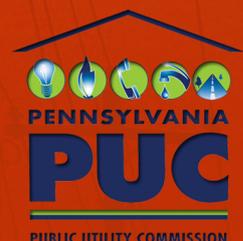




**DUQUESNE LIGHT COMPANY**  
**MANAGEMENT EFFICIENCY INVESTIGATION**  
**EVALUATING THE IMPLEMENTATION OF SELECTED**  
**MANAGEMENT AUDIT**  
**RECOMMENDATIONS FROM THE 2006 FOCUSED**  
**MANAGEMENT AND OPERATIONS AUDIT**

**Prepared by the**  
**Pennsylvania Public Utility Commission**  
**Bureau of Audits**  
**Management Audit Division**  
**Issued October 2010**

**Docket No. D-2009-2083182**



**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION**

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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION**

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## I. INTRODUCTION

### A. Background

In August of 2004, the Management Audit Division (Audit Staff) of the Pennsylvania Public Utility Commission's (PUC or Commission) Bureau of Audits initiated a Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company). Duquesne Light is a public utility subject to regulation by the PUC. Duquesne Light Holdings, Inc., a Pennsylvania corporation, is an energy services holding company which directly owns the utility, Duquesne Light. DQE Holdings, LLC, a Delaware limited liability company, is a holding company formed in July 2006 to acquire Duquesne Light Holdings, Inc. DQE Holdings, LLC has no operations and is owned by six separate investment organizations led by Macquarie Infrastructure Partners and Diversified Utility and Energy Trusts. The Audit Staff subsequently completed its work and, in April 2006, issued a final report containing 15 recommendations for improvement. Duquesne Light submitted its Implementation Plan on May 5, 2006 indicating acceptance of all recommendations. On May 19, 2006, at D-04MGT027, the Commission made both the audit report and Implementation Plan public and directed Duquesne Light to:

- Proceed with its May 5, 2006 Implementation Plan.
- Submit progress reports on the implementation annually, by July 1, for the next three years.

Since the audit report was made public, Duquesne Light has submitted three Implementation Plan updates as requested by the Commission to ascertain the Company's progress in implementing the recommendations from the management audit report. Based on a review of these updates, the Audit Staff elected to conduct a Management Efficiency Investigation (MEI) of Duquesne Light's progress in implementing 10 of the original 15 recommendations. Specific items of management effectiveness and operational efficiency may be investigated pursuant to Title 66 Pa. C.S. § 516(b).

### B. Objective and Scope

The objective of this MEI was to review and evaluate the effectiveness of Duquesne Light's efforts to implement certain recommendations contained in the April 2006 Focused Management and Operations Audit Report. The scope of this evaluation was limited to Duquesne Light's efforts in implementing 10 prior management audit recommendations in the functional areas of:

- Organizational Structure
- Affiliated Relationships
- Customer Service
- Purchasing/Materials Management
- Diversity & Equal Employment Opportunity

Additionally, the Audit Staff deemed it prudent to review Duquesne Light's compliance with PUC regulations at 52 Pa. Code Chapter 101 regarding physical security, cyber security, emergency response, and business continuity plans.

### **C. Approach**

This MEI was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). Actual fieldwork began on May 19, 2009, and continued through May 3, 2010. The fact gathering process included:

- Interviews with Duquesne Light personnel.
- Analysis of selected Duquesne Light records, documents, reports, and other information for the period 2004 through 2009.
- Visits to select Company facilities.

## II. SUMMARY OF MANAGEMENT EFFECTIVENESS AND OPERATING EFFICIENCY

The Audit Staff found that Duquesne Light Company (Duquesne Light or Company) has effectively or substantially implemented all 10 prior management audit recommendations reviewed. Among the more notable improvements achieved by the management of Duquesne Light are:

- Implementing a succession planning process for senior management and management positions.
- Filing and receiving Commission approval of all required affiliated interest agreements.
- Establishing procedures requiring documentation of Duquesne Light's Board of Directors' approval for all inter-company loans and amendments thereto.
- Significantly reducing its amount of accounts receivable write-offs resulting in an average annual savings of approximately \$9.4 million.
- Reducing long-term residential arrearages resulting in average annual savings of \$59,000.
- Significantly reducing its justified payment arrangement request rate.
- Reducing response times to consumer complaints.
- Conducting regular reviews of inactive inventory to identify, write off, and dispose of obsolete inventory resulting in a one-time savings of \$1.2 million and annual savings of \$117,400.

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

- Increase its collection agency recovery rates for closed customer accounts which could increase its annual cash flow by approximately \$186,000.
- Further reduce the average response time to payment arrangement requests.

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

**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's <u>Prior Recommendations</u></b>	<b>Originally Targeted Completion <u>Date</u></b>	<b>MEI Finding <u>Number</u></b>	<b>Staff's Follow-up Findings and Conclusions <u>as of December 16, 2009</u></b>	<b>Staff's Follow-up <u>Recommendation</u></b>
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**III. ORGANIZATIONAL STRUCTURE**

Develop, document and implement a formal succession planning process and management development program.	4 <sup>th</sup> Quarter 2007	1.	Duquesne Light has an adequate succession planning process in place.	None.
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**IV. AFFILIATED RELATIONSHIPS**

File affiliated interest agreements with the Commission for the DQE Capital Cash Pool arrangement, Intercorporate Tax Payment Agreement, any outstanding intercompany loans, and for any similar future agreements, contracts or loans.	4 <sup>th</sup> Quarter 2005	2.	All required affiliated interest agreements have been filed with and approved by the Commission.	None.
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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
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<b>Public Utility Commission Bureau of Audit's Prior Recommendations</b>	<b>Originally Targeted Completion Date</b>	<b>MEI Finding Number</b>	<b>Staff's Follow-up Findings and Conclusions as of December 16, 2009</b>	<b>Staff's Follow-up Recommendation</b>
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**IV. AFFILIATED RELATIONSHIPS (CONT.)**

Collect \$22.8 million in interest from Duquesne Light Holdings, Inc. (Holdings), and prospectively seek and document the Board of Director's approval for any changes to future intercompany loans.	1 <sup>st</sup> Quarter 2006	3.	Duquesne Light received a cash contribution of \$27,562,500 from Holdings on February 27, 2006, and has established procedures requiring documentation of Duquesne Light's Board of Directors' approval for all inter-company loans and amendments thereto.	None.
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**V. CUSTOMER SERVICE**

Initiate efforts to reduce the amount of accounts receivable write-offs by consistently enforcing appropriate Company procedures both before and after accounts are written off.	4 <sup>th</sup> Quarter 2006	4.	Duquesne Light has significantly reduced its percentage of residential accounts receivable write-offs.	None.
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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's <u>Prior Recommendations</u></b>	<b>Originally Targeted Completion Date</b>	<b>MEI Finding Number</b>	<b>Staff's Follow-up Findings and Conclusions <u>as of December 16, 2009</u></b>	<b>Staff's Follow-up <u>Recommendation</u></b>
<b><u>V. CUSTOMER SERVICE (CONT.)</u></b>				
Implement policies and procedures to reduce long-term residential customer arrearages.	4 <sup>th</sup> Quarter 2006	5.	Duquesne Light has reduced its long-term residential customer arrearages and they are now more in line with the other Pennsylvania electric distribution companies.	None
Strive to increase the collection agency recovery rates.	1 <sup>st</sup> Quarter 2007	6.	Duquesne Light's recovery rates for collections of closed accounts had improved for a few years but in 2009 was worse than its 2004 levels.	Strive to increase the collection agency recovery rates for closed customer accounts and sustain the improved rates for more than a few years.

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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's <u>Prior Recommendations</u></b>	<b>Originally Targeted Completion Date</b>	<b>MEI Finding Number</b>	<b>Staff's Follow-up Findings and Conclusions <u>as of December 16, 2009</u></b>	<b>Staff's Follow-up <u>Recommendation</u></b>
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**V. CUSTOMER SERVICE (CONT.)**

Implement policies and procedures to ensure that payment arrangements are consistently negotiated in compliance with PUC regulations and the new Chapter 14 of Title 66, Pennsylvania Consolidated Statutes.	4 <sup>th</sup> Quarter 2007	7.	Duquesne Light has significantly reduced its justified payment arrangement request rate.	None.
Develop measures to reduce response times to customer complaints and payment arrangement requests.	4 <sup>th</sup> Quarter 2006	8.	Duquesne Light has reduced response times to consumer complaints and payment arrangement requests, however, the response times to payment arrangement requests is still higher than the average of other Pennsylvania electric utilities.	Strive to further reduce average response time to payment arrangement requests and maintain the improved response time to customer complaints.

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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
STAFF'S FOLLOW-UP FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

<b>Public Utility Commission Bureau of Audit's Prior Recommendations</b>	<b>Originally Targeted Completion Date</b>	<b>MEI Finding Number</b>	<b>Staff's Follow-up Findings and Conclusions as of December 16, 2009</b>	<b>Staff's Follow-up Recommendation</b>
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**VI. PURCHASING/MATERIALS MANAGEMENT**

Review the inactive inventory to determine which inventory items are obsolete, write-off the obsolete inventory, and consistently apply the established procedures for identifying and disposing of this inventory.	3 <sup>rd</sup> Quarter 2007	9.	Duquesne Light is regularly reviewing inactive inventory to determine if it supports the Company's current infrastructure, writing off any obsolete inventory, and disposing of inventory deemed obsolete.	None.
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**VII. DIVERSITY & EEO**

File an annual Diversity Report with the Commission.	2 <sup>nd</sup> Quarter 2007	10.	Since 2006 Duquesne Light has been filing annual Diversity Reports with the Commission; however, until 2009 the reports did not include the tracking of persons with disabilities-owned business enterprises (DBE).	None.
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**DUQUESNE LIGHT COMPANY  
MANAGEMENT EFFICIENCY INVESTIGATION  
SUMMARY OF APRIL 2006 MANAGEMENT AUDIT RECOMMENDATIONS AND  
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**VIII. EMERGENCY PREPAREDNESS**

11.	Duquesne Light has developed and maintains appropriate written physical security, cyber security, emergency response, and business continuity plans.	None.
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### III. ORGANIZATIONAL STRUCTURE

**Background** – The focused management and operations audit of Duquesne Light Company (Duquesne Light or Company) conducted by the Pennsylvania Public Utility Commission and issued in April 2006, at D-04MGT027, contained one recommendation in the Organizational Structure functional area. In this chapter, the prior recommendation and prior situation are reviewed and one follow-up finding is presented.

**Prior Recommendation** – Develop, document and implement a formal succession planning process and management development program.

**Prior Situation** – The Company generally followed a process to identify and promote the most capable employees up through the organization; however, it had no documented plans and actions to implement the plan in a continuous and organized manner. It is a sound business practice for a company to use formal succession planning to identify and prepare candidates for future openings in key positions that become vacant due to retirement, resignation, death, new business opportunities, new environments, etc.

The three basic goals of succession planning are the identification of critical management positions within the organization, the identification of future vacancies in those positions, and the identification of employees (if any) who would potentially fit into these vacancies. Prior identification permits opportunities for mentoring and developmental activities to improve an employee's readiness to succeed to specific positions. Formal succession planning enables continuity in leadership and helps to avoid extended and costly vacancies in key positions. The succession plan and the actions taken to implement the plan should be documented to ensure that the original intentions of succession planning were accomplished, particularly in the event of an untimely departure of those involved with the succession planning process.

A formal management succession process is also a key factor in good corporate governance. Succession planning facilitates lifelong, continuous learning and improvement by management candidates. By developing and documenting the succession plan along with the actions taken to implement the plan, the Company will have a formal road map for mentoring and developing employees to succeed to specific positions, thus assuring continuity in leadership in the event of vacancies in key positions.

**Follow-Up Finding and Conclusion No. 1** – Duquesne Light has an adequate succession planning process in place.

In early 2009, DQE Holdings, LLC's Compensation Committee assumed responsibility for senior-level succession planning at Duquesne Light. Positions covered include the President & CEO, Senior Vice President & Chief Operating Officer, Senior Vice President & Chief Financial Officer, and all direct reports to the Senior Vice Presidents (i.e., the seven Director-level positions and the Vice President of Corporate

Development). A Compensation Committee Charter (Charter) was being developed in early 2010. The Charter, which was still in draft form as of April 2010, specifies that the Compensation Committee will be responsible for overseeing Duquesne Light's succession planning process and maintaining a succession plan for the Company's executive officers. At least annually, the Compensation Committee is to review the succession plan with the Board of Directors of DQE Holdings, LLC (Board). In addition, the Compensation Committee will have responsibility for the development of managerial personnel. Duquesne Light anticipates that the Charter will be submitted for Board approval at the May 2010 Board meeting.

Duquesne Light's Succession Plan provides the President & CEO with a succession planning template to assist with the succession planning process. The template is used to list potential successor candidates for senior-level positions. Annually, the President & CEO will hold discussions with the Board in order to obtain their input and to provide assurance to the Board that he is carrying out his responsibilities in regards to the succession planning process. The objectives of the Succession Plan are to:

- identify critical skills/knowledge (technical, managerial, market, relationships, and leadership);
- develop a short-term vacancy/replacement plan to estimate the probability of an individual leaving, identify how an individual would be replaced, and specify the risk as to whether a replacement is available; and
- establish medium/long-term succession by developing talent to grow internal candidates to succeed senior executives (i.e., through training, assigning different job responsibilities, etc.)

The Succession Plan attempts to identify the difficulty of replacing a particular position. Both the short-term vacancy/replacement plan section and the medium/long-term succession/development plan section list, for each position, the name of the executive, the position title, his or her tenure (in years), the key contribution of the position, and the 3-year voluntary vacancy risk (i.e., percentage probability of leaving). The short-term vacancy/replacement plan section also includes the replacement plan for each position and rating of the risk to the Company (i.e., low, medium, or high). The medium/long-term succession/development plan section also lists the planned successor and his or her developmental needs. Particular focus is given to positions that require a high level of critical skills/knowledge and whose difficulty of finding a replacement is high. Tracking of development progress is accomplished through the performance review process. The Company strives to reward learning and prefers to promote an inside candidate when a vacancy occurs, but also recognizes that outside hires are still necessary in order to bring in new ways of thinking.

Director-level positions are responsible for succession planning for lower-level positions (e.g., Managers). Just as the President & CEO uses a succession planning template to assist with the succession planning process, the Directors use a Successor Candidates Form as a guide to succession planning. Up to three candidates can be listed for each position. Each candidate can receive one of three ratings: 1 = Ready Now, 2= Ready in 1-2 years, and 3=Ready in 3+ years. Directors and Managers should

already know the strengths and weaknesses of their direct reports. Duquesne Light's performance evaluation process allows a Director or Manager to gain insight into succession planning, which is a fluid process. Performance evaluations are done annually where skill/knowledge gaps are identified, and development goals are established. Strengths and weaknesses are also listed.

The performance evaluation process for Directors and Managers establishes goals and objectives at the beginning of each year. Each Director or Manager also has 6 or 7 competencies. At the end of each year, Directors or Managers are evaluated based on whether or not they met their objectives.

Core competencies have also been developed for positions below the Manager level. These positions are evaluated based on how well they perform their job duties, as listed in the job description.

The Human Resources Department is responsible for coordinating the succession planning process. The Director, Human Resources receives all performance evaluations and maintains close contact with Directors and Managers in regards to performance issues. The Manager, HR Programs and Services is responsible for directing and implementing training programs. Courses are aligned with the required competencies of the position. Development training is provided to managerial and high-potential employees; this may include mentoring, training courses, seminars, work assignments, etc.

Duquesne Light's formalized succession planning has identified critical management positions, estimated the probability that a particular individual might leave, identified potential successors, and implemented position specific training programs.

**Staff's Follow-up Recommendation – None.**

## IV. AFFILIATED RELATIONSHIPS

**Background** – The focused management and operations audit of Duquesne Light Company (Duquesne Light or Company) conducted by the Pennsylvania Public Utility Commission and issued in April 2006, at D-04MGT027, contained two recommendations in the Affiliated Relationships functional area. In this chapter, the two prior recommendations and prior situations are reviewed and two follow-up findings are presented.

As discussed in Chapter I Introduction, Duquesne Light is a public utility subject to regulation by the PUC. Duquesne Light Holdings, Inc. (Holdings), a Pennsylvania corporation, is an energy services holding company which directly owns the utility, Duquesne Light. DQE Holdings, LLC, a Delaware limited liability company, is a holding company formed in July 2006 to acquire Holdings. DQE Holdings, LLC has no operations and is owned by six separate investment organizations led by Macquarie Infrastructure Partners and Diversified Utility and Energy Trusts. Starting in 2002, the administrative functions previously performed by Holdings were transferred to Duquesne Light. As a result, Duquesne Light receives a fee for administrative services performed on behalf of Holdings and its affiliates. The administrative service fees are comprised of salaries, benefits and incentive payments plus other miscellaneous amounts calculated using an allocation method that considers the cost of actual or estimated services performed on behalf of Holdings or its affiliates.

**Prior Recommendation** – File affiliated interest agreements with the Commission for the DQE Capital Cash Pool arrangement, Intercorporate Tax Payment Agreement, any outstanding intercompany loans, and for any similar future agreements, contracts or loans.

**Prior Situation** – The Commission's management and operations audit of Duquesne Light identified arrangements or transactions with affiliated companies that were not covered by affiliated interest agreements approved by the Commission. These arrangements/transactions included an intercorporate tax sharing agreement with Duquesne Light Holdings, Inc. (Holdings), a cash pool arrangement with DQE Capital Corporation, a \$250 million loan made to Holdings in 2000, and a \$125 million loan made to Holdings in 2002.

No arrangements/transactions between affiliates should take place without prior Commission approval. The Public Utility Code at 66 Pa. C.S. §2101(a) gives the Commission the authority to approve contracts or arrangements between a public utility and any affiliated interest. Although the Company claimed that the arrangements or transactions in question were covered under its Administrative Services Agreement originally approved by the Commission in 1989 at Docket No. G-00890176, and amended by Commission approvals on May 9, 1996 at Docket No. G-00960472, and October 5, 2004 at Docket No. G-00041076; the Audit Staff found each of the transactions in question to be separate and unique, thus requiring explicit approval.

**Follow-up Finding and Conclusion No. 2 – All required affiliated interest agreements have been filed with and approved by the Commission.**

On October 7, 2005, Duquesne Light filed an affiliated interest agreement with the Commission regarding its participation in a cash pool arrangement among its affiliates. This agreement was approved by the Commission on November 9, 2006, at Docket No. G-00051141. On December 1, 2005, Duquesne Light filed an affiliated interest agreement with the Commission for its inclusion as a party in an intercorporate tax payment agreement with its affiliates. This agreement was approved by the Commission on June 5, 2006, at Docket No. G-00051152. The \$125 million loan made to Holdings in January 2002 was repaid in full in July 2002. The \$250 million loan made to Holdings in April 2000 was repaid in August 2005. As of April 2010, there were no outstanding intercompany loans from Duquesne Light to any affiliate.

In addition to the above-mentioned affiliated interest agreements filed with the Commission, five other affiliated interest agreements were also filed with and approved by the Commission. They are as follows:

- Affiliated interest agreement between Duquesne Light Company and Duquesne Light Holdings, Inc. (Filed with the Commission on August 29, 2008; approved by the Commission on December 2, 2008, at Docket No. G-2008-2060987.)

This agreement allows Duquesne Light to borrow from its parent, Duquesne Light Holdings, Inc., on a short-term basis to permit it to finance necessary construction of facilities and otherwise operate its business. Up to \$100 million may be borrowed at any given point in time. The borrowings under the promissory notes are due upon demand from the holder. The interest rate is the London Interbank Offered Rate plus 1.25%. The interest rate applied to the outstanding balance is calculated quarterly. For example, the interest rate for the 4<sup>th</sup> quarter would be calculated in advance on September 30, and that rate would change again for all succeeding quarters. The rate is applied to the outstanding balance for the next succeeding quarter on a daily basis. Payments of principle can be made by Duquesne Light to its parent at any time.

Duquesne Light indicates in its filing that these terms are commercially reasonable and reflect today's prevailing market conditions. It also indicates in its filing that this arrangement would provide no preference or undue advantage to the parent or any other company in the Duquesne Light family.

- Affiliated interest agreement between Duquesne Light and DQE Communications LLC (DQEC). (Filed with the Commission on April 6, 2006; approved by the Commission on June 2, 2006, at Docket No. G-00061167.)

This agreement relates to Duquesne Light's lease of a fiber optic communications system (Sonet Fiber Use Agreement) from DQEC. Duquesne Light, by leasing certain portions of DQEC's fiber optic network in

Allegheny, Beaver, and Washington counties, sought to improve its internal communications with its substations by replacing microwave and copper communications plant serving its protective relay system with a fiber optic communications system. Two single mode fiber optic strands configured in a point-to-point mode were to be leased. The Sonet Network constructed by DQEC for Duquesne Light was to consist of two fiber rings, diversely routed between all Sonet equipment locations. The agreement provides for lease payments for operation, use, maintenance and support for the needed communication facilities at the fee of \$75,250 per month. The fee is fixed for a 15 year period. The term is for 15 years, with the possibility of extension(s).

- Affiliated interest agreement between Duquesne Light and Duquesne Broadband, LLC (DQE Broadband). (Filed with the Commission on August 4, 2005; approved by the Commission on December 15, 2005, at G-00051124.)

This agreement pertains to the provision of broadband services by DQE Broadband over the power lines of Duquesne Light. Under the agreement, Duquesne Light grants DQE Broadband the right to operate its Broadband Over the Powerlines (BPL) system and provide, on a pilot program basis, Internet access services to end-user customers using Duquesne Light's regulated electric distribution system. The agreement requires DQE Broadband to pay Duquesne Light for the right to attach to and utilize Duquesne Light's regulated electric distribution system to provide BPL services. The terms of the agreement also require Duquesne Light to install and/or maintain BPL equipment on its distribution system at DQE Broadband's request. The terms require DQE Broadband to pay all costs of such installation and/or maintenance. DQE Broadband's information services and power management services are subordinated to Duquesne Light's priority of meeting its obligations to provide safe, adequate and reliable electric services to its customers.

- Affiliated interest agreement between Duquesne Light and DataCom Information Systems, LLC. (Filed with the Commission on June 24, 2005; approved by the Commission on December 15, 2005, at Docket Nos. A-110150F0032 and G-00051116.)

This agreement pertains to the performance of electronic meter reading services by DataCom for Duquesne Light. In addition, an Application for Commission approval of the transfer of meters and other related devices from DataCom to Duquesne Light was also filed. DataCom has been providing Duquesne Light with power usage data on its customers within its service territory since 2000. DataCom has been supplying these services pursuant to an administrative services agreement that was approved by the Commission in 1996 at Docket No. G-00960472, with DataCom added as a supplement to the agreement in 2002. Duquesne Light is DataCom's only customer. Duquesne Light entered into an asset sale agreement with DataCom on May 23, 2005 to purchase assets of Datacom consisting of power usage monitoring meters, radio communications devices, computer equipment and

software. The net book value of the assets transferred was \$19.5 million. Duquesne Light also entered into a service agreement with DataCom on May 23, 2005 for electronic meter reading services. It was estimated that Duquesne Light would pay DataCom approximately \$1.8 million annually for these services. For the approximately 560,000 meters that are read electronically at least once a month, the price per read is approximately \$0.27 for each meter.

- Affiliated interest agreement between Duquesne Light and DQE Communications, Duquesne Energy Solutions, DQE Financial, Duquesne Power, and Duquesne Light Energy. (Filed with the Commission on September 7, 2005; supplement to the agreement adding Duquesne Light Holdings, Inc. filed with the Commission on December 20, 2005; approved by the Commission on January 25, 2006, at Docket No. G-00051131.)

The agreement pertains to subleasing of vacant office space by Duquesne Light to the six affiliates in return for rental payments. Duquesne Light leases office space for its corporate headquarters and its office functions at 411 Seventh Avenue, Pittsburgh, PA 15219.

Now that it has filed the appropriate affiliated interest agreements with the PUC and has received the PUC's approval for the affiliated transactions, Duquesne Light is in compliance with Sections 2102 and 2105 of the Public Utility Code.

**Staff's Follow-Up Recommendation – None.**

**Prior Recommendation** – Collect \$22.8 million in interest from Duquesne Light Holdings, Inc., and prospectively seek and document the Board of Director's approval for any changes to future intercompany loans.

**Prior Situation** – In April, 2000, Duquesne Light loaned Duquesne Light Holdings, Inc. (Holdings) \$250 million from the proceeds on the sale of generation facilities. The loan agreement required Holdings to pay Duquesne Light interest at the rate of 8 percent per year. From the loan inception in April 2000 through December 31, 2001, Duquesne Light collected interest at the stated rate of 8 percent per year. On January 1, 2002, the interest rate was changed to 5 percent and this lower rate was used through December 31, 2004; however, this change in the terms of the loan was never approved by the Commission.

All contracts between a public utility and any affiliated interest are not valid or effective unless and until such contract or arrangement has received the written approval of the Commission. Section 2102(a) of the Public Utility Code (Code) gives the Commission the authority to approve contracts between public utilities and their affiliates. Also, Section 2105 of the Code requires that modifications to a contract between a public utility and any affiliated interest receive Commission approval to remain valid.

Duquesne Light's management was unable to produce a new or revised loan agreement which stipulated approval to use the lower 5% rate of interest. The original loan was documented in writing and was approved by unanimous consent of the Duquesne Light Board of Directors on the date of the loan. Changes in a material clause such as the interest rate should have the same level of approval and documentation. By adhering to the original terms of the documented loan agreement, Holdings owed Duquesne Light \$22.8 million in additional interest for the period from January 1, 2002 through December 31, 2004. This amount represented the difference in interest income generated using the loan's stated interest rate of 8% versus the 5% interest rate Duquesne Light actually used during the period.

**Follow-up Finding and Conclusion No. 3 – Duquesne Light received a cash contribution of \$27,562,500 from Holdings on February 27, 2006, and has established procedures requiring documentation of Duquesne Light's Board of Directors' approval for all inter-company loans and amendments thereto.**

Based upon information obtained in the Commission's Focused Management and Operations Audit issued in April 2006, the PUC's Law Bureau initiated an Informal Investigation to ascertain whether Duquesne Light violated Sections 2102 and 2105 of the Public Utility Code by granting an unauthorized rate decrease on a \$250 million loan to its affiliate, Duquesne Light Holdings, Inc. The Informal Investigation found that Duquesne Light violated certain affiliated interest provisions of Chapter 21 by failing to obtain prior Commission approval of the transaction through a specific affiliated interest agreement, and that Duquesne Light's failure to properly document the interest rate change was unreasonable and inconsistent with the public interest. As a result, a Settlement Agreement was made between Duquesne Light and the PUC's Law Bureau. The Commission Order at M-00051929 required that:

- Duquesne Light receive a cash contribution of approximately \$27.6 million from Holdings. This amount is equal to the difference between the interest paid by Holdings at the rate of 5%, and the interest that Holdings would have paid on the loan had the interest rate remained at 8%.
- Duquesne Light develop procedures to ensure documentation of Duquesne Light's Board of Directors' approval for all intercompany loans and amendments thereto.
- Duquesne Light contribute \$250,000 to its Stay Warm Program for use during the 2005-2006 heating season.

Duquesne Light provided a letter dated March 2, 2006 notifying the Commission's Secretary that it received the cash contribution of \$27.6 million from Holdings on February 27, 2006. Duquesne Light developed its Corporate Management Policy to ensure documentation of Duquesne Light's Board of Directors' approval for all intercompany loans and amendments thereto. Duquesne Light Contributed \$250,000 to its Stay Warm Program for use during the 2005-2006 heating season. The entire amount was spent during the 2005-2006 heating season.

**Staff's Follow-Up Recommendation – None.**

## V. CUSTOMER SERVICE

**Background** – The Focused Management and Operations Audit of Duquesne Light Company (Duquesne Light or Company) issued in April 2006, at D-04MGT027, contained five recommendations regarding the Customer Service functional area. In this chapter, five prior recommendations and prior situations are reviewed and five follow-up findings and two recommendations are presented.

**Prior Recommendation** – Initiate efforts to reduce the amount of accounts receivable write-offs by consistently enforcing appropriate Company procedures both before and after accounts are written off.

**Prior Situation** – From 2001 to 2003, Duquesne Light experienced higher percentages of residential gross write-offs than the average of a panel of Pennsylvania electric distribution companies (EDCs), see Exhibit V-1. Duquesne Light's 2002 write-off performance of 5.19% was more than 2.6 times higher than the panel average of 1.97%. The residential accounts receivable write-off percentage decreased in 2003, to 3.69%; however this was still well above the panel average of 1.88%.

**Exhibit V-1**  
**Duquesne Light Company**  
**Percentage of Residential Receivables Gross Write-Off\***  
**2000-2003**

Company	2000	2001	2002	2003
Allegheny Power	1.84%	1.80%	1.65%	1.82%
GPU**	2.66%	2.82%	2.49%	NA
Met.-Ed**	NA	NA	NA	1.80%
PECO-Electric	2.35%	2.45%	2.53%	2.24%
Penelec**	NA	NA	NA	2.16%
Penn Power	2.23%	1.05%	1.35%	1.28%
PPL	1.89%	2.22%	1.82%	2.00%
Panel Average	2.19%	2.07%	1.97%	1.88%
Duquesne Light	2.04%	2.43%	5.19%	3.69%

\*- Does not include Customer Assistance Plan Credits or Arrearage Forgiveness

\*\*- Met Ed. and Penelec are former GPU companies reporting combined data in 2000-2002 and separately for 2003

NA – Not available.

Source: BCS Reports on 2000-2003 Universal Service Programs and Collections Performance

By initiating efforts to reduce the amount of accounts receivable that are deemed uncollectible and written off to the level achieved in 2000 of 2.04%, the Audit Staff estimated that the Company could have increased its cash flow by \$17 million from 2001 to 2003, or an average of approximately \$5.7 million annually.

**Follow-Up Finding and Conclusion No. 4 – Duquesne Light has significantly reduced its percentage of residential accounts receivable write-offs.**

From 2003 to 2008, the Company's percentage of residential receivables gross write-offs continued its downward trend decreasing from 3.69% to 1.26%. Exhibit V-2 compares Duquesne Light's residential accounts receivable gross write-offs from 2004 to 2008 to that of a panel of Pennsylvania EDCs which shows that its percentage of residential receivables gross write-offs in 2007 and 2008 were lower than the panel average. This positive trend in lower residential write-offs appear to be the result of the Company's increased efforts to project accounts receivable write-offs, require additional security deposits, by increasing the number of customers enrolled in its Customer Assistance Plan (CAP), and by strictly following its delinquency collections procedures. The Company's procedure for collecting delinquent accounts begins with a 20 day period in which the customer is to pay the balance of the account after service has been terminated. Once the 20 day period expires, Duquesne Light will wait another 45 days before considering the account uncollectible at which point the account is released to the collection agencies to attempt payment collection.

**Exhibit V-2  
Duquesne Light Company  
Percentage of Residential Receivables Gross Write-Off\*  
2004-2008**

<b>Company</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Allegheny Power	1.86%	1.58%	1.17%	1.09%	1.01%
Met.-Ed	2.11%	2.14%	1.89%	1.93%	1.91%
PECO-Electric	2.39%	2.22%	1.99%	2.82%	2.25%
Penelec	2.33%	2.58%	2.20%	2.07%	2.00%
Penn Power	1.69%	2.27%	1.93%	1.74%	1.81%
PPL	2.43%	1.50%	1.63%	1.68%	1.78%
Panel Average	2.14%	2.05%	1.80%	1.89%	1.79%
Duquesne Light	3.15%	2.58%	2.62%	1.15%	1.26%

\* - Does not include Customer Assistance Plan Credits or Arrearage Forgiveness

Source: BCS Reports on 2004-2008 Universal Service Programs and Collections Performance

Duquesne Light projects its accounts receivable write-offs five years into the future with the most relevance placed on actual performance during the most recent one to two years. This practice is required by the Company's board of directors and DLC provides its projection to the board. This projection is based on the Company's previous two years accounts receivable write-offs compared to revenue. By projecting accounts receivable write-offs 5 years into the future DLC is able to attempt to reduce actual accounts receivable write-offs compared to the Company's projections. The projections help DLC reduce overall accounts receivable write-offs by allowing the Company to adjust automatic CAP enrollment and telephone campaigns accordingly to realize account write-offs that are less than those projected.

Since January 2007, the Company has been using Trans Union to determine if a security deposit is necessary on an individual customer basis. Since that time Duquesne Light's amount of security deposits have increased significantly from \$1.1 million in 2007 to \$3.3 million in 2008 and \$6.9 million in 2009. Customer security deposits provide a hedge to Duquesne Light against the possibility of these customer accounts' being written-off. If an account with a deposit becomes delinquent the Company may deduct the outstanding balance from the deposit. The Company holds security deposits at least 12 to a maximum of 24 months, returning the money plus appropriate interest (at 6% per annum) to the customer when a timely payment history is established by paying the undisputed bills in full and on time for 12 consecutive months. Additionally, participation in the Customer Assistance Plan (CAP) has increased from 25,522 participants in 2006 to about 33,291 participants in 2009, again reducing Duquesne Light's accounts receivable write-offs.

When a customer's account becomes delinquent, the Company's Customer Service Representatives (CSRs) adhere to Duquesne Light's collection procedures. In summary, the CSRs conduct credit calls on approximately the 7<sup>th</sup> day of delinquency, with termination of service notices sent to the customer around the 10<sup>th</sup> day of delinquency. Seven days after the 10 day notice of termination is provided to the customer, a 72 hour notice of termination is sent to customers that are still in default. CSRs conduct a second calling campaign for customers who are on assistance programs that remain delinquent. This calling campaign is to remind customers who have not paid their bill in the last 30 days of their upcoming payment due date. These calls are made 7 days before the upcoming due date. After termination of service, a final bill is sent to the customer and collection calls are conducted daily.

At the time of the prior management audit, the Audit Staff identified Duquesne Light's 2000 performance for the percentage of residential receivables gross write-offs as being a reasonable level of benchmark performance. However, with the implementation of accounts receivable write-off projections, security deposit requirements, and increased CAP participation; Duquesne Light has been able to reduce its amount of accounts receivable write-offs in 2007 and 2008 to significantly lower levels and has actually reached levels lower than that experienced in 2000 (see Exhibit V-1). In fact, since 2007 Duquesne Light's accounts receivable write-offs have been below the panel averages, see Exhibit V-2. By reducing residential receivables gross write-offs to better than its 2003 levels, Duquesne Light has realized an increase

in cash flow of approximately \$28.1 million during 2007 through 2009 or an average of approximately \$9.4 million annually (see Exhibit V-3).

**Exhibit V-3  
Duquesne Light Company  
Realized Cash Flow Increase Due to Reducing  
Gross Residential Write-Off Ratios  
2007-2009**

Year	Difference from 2003 Gross Write-offs Percentage	Residential Sales	Realized Savings
2007	-1.07%	\$451,564,522	\$4,831,740
2008	-2.54%	\$469,775,021	\$11,932,286
2009*	-2.43%	\$466,507,432	\$11,336,131
3 Yr. Total			\$28,100,157
3 Yr. Avg.			\$9,366,719

\* 2009 Data is available for Duquesne Light but not the other EDCs, therefore 2009 data is not used in Exhibits V-2.

Source: PUC Annual Reports, Auditor Analysis

**Staff’s Follow-up Recommendation – None.**

**Prior Recommendation** – Implement policies and procedures to reduce long-term residential customer arrearages.

**Prior Situation** – Duquesne Light experienced declining but still excessive customer arrearages from 2001-2004. Total arrearages decreased from approximately \$56.9 million in 2001 to approximately \$40.4 million in 2004. Residential arrearages ranged from 82.5% of total arrearages in 2001 to 88.7% of total arrearages in 2004. Additionally Duquesne Light’s residential arrearages that were greater than 90 days ranged from approximately 85.9% of total residential arrearages in 2001 to approximately 83.0% of total residential arrearages in 2004. Compared to a panel of Pennsylvania EDCs for the period 2000-2003, Duquesne Light’s average residential arrearage per customer in arrears decreased, from \$619 to \$501, while the panel average increased, from \$270 to \$363; however, Duquesne Light still had a substantially higher average residential arrearage per customer in 2003 than all the other EDCs on the panel. In addition to over-all residential arrearages, Duquesne Light’s low-income arrearage totals were the highest compared to the panel as well. Duquesne Light’s confirmed low income average arrearage per customer in arrears in 2003 was \$994 while the panel’s average in the same year was \$557 (see Exhibit V-4).

**Exhibit V-4**  
**Duquesne Light Company**  
**Confirmed Low Income Electric Customers**  
**Average Arrearage Per Customer In Arrears**  
**Compared to an EDC Panel**  
**2003**

Company	Average Arrearage on a Payment Agreement	Average Arrearage not on a Payment Agreement	Overall Average Arrearage
	\$	\$	\$
Allegheny	943	646	769
Met.-Ed.	664	290	595
PECO-Electric	396	280	327
Penelec	574	224	503
Penn Power	797	265	597
PPL	583	528	548
Panel Average	660	372	557
Duquesne Light	893	1,056	994

Source: BCS Report on 2003 Universal Service Programs and Collections Performance

To reduce arrearages, the Audit Staff recommended that Duquesne Light implement policies and procedures to achieve consistent, timely payments from customers through rapid response to payment arrangement requests, proper negotiation of payment arrangements, the use of CAP for low-income customers, and persistent collection of delinquent accounts. It was estimated that the potential cash flow increase from reducing arrearage levels from 2000 – 2003 would result in an average annual savings of approximately \$8.1 million and total four year savings of approximately \$32.2 million (see Exhibit V-5).

**Follow-Up Finding and Conclusion No. 5 – Duquesne Light has reduced its long-term residential customer arrearages, and is now more in line with the other Pennsylvania electric distribution companies.**

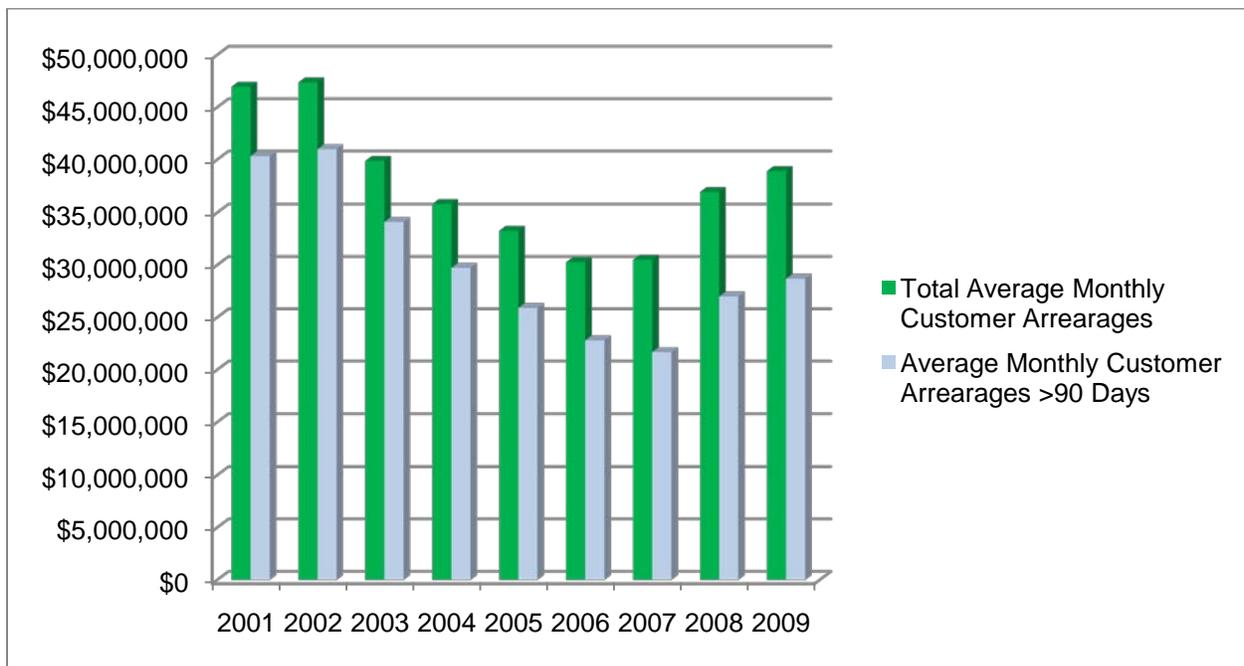
Duquesne Light’s total average monthly residential customer arrearages and monthly residential customer arrearages greater than 90 days from 2001 to 2009 are shown in Exhibit V-6. The Company’s total average monthly customer arrearages for residential customers decreased from \$35.8 million in 2004 to \$30.3 million in 2006, and then increased to \$38.9 million in 2009. Residential customers’ average monthly customer arrearages greater than 90 days decreased from \$29.7 million in 2004 to \$21.7 million in 2007, and then increased to \$28.7 million in 2009. While monthly and greater than 90 days residential customer arrearage figures have decreased significantly from the time of the prior management audit, it is clear to see that in 2008 and 2009 these numbers have consistently been on an upward trend. Duquesne Light attributes this upward trend to the overall economic deterioration of the country and its operating region that has occurred in recent years.

**Exhibit V-5  
Duquesne Light Company  
Potential Cash Flow Increase From Reducing  
Arrearage Levels  
2000 – 2003**

Year	Difference From Panel Average Customer Arrearage*	Number of Customers In Debt	Estimated Realized Savings
2000	\$349	39,163	\$13,676,000
2001	\$199	40,245	\$ 7,993,000
2002	\$180	34,945	\$ 6,276,000
2003	\$138	31,013	\$ 4,269,000
4-Yr Total			\$32,214,000
4-Yr Avg.			\$ 8,054,000

\* - Differences Shown on Exhibit VI-10 of prior Management Audit  
Source: Exhibit VI-11 of prior Management Audit

**Exhibit V-6  
Duquesne Light Company  
Average Monthly Residential Customer Arrearages  
2001-2009**



Source: Data Request Summaries CS-4 and CS-14

A comparison of Duquesne Light's average residential arrearage per customer in arrears to the average of a panel of Pennsylvania EDCs for the period 2004-2008 is shown in Exhibit V-7. Previously, from 2000-2003, Duquesne Light's average residential arrearage per customer in arrears was on average 69% higher than the EDC panel average. Then from 2004 to 2006, Duquesne Light's average residential arrearage per customer in arrears decreased and was comparable to that of the panel average in 2006. However from 2006 to 2008, Duquesne Light's residential arrearage per customer increased 43.3%, while the panel average only increased 12.5% during this same period.

**Exhibit V-7**  
**Duquesne Light Company**  
**Average Residential Arrearage Per Customer in Arrears**  
**2004-2008**

Company	2004	2005	2006	2007	2008
	\$	\$	\$	\$	\$
Allegheny Power	180	94	95	83	87
Met.-Ed.	392	379	413	443	441
PECO	285	319	327	351	388
Penelec	325	315	338	369	364
Penn Power	421	407	403	438	494
PPL	415	350	392	416	437
Panel Average	336	311	328	350	369
Duquesne Light	460	354	337	382	483

Source: BCS Report on 2004 - 2008 Universal Service Programs and Collections Performance

Duquesne Light attributes a significant portion of the 2006-2008 increase in customer arrearages to its 2006 general rate increase, which led to an increase in sales revenue and the corresponding value of its arrearages. The Company's sales revenue was \$367.7 million in 2006 and increased to \$469.8 million in 2008. In addition to increased sales revenue, Duquesne Light asserted that the major economic downturn experienced in its service area during 2008 has also impacted the average arrearage. On the other hand, if the economic downturn was a contributing factor to the increase in average residential arrearages, the panel of EDCs should also have experienced a comparable increase but this is not the case. Duquesne Light's performance from 2007 to 2008 increased by approximately 26%, while the EDC panel had an average increase of approximately 5% with the highest increase being approximately 13%. Two of the EDCs actually experienced a slight decrease from 2007 to 2008.

We also compared Duquesne Light's confirmed low income electric customer's average arrearage per customer in arrears to the EDC panel for 2008, see Exhibit V-8. In 2003, Duquesne Light's confirmed low income electric customers overall average

arrears per customer in arrears was 78.6% higher than that of the panel average (see Exhibit V-4). In 2008, Duquesne Light's low income electric customer's average arrears, per customer in arrears, decreased to 31% higher than the panel average. In addition, from 2003 to 2008, the panel average for confirmed low income electric customers overall average arrears per customer in arrears, decreased 33.8% while Duquesne Light's decreased 51.4%.

**Exhibit V-8**  
**Duquesne Light Company**  
**Confirmed Low Income Electric Customers**  
**Average Arrears Per Customer In Arrears**  
**Compared to an EDC Panel**  
**2008**

Company	Average Arrears on a Payment Agreement	Average Arrears not on a Payment Agreement	Overall Average Arrears
	\$	\$	\$
Allegheny	147	85	87
Met.-Ed.	636	204	441
PECO-Electric	372	389	388
Penelec	548	161	364
Penn Power	681	235	494
PPL	480	416	437
Panel Average	477	248	369
Duquesne Light	566	424	483

Source: BCS Report on 2008 Universal Service Programs and Collections Performance

In an effort to help improve the level of its residential customer arrears, Duquesne Light has implemented the following policies and procedures in recent years:

- In March 2006, Duquesne Light successfully implemented an ongoing process to identify low-income customers who either have been on or need to be on payment arrangements, and since the second quarter of 2006, outbound calling campaigns to identify low-income customers have operated smoothly.
- Broken payment arrangements are systemically and manually tracked daily. In addition, customers whom have broken payment arrangements are contacted via the outbound phone campaigns daily.
- Starting in March 2006, high priority has been placed on the promotion of and the enrollment of appropriate customers into CAP through the use of auto-dialer calling campaigns with customer service style scripting.

- Beginning on January 3, 2007, customers who call DLC expressing issues with making payment are asked for income and number of dependents in order to determine eligibility for placement into CAP.
- Duquesne Light's phased implementation of a revised application process from one with a "good/bad" feature to a three-tiered approach to determine risk and the amounts of security deposits necessary for service was completed during the fourth quarter of 2006. As of January 3, 2007, the three-tiered approach has been in place to determine risk and the amounts of deposits necessary for service.

Reducing the average customer arrearages increases cash flow, which reduces the need to borrow money and lowers interest expenses. A computation of the savings Duquesne Light realized from the reduction in its cash pool borrowing that resulted from the lower average residential customer arrearages is shown on Exhibit V-9. Beginning January 1, 2007, by PUC Order of November 9, 2006, at Docket Number G-00051141, Duquesne Light established a corporate cash pool borrowing arrangement. During 2007, when arrearages were at their lowest point, the savings realized was approximately \$160,000. However, due to the increase in customer arrearages during 2008 and 2009 the savings in subsequent years decreased to approximately \$13,000 and \$6,000, respectively. Overall, from 2007 to 2009, Duquesne Light realized an approximate savings of \$177,000 or an average annual savings of approximately \$59,000.

**Exhibit V-9  
Duquesne Light Company  
Realized Savings from Reduced Average Residential Customer Arrears  
2007-2009**

Year	Difference from 2003 Average Arrearage	Number of Residential Customers in Arrears	Cash Pool Interest Rate	Realized Savings
2007	\$ -119	22,360	5.94%	\$158,054
2008	\$ -18	22,227	3.16%	\$12,643
2009*	\$ -18	22,227	1.48%	<u>\$5,921</u>
<b>3 Yr. Total</b>				<b>\$176,618</b>
<b>3 Yr. Avg.</b>				<b>\$58,873</b>

\* 2009 data is not currently available, this table estimates 2009 data to be similar to that of 2008

Source: 2007-2008 BCS Report on Universal Service Programs and Collections Performance, Auditor Analysis

**Staff's Follow-up Recommendation – None.**

**Prior Recommendation** – Strive to increase the collection agency recovery rates.

**Prior Situation** – Duquesne Light's recovery rate for collection of closed accounts had generally deteriorated from 2000 into 2004. Once a past due customer's account was closed, the Company was using collection agencies to assist in its collection efforts. Between the years 2000 and 2004, Duquesne Light contracted with only two collection agencies at a time for the purpose of closed account balance recovery. As of February 2005, the Company was planning to issue requests for proposals to several other collection agencies and was considering using more collection agencies concurrently.

Recovery efforts by the collection agencies on Duquesne Light's behalf generally declined from 5.1% in 2000 to 2.0% in mid-2004, including a temporary improvement in 2002 and subsequent decline in 2003 and 2004. Other utilities during this timeframe were able to achieve 8% - 10% recovery of the amounts placed into collections. A summary of the Company's collection agency performance for 2000 – 2004 is shown on Exhibit V-10.

**Follow-Up Finding and Conclusion No. 6** – Duquesne Light's recovery rates for collections of closed accounts had improved for a few years but in 2009 was worse than its 2004 levels.

The Company's recovery rates for collections of closed accounts improved from 2004 to 2007, but have then declined since that time. Exhibit V-11 summarizes the performance of Duquesne Light's collection agencies from 2004 to 2009 in terms of the net percentage collected for amounts placed with each agency. It should be noted that individual company information was not available for 2009. The agencies are unnamed and listed in the same fashion that they were provided by Duquesne Light in order to maintain consistency in evaluating the performance of each agency. As an example, Company 1 is not listed in the current data because Company 1 has not been used in several years; however the historical performance of Company 1 is still maintained in Duquesne Light's records and will remain there in case they are used again in the future. This reduces future confusion when tracking agency recovery rates. Duquesne Light's closed account collection rates improved from 3.2% for overall 2004, to 9.5% in 2007, and then declined to 2.9% in 2009.

Duquesne Light was using Companies 3 and 5 through 2009 and is considering whether it would be beneficial to add a third agency. On March 4, 2010, Duquesne Light implemented a settlement plan that is provided to the customers who are referred to the collection agencies that would allow customers to pay a percentage of their amount due (75% - 80%) to settle their account. This settlement agreement will run through June 30, 2010. At that time the pilot program's results will be analyzed and Duquesne Light will determine if the program should continue.

**Exhibit V-10**  
**Duquesne Light Company**  
**Collection Agency Performance**  
**2000 - 2004**

<b>Company 1</b>				
Year	Amount Placed	Amount Collected	Commission (19.8%)	Net % Collected
2000	\$5,901,293	\$378,819	\$75,006	5.1%
2001	5,665,321	334,402	66,212	4.7%

<b>Company 2</b>				
Year	Amount Placed	Amount Collected	Commission (18%)	Net % Collected
2001	\$10,390	\$0	\$0	0.0%
2002	7,340,822	464,111	83,540	5.2%
2003	4,285,928	217,782	39,201	4.2%
4-Aug	2,808,901	59,913	10,784	1.7%

<b>Company 3</b>				
Year	Amount Placed	Amount Collected	Commission (18%)	Net % Collected
2002	\$603,936	\$52,649	9,477	7.1%
2003	4,404,551	256,786	46,222	4.8%
4-Jul	3307187	88,831	15,990	2.2%

<b>All Companies Combined</b>				
2000	\$5,901,293	\$378,819	\$75,006	5.1%
2001	5,675,711	334,402	66,212	4.7%
2002	7,944,758	516,760	93,017	5.3%
2003	8,690,479	474,569	85,422	4.5%
Jul/Aug 2004	6,116,088	148,744	26,774	2.0%

Source: Data Request No. 37 from prior Management Audit

**Exhibit V-11**  
**Duquesne Light Company**  
**Collection Agency Performance**  
**2004-2009**

<b>Company 2</b>				
Year	Amount Placed	Amount Collected	Commission (18%)	Net % Collected
2004	\$6,030,754	\$281,768	\$50,718	3.8%
2005	\$5,657,865	\$445,575	\$80,204	6.5%
2006	\$5,003,312	\$522,512	\$94,052	8.6%
2007	\$3,290,665	\$441,913	\$79,544	11.0%
2008	\$1,980,648	\$157,980	\$28,436	6.5%

<b>Company 3</b>				
Year	Amount Placed	Amount Collected	Commission (18%)	Net % Collected
2004	\$5,458,158	\$170,182	\$30,633	2.6%
2005	\$5,453,892	\$346,704	\$62,407	5.2%
2006	\$5,166,021	\$443,396	\$79,811	7.0%
2007	\$4,516,046	\$463,533	\$83,436	8.4%
2008	\$3,683,409	\$201,385	\$36,249	4.5%

<b>Company 4</b>				
Year	Amount Placed	Amount Collected	Commission (18%)	Net % Collected
2008	\$1,782,788	\$43,470	\$7,825	2.0%

<b>Company 5</b>				
Year	Amount Placed	Amount Collected	Commission (17%)	Net % Collected
2008	\$1,787,675	\$89,835	\$15,272	4.2%

<b>All Companies Combined</b>				
Year	Amount Placed	Amount Collected	Commission	Net % Collected
2004	\$11,488,912	\$451,950	\$81,351	3.2%
2005	\$11,111,757	\$792,279	\$142,611	5.8%
2006	\$10,169,333	\$965,908	\$173,863	7.8%
2007	\$7,806,711	\$905,446	\$162,980	9.5%
2008	\$9,234,520	\$492,670	\$87,782	4.4%
2009	\$11,774,638	\$420,906	\$74,159	2.9%
Total	\$61,585,869	\$4,029,160	\$722,747	5.4%

Source: Data Request Summaries CS-10 and CS-14

Duquesne Light attributes most of its decline in overall collection agency performance from 2007 to 2008 to the recent economic deterioration. However, this does not seem to be true when compared to a panel of Pennsylvania EDCs residential electric customers' total dollars in debt during 2007 to 2008 (see Exhibit V-12). When comparing the percentage change in total residential electric customer's debt from 2007 to 2008 it is clear that Duquesne Light's customer debt increased far more than that of the panel average (i.e., 25.7% vs. the panel average of 1.1%). Because Duquesne Light's customer debt increased much more drastically than that of the panel average, it is unlikely that economic deterioration is the primary cause of the Company's poor collection recovery rates. This can also be evidenced by Duquesne Light's average residential arrearage per customer in arrears from 2004 – 2008, as shown on Exhibit V-7, which shows that its average arrearage per customer in arrears was greater than that of the panel's average for all five years.

**Exhibit V-12  
Duquesne Light Company  
Residential Electric Customers Total Dollars in Debt  
2007-2008**

Company	Dollars in Debt 2007	Dollars in Debt 2008	Percent Change
	\$	\$	
Allegheny	6,091,473	6,260,535	2.8%
Met.-Ed.	23,529,237	21,877,462	-7.0%
PECO-Electric	65,154,839	67,848,866	4.1%
Penelec	22,758,172	19,890,741	-12.6%
Penn Power	6,299,897	6,875,205	9.1%
PPL	53,482,124	56,432,641	5.5%
Panel Average	29,552,624	29,864,242	1.1%
Duquesne Light	8,546,033	10,742,379	25.7%

Source: 2007 & 2008 BCS Report on Universal Service Programs & Collections Performance

If Duquesne Light had achieved a reasonable net collection rate of 9% on closed accounts during the period 2005-2009, it would have increased its cash flow by approximately \$931,500 or an annual average of \$186,300. These amounts are the difference between the actual net collections of \$3,577,210 received from the collections agencies from 2005 to 2009 and the reasonably achievable net collections of \$4,508,726 that would have occurred if Duquesne Light's collection results were in line with the panel's average.

**Staff's Follow-up Recommendation – Strive to increase the collection agency recovery rates for closed customer accounts and sustain the improved rates for more than a few years.**

**Prior Recommendation** – Implement policies and procedures to ensure that payment arrangements are consistently negotiated in compliance with PUC regulations and the new Chapter 14 of Title 66, Pennsylvania Consolidated Statutes.

**Prior Situation** – From 1999 to 2003, Duquesne Light’s justified payment arrangement request rate per 1,000 residential customers (JPAR) had generally increased from 0.79 in 1999 to 2.05 in 2003, with a high of 3.39 in 2002. The JPAR provides an indication of a utility’s payment negotiation performance. Customers with a payment arrangement request (PAR) are to negotiate directly with the utility before contacting the PUC. As shown in Exhibit V-13, except for the year 1999, Duquesne Light’s JPAR was consistently above the average of a panel of Pennsylvania gas distribution companies.

**Exhibit V-13**  
**Duquesne Light Company**  
**Justified Payment Arrangement Request Rate\***  
**Comparison**  
**Duquesne Light Company vs. Panel**  
**1999 – 2003**

Company	1999	2000	2001	2002	2003
Allegheny Power	1.21	1.02	2.17	1.90	1.99
GPU**	0.10	0.11	1.30	0.56	NA
Met. Ed.**	NA	NA	NA	NA	1.33
PECO***	0.63	0.68	1.77	1.24	1.37
Penelec**	NA	NA	NA	NA	1.11
Penn Power	2.93	2.22	1.27	1.26	1.77
PPL	1.12	1.13	2.58	1.11	1.42
Panel Average	1.40	1.03	1.82	1.21	1.50
Duquesne Light	0.79	1.75	2.33	3.39	2.05

\* JPAR is based on the probability sample of cases per 1,000 residential customers.

\*\* Met Ed. And Penelec are former GPU companies

\*\*\* PECO statistics include electric and gas operations

NA - Not Applicable

Source: Exhibit VI-13 from prior Management Audit

The PUC’s Bureau of Consumer Services (BCS) normally intervenes at the customer’s request only after direct payment negotiations between the customer and the utility have failed. Once the customer contacts BCS with a PAR, BCS will request the utility to then send a report detailing the customer’s payment, usage, and payment negotiation history. BCS records a case as “justified” only when they find that the utility did not apply appropriate payment negotiation procedures based on applicable

regulations, reports to BCS, Secretarial Letters, tariffs or guidelines. Therefore, a lower JPAR indicates better payment negotiation performance by the utility.

**Follow-Up Finding and Conclusion No. 7 – Duquesne Light has significantly reduced its justified payment arrangement request rate.**

A comparison of Duquesne Light’s JPAR performance from 2004-2008 to that of a panel of Pennsylvania EDCs is shown on Exhibit V-14. Duquesne Light’s JPAR decreased by approximately 61% (from 2.45 in 2004 to 0.96 in 2008), while the average JPAR of a panel of other Pennsylvania EDCs increased by approximately 7% (from 1.41 in 2004 to 1.51 in 2008). This demonstrates a significant improvement in Duquesne Light’s JPAR when compared to its performance at the time of the prior management audit.

**Exhibit V-14  
Justified Payment Arrangement Request Rate\*  
Comparison  
Duquesne Light Company vs. Panel  
2004-2008**

Company	2004	2005	2006	2007	2008
Allegheny Power	2.48	0.80	0.33	0.25	0.62
Met.-Ed.	1.10	0.81	0.22	0.87	1.14
PECO	1.21	0.74	0.21	1.07	2.26
Penelec	1.24	0.78	0.23	0.47	0.68
Penn Power	1.16	1.27	0.25	1.25	1.97
PPL	1.25	0.66	0.37	1.63	2.41
Panel Average	1.41	0.84	0.27	0.92	1.51
Duquesne Light	2.45	1.19	0.11	1.15	0.96

\* - JPAR is based on a probability sample of cases.

Source: BCS Reports on 2004-2008 Universal Service Programs and Collections Performance and Auditor Analysis

As shown on Exhibit V-15, in 2009 Duquesne Light had a justified payment arrangement requests percentage of 7%, which was the lowest of the EDC panel. This appears to be in large part due to the fact that in 2006 Duquesne Light implemented a mandatory annual four hour training program for CSRs, to ensure compliance with PUC regulations. This training is conducted during the first quarter of the calendar year. Throughout the year, if a CSR is found to be conducting business in a manner that is not in compliance with PUC regulations, a supervisor will review regulations with the CSR and determine if additional training is necessary. In addition during 2008, Duquesne Light upgraded its call recording and monitoring capability to record 100% of calls into the Company. Any call received can now be retrieved and evaluated for root

cause analysis, training purposes, and assessment of agent quality performance. With 100% of calls recorded, Duquesne Light is able to insure more accurately that CSRs are providing service in line with PUC regulations. This also helps to ensure that the Company is able to provide complete and accurate information to the BCS when information is requested during the BCS's investigation into a justified payment arrangement request.

**Exhibit V-15**  
**Duquesne Light Company**  
**Percentage of Justified Payment Arrangement Requests**  
**Duquesne Light Company vs. Panel**  
**2009**

Company	Payment Arrangement Requests	
	Number Received	Percent Justified (Closed & Evaluated)*
Allegheny	3,065	8%
Met-Ed	1,799	11%
PECO	10,786	10%
Penelec	1,428	11%
Penn Power	743	16%
PPL	11,900	10%
Panel Average	4,954	11%
Duquesne Light	4,480	7%

\* - The ratio of payment arrangement requests found justified to the number of payment arrangement requests that BCS evaluated as of January 22, 2010.

Source: BCS Quarterly Update to UCARE Report January–December 2009

Since the third quarter of 2003, Duquesne Light has utilized a complaint tracker to electronically send information back and forth to the BCS. Customers can participate in two separate payment agreements with Duquesne Light. Once the payment agreements have been cancelled by the Company, due to the customer's non-compliance, the customer is referred to BCS for additional assistance.

Duquesne Light's current payment agreement processes were established and implemented in March 2005. During the customer's discussion with the CSR, if the customer is at any time dissatisfied with the Company's position relating to the payment agreement, the customer is informed of their right to contact the PUC and the PUC's contact information is provided. Duquesne Light's CSRs do not manually review accounts for customer compliance with the repayment terms of an active payment agreement prior to the payment agreement being cancelled. The Company's mainframe computer system, implemented on January 1, 1993, automatically monitors customer payment obligations, and insures the customer payments are being received in accordance with the terms of the payment agreement. Should the customer default on the terms established within the payment agreement, the payment agreement is cancelled and the account is automatically routed to the appropriate collection process.

The combination of the changes implemented by Duquesne Light has resulted in considerable improvement in how customer payment arrangements are handled and a significantly lower JPAR which the Company should strive to maintain.

**Staff's Follow-up Recommendation – None.**

**Prior Recommendation** – Develop measures to reduce response times to customer complaints and payment arrangement requests.

**Prior Situation** – From 2000 to 2003 Duquesne Light's response time to BCS residential consumer complaints had consistently been well above the average of a panel of Pennsylvania EDCs, ranging from 3.6 days above the average in 2000 to 8.3 days above the panel average in 2003. The largest difference between the panel average and Duquesne Light's response time was in 2001 when Duquesne Light's response time to consumer complaints was 9.5 days longer than that of the average for the EDCs that made up the panel.

The same held true for Duquesne Light's response time to residential payment arrangement requests (PAR) from 2000 to 2003. Duquesne Light's PAR response time during this time period was consistently longer than that of the panel's average response time. In 2000, Duquesne Light's PAR response time was 15.6 days while the panel's average response time was 10.9 days. This difference increased in 2003 to a PAR average response time of 24.4 days by Duquesne Light while the panel's average response time decreased to 5.6 days.

**Follow-Up Finding and Conclusion No. 8 – Duquesne Light has reduced response times to consumer complaints and payment arrangement requests; however, the response times to payment arrangement requests is still higher than the average of other Pennsylvania electric utilities.**

Duquesne Light's response time to consumer complaints has decreased from 31.0 days in 2004 to 12.4 days in 2009, which is slightly below the 13.6 day average of other Pennsylvania electric utilities for the same year, see Exhibit V-16. Duquesne Light's response time to payment arrangement requests, as shown in Exhibit V-17, has generally decreased from 24.7 days in 2004 to 7.3 days in 2009, which is still above the 4.3 day average of other Pennsylvania electric utilities.

As previously discussed in Follow-Up Finding and Conclusion No. 4, in 2006 Duquesne Light implemented a four hour mandatory annual training session for all CSRs which emphasized documentation, company position, assistance referral, account status, and income verification. Duquesne Light used to provide BCS with information on all members of a residence who have had service in their name at some point in the past. This procedure increased response time. Beginning in the first quarter of 2007, Duquesne Light only provides BCS information pertaining to the current individual who has the service in their name.

**Exhibit V-16**  
**Duquesne Light Company**  
**Response Time To BCS Residential Consumer Complaints (Days)**  
**Duquesne Light Company vs. Panel**  
**2004-2009**

<b>Company</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009*</b>
Allegheny Power	22.0	126.0	16.9	14.1	22.1	10.6
Met.-Ed.	18.5	15.7	13.3	16.6	13.0	12.0
PECO	23.7	13.0	13.3	20.7	19.3	14.5
Penelec	21.8	14.9	11.7	12.5	12.0	13.4
Penn Power	14.3	12.8	10.8	14.9	11.5	11.3
PPL	25.4	25.2	23.4	22.5	19.5	19.5
Panel Average	21.0	34.6	14.9	16.9	16.2	13.6
Duquesne Light	31.0	23.2	18.8	23.6	22.9	12.4

\* - The 2009 statistics are based on preliminary data on response time from the Consumer Services Information System as of January 22, 2010.  
Source: 2004-2009 BCS Utility Consumer Activities Report and Evaluation

**Exhibit V-17**  
**Duquesne Light Company**  
**Response Time To Residential Payment**  
**Arrangement Requests (Days)**  
**Duquesne Light Company vs. Panel**  
**2004-2009**

<b>Company</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009*</b>
Allegheny Power	20.8	8.2	15.5	13.8	22.9	6.3
Met.-Ed.	1.7	2.0	2.2	2.7	2.3	2.3
PECO	12	5.3	13.9	13.7	13	4.6
Penelec	3.3	1.7	2.8	2.7	2.5	2.2
Penn Power	1.2	1.4	4.4	2.7	2.3	2.0
PPL	19.5	13.2	20.5	6.1	8.1	8.3
Panel Average	9.8	5.3	9.9	7.0	8.5	4.3
Duquesne Light	24.7	18.2	14.5	22.7	16.9	7.3

\* - The 2009 statistics are based on preliminary data on response time from the Consumer Services Information System as of January 22, 2010.

Source: 2004-2009 BCS Utility Consumer Activities Report and Evaluation

It appears that due in large part to the CSR training and changes in reporting to the BCS, Duquesne Light's response time to consumer complaints is more in line with the panel average. However, although the Company's response time to consumer payment arrangement requests has significantly decreased, it is still higher than all but one other large Pennsylvania EDC.

**Staff's Follow-up Recommendation – Strive to further reduce average response time to payment arrangement requests and maintain the improved response time to customer complaints.**

## VI. PURCHASING/MATERIALS MANAGEMENT

**Background** – The focused management and operations audit of Duquesne Light Company (Duquesne Light or Company) conducted by the Pennsylvania Public Utility Commission and issued in April 2006, at D-04MGT027, contained one recommendation in the Purchasing/Materials Management functional area. In this chapter, the one prior recommendation and prior situation are reviewed and one follow-up finding is presented.

**Prior Recommendation** – Review the inactive inventory to determine which inventory items are obsolete, write-off the obsolete inventory, and consistently apply the established procedures for identifying and disposing of this inventory.

**Prior Situation** – Duquesne Light had an excessive amount of inactive inventory. As of October 31, 2004, Duquesne Light had approximately \$5.0 million of inventory which had zero items issued during the previous 12 months. The inventory in question was labeled as inactive by the Company and excluded items identified by the Company as emergency spares.

The Supply Chain management team had adequate procedures for identifying and disposing of obsolete inventory. For example, an agreement must be reached between the Supply Chain, Asset Management, and Engineering Departments before an item can be labeled as obsolete and disposed of. However, based on the amount of inactive inventory, it was evident that the procedures in place were not consistently applied to the existing inventory; most notably, there was an ongoing failure to gain agreement between the Supply Chain, Asset Management, and Engineering Departments to classify inactive inventory as obsolete.

The warehousing of obsolete inventory resulted in higher than necessary inventory balances along with the associated increased carrying costs. Based on the Company's estimate of average annual carrying costs of 10%, the \$5.0 million in inactive inventory had corresponding annual carrying costs of \$500,000. Therefore, by identifying and disposing of all obsolete stock, the Audit Staff estimated that Duquesne Light could achieve one-time savings of approximately \$5.0 million and an annual savings of approximately \$500,000 in reduced carrying costs. The disposal of the Company's obsolete inventory would improve the overall inventory turnover of 1.4 turns and bring it closer to the active inventory turnover of 4.2 turns.

**Follow-Up Finding and Conclusion No. 9** – Duquesne Light is regularly reviewing inactive inventory to determine if it supports the Company's current infrastructure, writing off any obsolete inventory, and disposing of inventory deemed obsolete.

Material Services (Supply Chain was renamed Material Services in 2007) reviews inactive inventory balances monthly in order to monitor for changes in levels. At least annually, the organization or department that uses the inventory (i.e., the end user such as engineers, substation personnel, etc.) reviews the inactive inventory to

assess its potential usefulness in accordance with the Company's Process for Identifying Inventory as Scrap/Obsolete. Material Services provides the end user with the data regarding slow-moving materials it needs to make an informed decision. Inventory is considered inactive if the inventory turnover level is less than 0.5, based on a rolling 12-month average. Active inventory will have a turnover level of 0.5 or higher. Most of the inventory identified as obsolete is substation equipment inventory which no longer supports current infrastructure (i.e., which no longer supports equipment in the field). Inventory maximum levels also need to be considered. Inactive inventory may still be needed to support current infrastructure, but there may be too much of the inventory on hand. In this case, some, but not all of the inventory may be considered obsolete, written off and scrapped. There are two standard business justifications for retaining certain "inactive inventory" items:

- 1) Items that have long lead times must be ordered and staged in advance of the project start date, and
- 2) The items that are stocked to support aged assets that are still in service.

Although keeping inactive inventory on hand until needed increases the value of Duquesne Light's total inventory, the material in certain inventory classes (i.e., electrical equipment and parts) supports both new construction projects and asset maintenance and emergent failures of equipment that is over 70 years old. In many cases, the installed assets have not been supported by vendors for decades, yet these assets are critical to the safe reliable operation of the Duquesne Light infrastructure. Since the assets are no longer supported by the vendor, the parts currently stocked must be maintained.

In certain cases, if a part were not available from stock, simple emergent failures would then result in a complete infrastructure replacement costing hundreds of thousands of dollars. In other cases, if the parts were not available from inventory, the parts would have to be custom made by a third party. This often takes months. If a critical asset fails, it may be required to be returned to service in days or hours, not months. As such, although diligent in managing its inactive inventory, Duquesne Light has concerns about over-aggressively disposing of inventory which has been identified as "long lead time" or "one of a kind" parts due to the risk of negatively affecting system reliability.

In addition, Duquesne Light's construction projects and maintenance of its underground infrastructure dictates the type and size of cable needed in inventory. For example, the ductwork limits the ability to make cable substitutions following failures of existing infrastructure. This necessitates keeping various sizes of cable at higher stocking levels for emergent work and short notice customer commit work.

Duquesne Light's 2010 monthly goals for total inventory levels range from \$15.6 to \$16.7 million; for active inventory levels from \$6.2 to \$6.7 million; and for inactive inventory levels from \$9.4 to \$10.0 million. Duquesne Light's 2010 monthly average goal for total active inventory turnover is 4.25. The Company's 2010 monthly average goal for total inactive inventory turnover is 0.10. The Company should continue to periodically review inactive inventory to identify, write off and dispose of obsolete

inventory. Duquesne Light has written off and disposed of approximately \$1.2 million of inactive inventory over the period 2005-2009. Based on the Company's average annual inventory carrying cost of 10%, this represents an annual inventory carrying cost savings of approximately \$117,400 occurring over the same period.

**Staff's Follow-up Recommendation – None.**

## VII. DIVERSITY & EEO

**Background** – The focused management and operations audit of Duquesne Light Company (Duquesne Light or Company) issued in April 2006, at D-04MGT027, contained four recommendations regarding the Diversity and Equal Employment Opportunity functional area. In this chapter, one prior recommendation and prior situation are reviewed and one follow up finding is presented.

**Prior Recommendation** – File an annual Diversity Report with the Commission.

**Prior Situation** – Duquesne Light was not filing annual Diversity Reports with the Commission. The Company indicated it did not file annual Diversity Reports with the Commission due to concerns over confidentiality (i.e., the information provided within the report might become public). Since 1992, the Commission has issued various directives and a policy statement on diversity to the major jurisdictional utility companies operating within Pennsylvania. The latest directive was provided in March 1997 when the Commission's Affirmative Action Officer issued revised guidelines for the Diversity Report, changing the filing requirement from semi-annual to annual, and changing the format of the report.

The current report is to include a Human Resource Section and a Procurement Section. The Human Resource Section requests information on workforce composition, workforce service territory comparison and a description of the utility's policies on recruitment, advertising, training, promotion and retention. The Procurement Section requires the Company to provide the dollar amount of goods and services procured from minority/women/persons with disabilities-owned business enterprises (MWDDBE), and a narrative description of the Company's internal, external and subcontracting efforts.

The Commission's ability to monitor diversity and equal employment opportunity trends at jurisdictional utility companies is enhanced when all utilities file annual Diversity Reports.

**Follow-Up Finding and Conclusion No. 10** – **Since 2006 Duquesne Light has been filing annual Diversity Reports with the Commission; however, until 2009 the reports did not include the tracking of persons with disabilities-owned business enterprises (DBE).**

From 2006 – 2008 the Diversity Reports filed with the Commission by Duquesne Light did not include procurement tracking for DBEs. This occurred due to two reasons. First is the software used by Duquesne Light to track procurement spending does not provide a category for DBEs. Second was because none of the vendors that Duquesne Light conducts business with has identified themselves as a DBE.

Duquesne Light's 2009 annual filing does report procurement from DBEs. The software used by Duquesne Light is still unable to track DBEs; however, this is the first

year that Duquesne Light has done business with a vendor identified as a DBE and the Company is tracking these transactions manually.

**Staff's Follow-up Recommendation – None.**

## VIII. EMERGENCY PREPAREDNESS

**Background** – In order to protect the Commonwealth’s infrastructure and ensure safe, continuous and reliable utility service, effective June 2005, PUC regulations at 52 Pa. Code § 101 (Chapter 101) require all jurisdictional utilities to develop and maintain written physical security, cyber security, emergency response and business continuity plans. Furthermore, in accordance with 52 Pa. Code § 101.1, all jurisdictional utilities are to annually submit a Self Certification Form to the Commission documenting its degree of compliance with Chapter 101. This form is comprised of 13 questions as shown for the year ended December 31, 2008 in Exhibit VIII-1 below.

### Exhibit VIII-1 Public Utility Security Planning and Readiness Self Certification Form

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

\* Brief explanation needed if N/A is supplied as a response to a question  
Source: Public Utility Security Planning and Readiness Self Certification Form,  
Docket No. M-00031717F0006/L-00040166

The Audit Staff reviewed the most recent Self Certification Form submitted by Duquesne Light Company (Duquesne Light or Company) to determine the status of its responses. Our examination of the Company’s emergency preparedness included a review of the physical security plan, cyber security plan, emergency response plan, business continuity plan, and all associated security measures. Due to the sensitive nature of the information that was reviewed, specific information is not revealed but rather the generalities of the information reviewed are summarized.

**Follow-Up Finding and Conclusion No. 11 – Duquesne Light has developed and maintains appropriate written physical security, cyber security, emergency response, and business continuity plans.**

Duquesne Light's physical security, cyber security, emergency response, and business continuity plans meet the minimum requirements of Chapter 101, and each plan is reviewed and updated at least annually. Duquesne Light annually submits a Public Utility Security Planning and Readiness Self-Certification Form to the Commission. Each plan also defines roles and responsibilities by individual or job function.

Duquesne Light's Emergency Security Plan (i.e., physical security plan) includes two areas of readiness, a preemptive plan and a contingency plan. The preemptive plan consists of five alert levels along with a strategic component that identifies critical facilities and equipment. The contingency plan identifies reactive measures that will be implemented to recover from a terrorist or security related event.

Duquesne Light's Information Technology (IT) Plan (i.e., cyber security plan) includes all critical functions requiring automated processing, backup for application software and data, alternative methods for meeting critical functional responsibilities in the absence of IT capabilities, and a recognition of the critical time period for each information system before the utility could no longer continue to operate (via an IT application prioritization spreadsheet).

Duquesne Light's Storm Plan (i.e., emergency response plan) provides guidelines and procedures for managing response to service interruption events that result from any cause (i.e., weather-related events and events other than weather). The Storm Plan includes identification and assessment of the problem beginning with event classification, mitigation of the problem in a coordinated, timely and effective manner (i.e., field investigators and field crews are dispatched as required), and notification of appropriate emergency services and emergency preparedness support agencies and organizations (e.g., Allegheny County emergency operations center).

Duquesne Light's Business Continuity Plan is designed to provide immediate response and subsequent recovery from any unplanned business interruption, such as loss of utility service, building evacuation, or a catastrophic event. The Business Continuity Plan provides guidance on the system restoration for emergencies, disasters and mobilization, and includes a comprehensive process to address business recovery, business resumption, and contingency planning.

Updating the emergency preparedness plans is an important aspect of emergency preparedness to assure continuity of utility services and is something Duquesne Light has done well. The Company has strived to assure that it is prepared to respond to emergencies such as terrorist attacks, natural disasters, etc. in a timely and efficient manner. Moreover, testing the plans and performing live drills with emergency personnel is also a significant component of emergency preparedness (e.g., Duquesne Light is hosting a cyber security exercise to be conducted in May 2010 along with Homeland Security) and Duquesne Light has demonstrated its readiness to

respond to an emergency if it were to occur. Duquesne Light is maintaining comprehensive emergency preparedness plans and hence is actively pursuing security measures and procedures for protecting its operations, customers and its employees.

**Staff's Follow-up Recommendation – None.**

## **IX. ACKNOWLEDGEMENTS**

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

This audit was conducted by Bryan Borres and Brian McCauley of the Management Audit Staff of the Bureau of Audits.

