

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Pennsylvania Public Utility Commission	:	Docket Nos. R-2010-2179522
Office of Small Business Advocate	:	C-2010-2193322
Office of Consumer Advocate	:	C-2010-2194660
Linda L. Sullivan	:	C-2010-2153066
Janet Vento	:	C-2010-2196479
Mary M. Chestnut	:	C-2010-2196790
Donald W. Killmeyer	:	C-2010-2199926
Sarah Divilly	:	C-2010-2199945
Delores D. White	:	C-2010-2200548
Vicki Courie	:	C-2010-2201179
Rebecca Nesvet	:	C-2010-2202732
Marie Rubottom	:	C-2010-2202837
Duquesne Industrial Intervenors	:	C-2010-2203197
Carolina Ursitti	:	C-2010-2203912
Donald J. Gilbert	:	C-2010-2204100
NRG Energy Center Pittsburgh, LLC	:	C-2010-2206586
Jay Folkens	:	C-2010-2213076
John and Sherry Urban	:	C-2010-2214197
	:	
Complainants,	:	
	:	
v.	:	
	:	
Duquesne Light Company,	:	
	:	
Respondent	:	

STATEMENT IN SUPPORT OF
SETTLEMENT ON BEHALF OF THE
OFFICE OF CONSUMER ADVOCATE

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Petition for Settlement Of All Issues (Settlement), finds the terms and conditions of the Settlement to be in the public interest for the following reasons:

I. INTRODUCTION

On July 23, 2010, Duquesne Light Company (DLC or Company) filed Supplement No. 35 to Tariff Electric - Pa. P.U.C. No. 24 (Supplement No. 35) with the Pennsylvania Public Utility Commission (Commission) to become effective on September 21, 2010. In its filing, DLC requested that the Commission approve rates and rate changes, which would increase the distribution rates for all customers. These proposed rates reflected an increase in overall annual revenues of approximately \$87.3 million, or approximately 6.69% over the Company's annual revenues at present rates. DLC provides electric utility service to approximately 580,000 customers in Allegheny and Beaver Counties in Southwestern Pennsylvania.

Formal Complaints were filed by the Office of Small Business Advocate (OSBA) on August 12, 2010, and the OCA on August 20, 2010. On September 23, 2010, Duquesne Industrial Intervenors (DII) filed a Formal Complaint. On September 16, 2010, the Office of Trial Staff (OTS) entered its appearance in this matter. Several Complaints and numerous Protests also were filed by individual residential customers.

The Company was served with Petitions to Intervene by the International Brotherhood of Electrical Workers Local 29 (IBEW) on August 3, 2010; Citizens Power, Inc. on September 21, 2010; and NRG Energy Center Pittsburgh, LLC (NRG) on October 21, 2010.

By Order dated September 16, 2010, the Commission suspended DLC's proposed Supplement No. 35 pending investigation. In Appendix A and on page 3 of the Suspension Order, the Commissioners specifically identified eleven Areas of Concern to be given particular consideration by the Parties in this matter. These Areas of Concern are specifically addressed in Section IV.E, below. The proceeding was assigned to the Office of Administrative Law Judge and specifically assigned to Administrative Law Judges Mark A. Hoyer and Conrad A. Johnson

(ALJs). On September 24, 2010, the ALJs held an initial prehearing conference in this matter. Subsequently, the ALJs issued a Prehearing Order establishing a procedural schedule and also setting forth certain modifications to the Commission's regulations regarding discovery matters.

Two public input hearings were held as follows:

DATE	LOCATION	TIME(S)
October 26, 2010	Beaver Falls	2:00 P.M.
October 26, 2010	Pittsburgh	7:00 P.M.

On October 22, 2010, the OCA submitted the Direct Testimony of: David J. Effron, OCA Statement No. 1; Stephen G. Hill, OCA Statement No. 2; Clarence L. Johnson, OCA Statement No. 3; and Roger D. Colton, OCA Statement No. 4. On November 17, 2010, the OCA submitted the Rebuttal Testimony of Clarence L. Johnson, OCA Statement No. 3-R. On December 1, 2010, the OCA submitted the Surrebuttal Testimony of: David J. Effron, OCA Statement No. 1-S; Stephen G. Hill, OCA Statement No. 2-S; Clarence L. Johnson, OCA Statement No. 3-S; and Roger D. Colton, OCA Statement No. 4-S. These statements were admitted into the record in this matter during hearings on December 7, 2010.

Pursuant to the Commission's policy of encouraging settlements that are in the public interest, the Company, OCA, OTS, OSBA, DII, IBEW, Citizen Power, and NRG met on numerous occasions to discuss the possibility of reaching a settlement. These discussions resulted in this proposed, comprehensive Settlement.¹ As will be discussed below, the OCA submits that the proposed Settlement is in the public interest.

¹ DLC, OCA, OTS, OSBA, DII and NRG (Joint Petitioners) are signatories to the Settlement. Citizen Power and IBEW do not oppose the Settlement.

II. DISTRIBUTION REVENUES

A. Revenue Requirement (Settlement at II.A.)

The proposed Settlement provides for an overall distribution base rate increase of \$45.7 million, approximately \$41.6 million less than the rate increase amount originally requested by DLC. Consequently, the Settlement reflects a compromise on DLC's distribution revenue increase request of approximately \$87.3 million. The distribution rate increase reflects an increase in total annual revenues of approximately 3.5% as compared to the Company's original request of a 6.69% increase in revenues. On a distribution-only basis, the increase is 11.7% as compared to the Company's original request for a 23.4% increase. The terms of the Settlement provide that the increase will go into effect on April 21, 2011, the end of the suspension period.

This represents a "black box settlement," with the limited exceptions of Other Post Employment Benefits (OPEBs) and pensions. Black box settlements provide timely resolution of disputes without the significant expense of prolonged litigation. The OCA submits that it is unlikely that the parties would have been able to reach consensus on each disputed accounting and ratemaking issue in this matter as policy and legal positions can differ widely. Avoiding the necessity of hearings and possible extensive briefing benefits ratepayers by keeping the expenses associated with this filing as reasonable as possible under the circumstances.

Based on OCA's analysis of the Company's filing and discovery responses received, the revenue increase under the proposed Settlement represents a result that would be within the range of likely outcomes in the event of full litigation of the case. The increase is reasonable and, when accompanied by other important conditions contained in the Settlement, yields a result that is in the public interest.

III. RATE STRUCTURE

A. Revenue Allocation (Settlement at II.B.)

The Company's cost of service study (COSS) was contested by the OCA in this matter. The OCA submitted its own COSS that showed different results from that of the Company. Importantly, under the OCA's COSS, the primary residential class, Rate RS, had an indexed rate of return of 110.5% of the system average at present rates, while the class as a whole had an indexed rate of return of 104% of the system average at present rates. See OCA St. 2, Sched. CJ-7. In other words, under the OCA's COSS, the residential class was fully covering its costs at present rates. In addition to the Company, three parties -- OCA, OSBA and DII -- submitted allocation recommendations in their direct testimonies based on the results of the different cost of service studies. The allocation proposals varied widely.

For the residential class as a whole (Rates RS, RH and RA), the Company assigned \$53.87 million of the \$87.3 million increase, while the OCA assigned \$40.55 million of the \$87.3 million increase. See OCA St. 2 at 36, Sched. CJ-8. Under the Settlement revenue allocation agreed to by the Joint Petitioners, the DLC residential classes would collectively experience a total revenue increase of approximately \$27.9 million as compared to the proposed \$53.87 million in the Company's filing. For purposes of the Settlement, Rate RS will experience a distribution increase of 12.5% compared to the system average distribution increase of 11.7%. This is an increase of 4.8% on a total bill basis. Rate RH will experience a distribution increase of 19.2% compared to the system average distribution increase of 11.7%. This is an increase of 4.8% on a total bill basis. Rate RA will experience a distribution increase of 21.5% compared to the system average distribution increase of 11.7%. This is an increase of 6.5% on a total bill basis.

The OCA submits that the rate allocation established in the Settlement is a reasonable compromise given the ranges proposed by the parties. The allocation in the Settlement will move classes toward cost of service while also taking gradualism into consideration.

B. Residential Rate Design (Settlement at II.B.)

In the filing the Company proposed increasing the customer charge for Rates R, RH and RA from \$7.00 to \$8.50. See DLC St. 14 at 7. The OCA recommended that the customer charge for the residential rate classes remain at \$7.00. See OCA St. 2 at 30. The OTS also recommended that the residential customer charge remain unchanged. See OTS St. 3 at 34. Under the Settlement, DLC's monthly residential customer charge for rates R, RH and RA will remain at \$7.00, rather than increase to \$8.50, as originally proposed by the Company. This is consistent with the cost analysis of the OCA's witness Clarence L. Johnson. See OCA St. 2 at 27-30.

The OCA submits that the residential rate design established through the Settlement is reasonable and consistent with sound ratemaking principles. These rate design changes are within the range of the likely outcomes in the event of full litigation of the case.

In its filing, the Company proposed to eliminate the greater than 500 kWh winter block and implement a flat seasonal differential for Rates RH and RA. See DLC St. 14 at 8. The OCA found this proposal to be reasonable, especially since the reduced revenue requirement of the Settlement will help reduce the bill impacts of this change on customers in Rates RH and RA.

IV. OTHER ISSUES

A. Pensions (Settlement at II.C.)

In his direct testimony, OCA witness Effron recommended rejection of DLC's proposed pension expense, noting *inter alia* that the Company had not made pension contributions in

accordance with the Settlement of its last base rate case (Docket No. R-00061346). See OCA St. 1 at 12-15. The Company indicated it would make a lump sum contribution by the end of 2010 to make up for contributions promised in the Settlement at Docket No. R-00061346. DLC St. 11 at 4.

In his Direct Testimony, OCA witness Effron also recommended rejection of the Company's proposed pro forma pension expense because DLC's forecasted amount greatly exceeded the average of the actual pension contributions for the past three years. See OCA St. 1 at 12. In Rebuttal Testimony, the Company indicated that the increased proposed pro forma pension expense amounts were necessary in order to comply with new funding requirements under the Pension Protection Act of 2006 (PPA). DLC St. 11 and 11R.

In the Settlement, the Company agreed to deposit \$55 million per year into its pension trusts commencing in 2011, which shall comply with funding requirements of ERISA and the PPA. Also, specific accounting procedures and reporting requirements are outlined. By January 31 of the calendar year following the contribution year, DLC must provide a report and affidavit to the Commission and parties attesting to the actual contributions to pension trusts during the contribution year. The parties have the right to take action to enforce the Settlement provisions in the event the Company does not make the required contribution.

Also in the Settlement, the Joint Petitioners agreed to resolve an issue regarding the proper ratemaking treatment of the actual cash contribution DLC makes to its pension trust. See OCA St. 1-S at 3-6. The Settlement provides:

50% of actual pension contributions from January 1, 2007, forward, net of related accumulated deferred income taxes, in rate base for rate making purposes. The rate base adjustment for pensions shall be the amount necessary to adjust the SFAS 87 capitalized pension amounts to equal accumulated capitalized pension contributions, net of

applicable deferred income taxes, from January 1, 2007, forward. The depreciation expense for book and ratemaking purposes will be based on the SFAS 87 capitalized amounts.

Settlement at ¶ 36.

This provision will permit the Company to include the capitalized portion of its cash contributions to the pension in its rate base without affecting depreciation expense. Allowing this change resolves the unfavorable differences in recording pension contributions for ratemaking purposes and recording pension contributions for financial accounting purposes.

The OCA submits that the pension contribution provisions established through the Settlement are reasonable and consistent with sound ratemaking principles.

B. Taxes (Settlement at II.G.)

As explained in OCA's Direct Testimony:

In September 2009, the Internal Revenue Service ("IRS") issued Revenue Procedure 2009-39, clarifying the procedures for taxpayers to obtain consent for changes in the method of accounting for which expenditures are currently deductible under Internal Revenue Code Section 162 and which expenditures must be capitalized under Internal Revenue Code Section 263. The current deductibility of such expenditures had been expanded by proposed regulations issued in March 2008, and Revenue Procedure 2009-39 clarified that consent to implement such changes in accounting would be automatic.

The combined effect of the proposed regulations and Revenue Procedure 2009-39 was to greatly enhance the current repair allowance deduction for certain expenditures (including "network assets") that are capitalized on the Company's books of account.

* * *

There are actually two components to the tax accounting change. First, the current deduction for the repair allowance is increased on a going forward basis in the year that the change is implemented and subsequent years. Second, a "catch-up" deduction is also allowed for the cumulative effect of expenditures that had been capitalized

in prior years but would be currently deductible under the new accounting method. This “catch up” deduction is also referred to as a Section 481(a) adjustment, based on the Internal Revenue Code section that authorizes such catch-up adjustments for accounting changes.

See OCA St. 1 at 26, 27.

The OCA noted that DLC had neither requested nor implemented the accounting change, and had not reflected the effect of the tax accounting change in the determination of the Company’s revenue requirement. Id. at 27. The OCA recommended that the Commission require DLC to: 1) maintain the effect of any Section 481(a) adjustment related to the new repair allowance in a reserve account; and 2) keep a record of any increase to the ongoing repair allowance deduction from the effective date of the accounting change. Further, the OCA recommended that the revenue requirement effect of the change in accounting for repair allowances should then be returned to customers through bill credits. See OCA St. 1 at 31.

For purposes of Settlement, all parties agreed that the Company would do the following:

- If DLC implements changes to income tax accounting for repairs pursuant to proposed IRS regulations issued in March 2008 and Revenue Procedure 2009-39, the Company will record the catch-up reduction to its income tax liability in account 282 on its regulated books of account, when such catch-up refund amount is received. The Company will increase the ADIT, which will result in a decrease to rate base;
- Regarding the on-going current deduction, the Company will record the annual reduction in its income tax liability from adoption of changes in income tax accounting for repairs pursuant to proposed IRS regulations issued in March 2008 and Revenue Procedure 2009-39 in account 282 on its regulated books of account each year. This will also result in a reduction to rate base by increasing ADIT; and

- DLC will reflect all adjustments as a result of IRS adjustments in the amounts originally claimed by the Company in account 282 on its regulated books of account for reporting and ratemaking purposes as such adjustments occur.

See Settlement at ¶ 49.

The OCA submits that the Settlement terms regarding the new IRS rules for repair allowance deductions address the OCA's concerns and are in the public interest. These provisions will adequately preserve the economic value of the deductions for customers and therefore, should be accepted by the Commission.

C. Universal Service (Settlement at II.D.)

In this matter, the OCA raised four main concerns regarding the Company's Universal Service Programs. First, OCA witness Colton took issue with DLC's proposed method of applying the Low-Income Home Energy Assistance Program (LIHEAP) grants to customers' bills in response to the policy of the Pennsylvania Department of Public Welfare (DPW). See OCA St. 4 at 31-37. The concern regarding the application of LIHEAP grants to customers' accounts was explained by OCA witness Colton as follows:

The practical effect of complying with the DPW directive will be that LIHEAP grants will be applied to further reduce asked-to-pay amounts that have already been reduced to an affordable amount through the use of ratepayer funds. Applying LIHEAP grants in this fashion could reduce the asked-to-pay amounts for some customers to near \$0. [Citations omitted]. Complying with the DPW directive will also increase program costs to other ratepayers, who are bearing the cost of this program. Contrary to the historic way of treating LIHEAP funds for the Pennsylvania CAP programs, LIHEAP funds will not be subtracted from the CAP shortfall for purposes of calculating the universal service dollars to be collected through the Company's Rider No. 5.

OCA St. 4 at 33.

In order to properly integrate the new DPW directive with the CAP, Mr. Colton suggested that the Company implement a CAP-Plus program. Specifically,

Through the CAP-Plus approach, in addition to charging its traditional percentage of bill payment, Duquesne Light would add a charge to the bills of all CAP participants to generate a revenue stream equal to the total value of LIHEAP grants applied against the asked-to-pay amounts (rather than against the CAP shortfall).

* * *

The CAP-Plus response involves adding a charge to all CAP customers' asked-to-pay amounts, an amount that would be offset by the receipt of a LIHEAP grant. The dollars to be recovered through such a charge should be based on the total LIHEAP funds averaged over all CAP participants, not the average LIHEAP grant of CAP participants receiving LIHEAP grants.

OCA St. 4 at 33-34, 37.

In the Settlement, the Joint Petitioners agreed that DLC will implement a CAP-Plus program. See Settlement at ¶ 44. As explained at length by OCA witness Colton, these modifications are fair and reasonable. The OCA further submits that implementation of a CAP-Plus program is in the public interest.

Second, OCA witness Colton raised issues regarding the Company's cost recovery mechanism in Rider No. 5 because as proposed, it would result in an over-recovery of bad debt expense. OCA St. 4 at 16-31. Specifically, Mr. Colton recommended that if the Company is permitted to pass 100% of its incremental CAP credits and arrearage forgiveness costs through its proposed Rider No. 5, DLC should offset its CAP credits by an amount equal to 10.43% of the incremental CAP revenue and use a base number of 32,200 (the average number of CAP participants for the historic and future test years) CAP participants. OCA St. 4 at 16-17; OCA St. 4-S at 4.

Mr. Colton explained the necessity for his recommended offset as follows:

The purpose of the adjustment I propose is to prevent the over-recovery of universal service costs for active CAP customers. I am not proposing to recalculate the Company's uncollectible expense or uncollectible reserve. The use of a net write-off figure would reduce the universal service cost adjustment by an amount of revenue recovered from customers that have long since ceased to be active DLC customers. My adjustment, however, relates to the changes in revenue between *active* confirmed low-income (and non-low-income) customers and *active* CAP participants. To reach into the inactive customer base to reduce the over-recovery of universal service costs from active CAP participants would be inappropriate.

OCA St. 4-S at 3-4. (Emphasis supplied).

The Settlement addresses the OCA's concerns regarding cost recovery. See Settlement at ¶¶ 41-42. The Joint Petitioners agreed to reduce the recoverable CAP discounts by the number of CAP participants in excess of 35,700 times the average CAP credit and arrearage forgiveness costs times 10.43%. The OCA submits that these changes to the CAP cost recovery mechanism are reasonable and in the public interest.

Next, OCA witness Colton identified the issue of whether DLC sought appropriate cost recovery for its universal service and energy conservation programs through its proposed Rider No. 5. See OCA St. 4 at 4-16. Specifically, Mr. Colton took issue with: 1) the proposed calculation of the number of CAP participants because DLC's proposed calculation method would consistently overstate the number of CAP participants (OCA St. 4 at 4-7); 2) DLC's proposed method for estimating the annual CAP shortfall, since it will overstate the CAP shortfall for the computational year (OCA St. 4 at 7-10); and 3) DLC's proposal to include the total number of current CAP participants in the total number of new CAP additions and assign each of these participants an average CAP shortfall based on the application of the average CAP

discount to an annual normalized bill because this would overstate the costs being incurred through the CAP shortfall (OCA St. 4 at 11-15). Also, OCA witness Colton indicated that his principles and observations regarding Rider No. 5 should be taken into account in setting the number of CAP participants in Rider No. 5. In particular, the number of CAP participants counted for purposes of setting the Rider No. 5 rate should exclude any low-income customers that are participating in CAP through the auto-enrollment process. OCA St. 4 at 16.

The Settlement includes several revisions to Rider No. 5 that specifically address the OCA's concerns outlined above. See Settlement at ¶¶ 38-40. The OCA submits that these revisions are reasonable and in the public interest.

Finally, OCA witness Colton made recommendations regarding the Company's proposed automatic enrollment feature of its CAP program. See OCA St. 4 at 38-42. Mr. Colton recommended that DLC adopt a modification that would ensure that customers so enrolled would be required to document during the six-month provisional enrollment period that they meet all CAP enrollment requirements, including that the customer was payment troubled at the time they received the LIHEAP grant. The OCA also recommended that DLC establish a sunset date for its automatic enrollment feature after which the Company could perform an evaluation of the operation of the process as well as determine its impact on total CAP enrollment and total CAP costs. That evaluation would then be used to determine if automatic enrollment would be included in Duquesne's next Universal Service Plan. Id.

In the Settlement, the Joint Petitioners addressed OCA's concerns regarding the auto-enrollment feature. See Settlement at ¶ 43. The Joint Petitioners agreed that prior to the time it files its next universal service plan, DLC will review this feature to determine its impacts on program costs and CAP participation levels and whether modifications to the feature should be

implemented. Id. The Company's review will be formal and submitted with its next universal service plan filing. Id. The OCA submits that these modifications are reasonable and in the public interest and should be accepted.

D. Smart Meters (Settlement at II.E.)

Since this is a black box Settlement with no specified rate of return, the Joint Petitioners were required by the Commission's Order in the Company's Act 129 Smart Meter proceeding to establish a return on common equity and capital structure for purposes of computing the Company's smart meter surcharge. Specifically, the Commission's Order in DLC's Smart Meter proceeding states: "To the extent that Duquesne's subsequent base rate case is settled, the parties are to establish the applicable capital structure ratio to apply for the purposes of the [smart meter surcharge] recovery mechanism in that proceeding." See *Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123948 Order (May 11, 2010) at 20. The Commission also stated: "To the extent that the subsequent base rate case is settled, the parties are to establish the applicable ROE to apply for the purposes of the Plan recovery mechanism in that proceeding." Id. at 24-25.

In the Settlement, the Joint Petitioners agreed that DLC will use a common equity return rate of 10.0% and a capital structure with no more than a 46% common equity ratio for purposes of computing its smart meter surcharge. See Settlement at ¶ 47. The OCA submits that this capital structure and return on equity is a reasonable resolution of this issue in the context of this Settlement.

E. Appendix A of the Suspension Order

As stated above, the Commission, in its Order dated September 16, 2010, suspending this Supplement No. 35, outlined eleven specific topics that it wanted the parties to address in this matter. The Commission's statement of the topics and OCA's treatment thereof are as follows:

- Topic 1: Duquesne's test year revenue and expense claims must be closely examined to determine their accuracy and the extent to which they support the requested revenue increase.
 - The OCA discussed the Company's test year revenue and expense claims in OCA St. 1 at 6-31 and OCA St. 1-S at 8-20.
- Topic 2: The level of capital investment appearing in Duquesne's rate base claim must be closely reviewed to ensure that it was prudently made, and that any utility plant acquired is necessary, used and useful to the provision of electric distribution service.
 - The OCA addressed DLC's rate base claims in OCA St. 1 at 4-6 and OCA St. 1-S at 2-7.
- Topic 3: Duquesne's proposed revenue allocation must be carefully examined to determine whether or not it is just and reasonable.
 - The OCA addressed the Company's proposed revenue allocation in OCA St. 2 at 6-27; OCA St. 2-R; and OCA St. 2-S at 1-13.
- Topic 4: Duquesne's proposal to redesign the rate structure of residential heating and add-on heat pump customers must be carefully examined to determine whether or not it is just and reasonable.
 - The OCA addressed the Company's proposal to redesign the rate structure of residential heater and add-on heat pump customers in OCA St. 2 at 30-31.

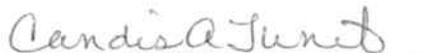
- Topic 5: Duquesne’s proposal to separate rate schedule GSGM into three new rate schedules must be carefully reviewed to determine whether or not it is just and reasonable.
 - The OCA did not specifically address this proposal in testimony.
- Topic 6: Duquesne’s proposals to redesign the rate schedules for large commercial and industrial customers through the conversion to demand only rates, the elimination of variable demand charges and/or the elimination of declining block demand charges must be carefully reviewed to determine whether or not they are just and reasonable.
 - The OCA did not specifically address this proposal in testimony.
- Topic 7: The cost allocation methodologies utilized in Duquesne’s class cost-of-service study must be thoroughly scrutinized in order to ensure that the results of the study are reasonably accurate, and to determine whether or not they support the Company’s proposed revenue allocation.
 - The OCA addressed DLC’s cost allocation methodologies in OCA St. 2 at 6-27; OCA St. 2-R; and OCA St. 2-S at 1-13.
- Topic 8: The cost allocation methodologies utilized in Duquesne’s class cost-of-service study must be thoroughly scrutinized to determine whether or not they support the Company’s proposed rate design changes.
 - The OCA addressed DLC’s cost allocation methodologies in OCA St. 2 at 6-27; OCA St. 2-R; and OCA St. 2-S at 1-13.
- Topic 9: Duquesne’s proposed updates to its tariff to clarify certain provisions and eliminate other provisions must be reviewed to determine whether or not such changes are appropriate.

- The OCA reviewed the Company's proposed updates to its tariff and did not identify any issues beyond those specifically mentioned in testimony (*i.e.*, Rider No. 5, as discussed in OCA St. 4 and 4-S, and changes to rate design, as discussed in OCA St. 2).
- Topic 10: Duquesne's methodology for calculating its health care expenses must be closely examined.
 - The OCA examined DLC's methodology for calculating its health care expenses and did not identify any issues to note in written testimony.
- Topic 11: Our analysis of Duquesne's proposed general rate increase has identified an additional issue, "ring fencing," that may have a significant impact on the rates to consumers of the utility. Ring fencing protections allow the risks associated with the jurisdictional utility to be isolated from the risks associated with its affiliates of the consolidated entity. The Commission has encouraged such protections in the past and would like the parties to this proceeding to address the ring fencing impact on rates.
 - The OCA examined the Company's ring fencing measures in OCA St. 3 at 25-28.

V. CONCLUSION

The OCA submits that the terms and conditions of the proposed Settlement of this rate investigation represent a fair and reasonable resolution of the issues and claims arising in this proceeding and therefore, should be approved by the Commission as in the public interest.

Respectfully submitted,



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Dated: January 7, 2011
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