehicle replacements, and information system  
8 improvements.

9  
10 **Q. Please summarize the types of capital projects or programs that are included**  
11 **in the Future Test Year budget for “Infrastructure Support”.**

12 A. In the Future Test Year, Duquesne Light will invest \$22.8 million in  
13 Infrastructure Support projects including annual vehicle, communications,  
14 information technology, and facility improvements.

15  
16 **Q. Has the Company included any capital costs related to its Smart Meter Plan**  
17 **or its Energy Efficiency and Conservation Plan in its rate base claim in this**  
18 **proceeding?**

19 A. No. The Company is not claiming any capital costs for these programs in its rate  
20 base claim in this proceeding.

21 **Q. Are the capital additions described in your testimony necessary?**

22 A. Yes, they are. The additions described previously constitute necessary capital  
23 additions required to meet the needs of Duquesne Light customers.

1

2 **Q. Does this conclude your direct testimony?**

3 A. Yes, it does.

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**Exhibit SRW-1**  
**Duquesne Light Company**  
**April 1, 2010 through March 31, 2011 Capital Budget**  
**(\$ Millions)**

	<b>Capital Budget</b>
Distribution	
Service Restoration	24.4
Customer Commitments	22.5
Service Capacity & Reliability	100.1
<b><i>Subtotal – Distribution</i></b>	<hr/> 147.0
 Infrastructure Support	 22.8
 Transmission - Service Capacity & Reliability	 91.2
 <b>Total</b>	 <hr/> <b>261.0</b>