



Duquesne Light

Our Energy...Your Power

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Tishekia E. Williams
Senior Counsel

December 21, 2012

VIA OVERNIGHT MAIL

Ms. Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor
400 North Street
Harrisburg, Pennsylvania 17120

RECEIVED
DEC 21 2012
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**RE: Amended Petition of Duquesne Light Company for Authorization to Defer
Expenses for Accounting Purposes Only
Docket No. – P-2012-2333760**

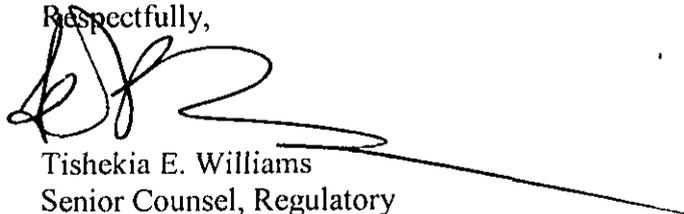
Dear Secretary Chiavetta:

Enclosed for filing, please find an Amended Petition of Duquesne Light Company for Authorization to Defer Expenses for Accounting Purposes Only.

On or about November 9, 2012, Duquesne Light Company (“Duquesne Light” or “Company”) filed a Petition for Authorization to Defer Expenses for Accounting Purposes Only in the above referenced docket. On November 29, 2012, the Office of Consumer Advocate filed an Answer to the petition. On December 5, 2012, the Commission rendered a decision in a similar case, *Petition of Columbia Gas of Pennsylvania, Inc. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Start Up Expenses Associated with the Redesign and Upgrade of Financial Processes and Information Systems*, Docket No. P-2012-2319920, Order entered December 5, 2012 (“*Columbia Deferral Order*”). In the *Columbia Deferral Order*, the Commission provided further clarification regarding the legal standard for granting deferred accounting treatment. In light of the Commission’s most recent guidance, Duquesne Light is filing this Amended Petition to further clarify its request.

If you have questions or concerns, please do not hesitate to contact me.

Respectfully,



Tishekia E. Williams
Senior Counsel, Regulatory

Enclosures

cc: Certificate of Service
Anthony Kanagy, Post & Schell, P.C.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Amended Petition of Duquesne Light :
Company For Authorization to Defer : Docket No. P-2012-2333760
Expenses for Accounting Purposes Only :

**AMENDED PETITION OF DUQUESNE LIGHT COMPANY FOR
DEFERRED ACCOUNTING**

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TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

DEC 21 2012

I. INTRODUCTION

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Pursuant to 66 Pa. C.S. § 1701 and 52 Pa. Code. §§ 5.41 and 5.91, Duquesne Light Company (“Duquesne Light” or the “Company”) hereby files an Amended Petition in the above-captioned proceeding requesting Pennsylvania Public Utility Commission (“Commission”) authorization to defer, for accounting purposes only, approximately \$2,865,500 in implementation expenses related to the replacement of certain of the Company’s information technology systems under the Company’s FOCUS project.

Under the FOCUS project, the Company is replacing its customer information systems (“CIS”) with new Oracle systems including Customer Care and Billing (“CC&B”), Mobile Workforce Management (“MWM”) and Meter Data Management (“MDM”) systems. The Company is also implementing a new *Interactive Voice Response* (“IVR”) system, a *Web Self-Service Portal* (“WSS”) and a *Systems Oriented Architecture* (“SOA”).

As explained below, the FOCUS project includes both smart meter and non-smart meter components. Several of the FOCUS components, including the CC&B and MDM are necessary in order for the Company to meet its smart meter obligations under Act 129 of 2008. Other FOCUS components, including IVR, MWM, WSS and SOA are not technically required to provide smart meter functionality to customers and are referred to as the non-smart meter

FOCUS components. However, these non-smart meter FOCUS components must be updated or replaced in order to work with the new CC&B system, which is necessary to provide smart meter functionality to customers.

Through this Amended Petition, Duquesne Light seeks to defer its non-smart meter related FOCUS implementation expenses. The expenses are for materials, leasing costs, software maintenance costs, and training costs associated with implementing the non-smart meter FOCUS systems and customer communication costs associated with implementing the FOCUS program to advise customers and suppliers of the changes and benefits of the FOCUS system. These implementation expenses are described in more detail below. Duquesne Light will seek to recover these one-time expenses in its next general base rate proceeding, pursuant to Section 1308(d) of the Public Utility Code, 66 Pa. C.S. § 1308(d). Duquesne Light is not requesting that the Commission decide the ratemaking treatment for such expenses through this Amended Petition. Duquesne Light seeks only Commission authority to defer these expenses for accounting and reporting purposes until Duquesne Light can present a claim for recovery of these expenses in its next base rate proceeding. In support of this request, the Company avers the following:

II. BACKGROUND

1. Duquesne Light is a public utility as that term is defined under Section 102 of the Public Utility Code, 66 Pa. C.S. § 102, certificated by the Commission to provide electric service in the City of Pittsburgh and in Allegheny and Beaver Counties in Pennsylvania. Duquesne Light is also an electric distribution company (“EDC”) and a default service provider as those terms is defined under Section 2803 of the Public Utility Code. 66 Pa. C.S. § 2803. Duquesne Light provides electric distribution service to approximately 579,000 customers.

2. The complete name and address of the Petitioner are:

Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219

3. Duquesne Light's attorneys are:

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Duquesne Light's attorneys are authorized to receive all notices and communications regarding this proceeding.

III. DESCRIPTION OF THE FOCUS PROJECT COSTS

A. Smart Meter Related FOCUS Costs

4. On August 14, 2009, Duquesne Light petitioned the Commission for approval of its Initial Smart Meter Procurement and Installation Plan ("Initial Smart Meter Plan") at Docket No. M-2009-2123948.

5. In the Initial Smart Meter Plan, the Company requested authority to upgrade its current CIS by implementing CC&B and MDM systems. The CC&B and MDM systems are necessary in order for the Company to comply with the provisions of Act 129 of 2008, P.L. 1592 ("Act 129") which requires all EDCs with more than 100,000 customers to deploy smart meter

technology, among other things. The Company's current billing system must be replaced with the CC&B system in order to offer Time-of-Use ("TOU"), Real-Time ("RT") and Critical Peak Pricing ("CPP") pricing options as well as to handle the increased requirements for managing meter data.

6. The Commission approved the Company's Initial Smart Meter Plan, which included the implementation of the CC&B and MDM systems. See *Petition of Duquesne Light Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123948, Order entered May 11, 2010, at 20-25.

7. On June 29, 2012, the Company filed its Final Smart Meter Procurement and Installation Plan ("Final Smart Meter Plan"). In the Final Smart Meter Plan, the Company provided its projected costs and requested approval to collect all smart meter related FOCUS project costs through the Company's existing reconcilable Smart Meter Charge.

B. Non-Smart Meter Related FOCUS Costs

8. As explained above, the Company's FOCUS project includes both smart meter and non-smart meter related components. The non-smart meter components include the IVR system, the MWM system the WSS system and the SOA system. Although the Company is not recovering the costs of these systems through its SMC, many of these systems were necessary due to implementation of the new CC&B system. In addition, it was more efficient and cost effective to install these new systems along with the smart meter related components of the FOCUS project.

9. The IVR system is an interactive telephone system that not only routes calls to the appropriate department but allows customers to self service certain issues. The Company's existing IVR system would not work with the new CC&B system that is required to provide

smart meter technology to customers. Therefore, the Company must implement a new IVR system to work with the new CC&B system.

10. Similar to the IVR system, the WSS system allows customers to interact with the Company through the internet. The Company was also required to implement a new WSS system to work with the CC&B system.

11. In addition, the Company is implementing a new MWM system. The MWM system handles service orders and is the technology used to provide work orders to mobile workers in the field. The Company's existing MWM system would have needed to be substantially upgraded in order to work with the new CC&B system. Over the long run, the Company determined that it would be more efficient to replace its MWM system than to upgrade its current system.

12. The other non-smart meter FOCUS system is SOA. SOA is an underlying software system that allows all of the FOCUS systems to work together. The Company would not have implemented the SOA system if it did not implement the new CC&B system.

13. The Company has been implementing both the smart meter related and non-smart meter related components of the FOCUS project together to provide efficiencies and to ensure that all systems work seamlessly together.

14. Herein, the Company requests permission to defer approximately \$2,865,500 in non-smart meter related FOCUS project implementation expenses for accounting purposes only. While this amount is an estimate, the Company will defer its actual costs. The vast majority of the implementation expenses to be deferred will be incurred in the 12-months ending June 2013. These costs include approximately \$24,500 for materials; \$148,750 for physical leasing of space for the FOCUS implementation team and equipment; \$313,250 for software maintenance

agreements that are necessary to implement the new systems; \$1,229,000 for external consultants for conducting training and organizational change management activities, \$500,000 for FOCUS related customer communication cost to notify customers and suppliers regarding the changes and benefits of the new FOCUS System¹ and \$650,000 in incremental labor costs associated with training employees to use the new systems.

15. The costs described above are not routine business expenses. While the Company may routinely upgrade its IT systems, the Company does not routinely replace its IT systems with completely new systems. Moreover, the IT system replacements were necessary in order to comply with the smart meter requirements under Act 129 and the Commission's *Smart Meter Implementation Order*.

16. In addition, the approximate \$2.9 million in expenses is quite substantial for Duquesne Light.

IV. AUTHORITY FOR GRANTING DEFERRAL

17. Duquesne Light respectfully requests that the Commission grant this Amended Petition and authorize the Company to defer for accounting purposes only, these extraordinary, non-recurring non-smart meter expenses related to implementing the FOCUS project. The Company avers that the approval of this Amended Petition is in the public interest as these significant costs will be incurred in part to comply with regulatory mandates and evolving business demands. Moreover, the approval of the deferral is not binding for ratemaking purposes.

¹ Some of the changes and benefits that will be communicated include changing of customer account numbers, addition of a supplier id number, changes in billing formats including an enhanced integrated bill for CAP customers using alternative energy suppliers, and near real-time payment receipt for all customers and those trying to avoid termination.

18. The standard a utility must meet when seeking Commission authorization for deferral accounting is “whether, based on the Commission precedent, the expense item appears to be within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expenses.” See *Petition of the Newtown Artesian Water Company for Permission to Use Deferred Cost Accounting and Amortization in Respect to Certain Well Development and Service Territory Expansion Costs*, Docket Number P-00052161, Order entered October 28, 2005.

19. The Commonwealth Court developed a three-prong analysis to determine the retroactive recovery of expenses alleged to be extraordinary and non-recurring. Specifically, the Court looked at 1) whether the costs arise from an inaccurate projection in a prior proceeding, 2) the extraordinary nature of the expenses, and 3) whether the utility took immediate and responsive action to seek timely recovery of its costs. *Popowsky v. Pennsylvania Public Utility Commission*, 868 A.2d 606, 611-612 (Pa. Cmwlth. 2004)

20. As explained herein, the Company’s deferred expenses did not arise from an inaccurate projection of costs but are required in order to comply with Commission requirements. In addition, the expenses are extraordinary. The Commonwealth Court has defined extraordinary expenses as substantial, one-time expenses that are not continuing and otherwise may not be recovered in rates because they would be normalized out of the test year as abnormal. See, *Popowsky v. Pa. P.U.C.*, 164 Pa. Cmwlth. 338, 642 A.2d 648, 652 (1994). The Company’s costs meet the test for extraordinary expenses. In addition, the Company is taking timely and responsive action with respect to these expenses because most of the expenses are being incurred between July 1, 2012 and June 30, 2013.

21. The Company's request to defer its non-smart meter focus expenses is consistent with the scope of items that the Commission has allowed utilities to defer in prior proceedings. The Company's request for deferral accounting relates to one-time extraordinary and non-recurring expenses associated with upgrading the Company's information technology systems. This is similar to Pennsylvania Electric Company's request to defer information system development costs associated with implementing its CAP program. *Petition of Pennsylvania Electric Company*, Docket No. P-00930718 (February 23, 1994).

22. Further, as explained herein, the Company is installing new CC&B system that is necessary to allow the Company to meet its smart meter obligations under Act 129. The non-smart meter related systems are necessary as a result of the new CC&B system. Moreover, the Company is leveraging these systems to provide enhanced, non-smart meter services to customers.

23. Therefore, the Company has not proposed to recover 100% of its FOCUS costs through its Smart Meter Charge ("SMC"). Instead the Company has conducted a careful review of its costs and has determined that approximately two-thirds of the FOCUS costs should be recovered through the SMC and one-third through base rates. Consistent therewith, the Company is only proposing to defer non-smart meter expenses through this Amended Petition and will recover its smart meter related costs for these systems through its SMC.

24. While Commission's standard for granting a deferral petition is related to the ability recover the expenses, it is important to note that approval for deferred accounting treatment should not be construed as an approval for any specific ratemaking recognition or treatment of the costs. The Commission has previously allowed public utilities to defer extraordinary expenses for accounting and financial purposes only. See, e.g., *Pa. P.U.C v.*

Penna. Power & Light Co., Docket No. P-00920635, Order entered May 6, 1993 (*reversed on other grounds, Popowsky v. P.U.C.*, 642 A.2d 648 (Pa Cmwlt. 1994)); *Mechanicsburg Water Co.*, Docket No. P-010500, Order entered Sept. 25, 1991; *Petition of Pa. Gas and Water Co.*, Docket No. P-920586, Order entered Oct. 21, 1992.

25. The Commission has recently issued its *Columbia Deferral Order* which denied Columbia's request to defer IT costs related to an upgrade of its financial processes and information systems. *Petition of Columbia Gas of Pennsylvania, Inc. for Authority to Defer for Accounting and Financial Reporting Purposes Certain Start Up Expenses Associated with the Redesign and Upgrade of Financial Processes and Information Systems*, Docket No. P-2012-2319920, Order entered December 5, 2012 ("*Columbia Deferral Order*"). The Commission denied Columbia's request because the expenses were not incurred as a result of a Commission ordered program, and according to the Commission's Order, were routine business expenses.

26. In the *Columbia Deferral Order*, the Commission noted that it has previously granted Penelec authority to defer IT expenses related to development of Penelec's Commission-ordered CAP program. *Columbia Deferral Order*, pp. 5-6, citing *Penelec*, Order entered February 23, 1994. The Commission explained that the distinguishing factor between Penelec and Columbia was that Penelec's IT expenses were necessary as a result of a mandated Commission program and therefore, were not a routine cost of business.

27. Duquesne Light's request to defer IT costs is similar to Penelec's, because Duquesne Light's IT costs are necessary as a result of the Company's compliance with Act 129 and the Commission's *Smart Meter Implementation Order*.

28. As explained above, Duquesne Light was required to implement a new CC&B system in order to provide smart meter technology to customers. Duquesne Light must replace

other IT systems, including the IVR system, MWM system, WSS system and SOA system in order to work with the new CC&B system because the old systems were not compatible with the new CC&B system.

29. As was the case with Penelec, Duquesne Light's IT updates are not simply to update an aging system or to make the current system more efficient, but are necessary to comply with Commission requirements, in particular compliance with the smart meter provisions of Act 129 and the Commission's *Smart Meter Implementation Order* because these costs are necessary as a result of the Company's smart meter compliance efforts, the Company believes that it is reasonable and appropriate to defer these expenses for potential future recovery.

30. Moreover, in addition to the *Penelec* case cited above, the Commission has allowed public utilities to defer costs for accounting and financial reporting purposes on numerous occasions. Examples of such deferrals include: *Petition of Columbia Gas of Pennsylvania, Inc.*, Docket No. P-00930734 (October 28, 1996) (The Commission approved deferral of temporary conversion to alternative energy sources); *Petition of Pennsylvania Power & Light Co.*, Docket No. P-820367 (July 29, 1982) and *Petition of Pennsylvania Power & Light Co.*, Docket No. P-830461 (November 9, 1983) (The Commission approved deferral of operation and maintenance expenses incurred between the dates that its Susquehanna 1 and Susquehanna 2 nuclear generating units went into service and the date when such expenses were recognized in rates.); *Petition of Mechanicsburg Water Co.*, Docket No. P-910500 (September 25, 1991) (The Commission granted authority to defer for accounting purposes capital and other costs associated with the Yellow Breeches Water Treatment Plant expansion; the Commission approved Mechanicsburg's deferral petition, but explained that cost recovery would be decided in the first rate case filed after the Yellow Breeches Plant expansion became operational.); *Petition of*

Pennsylvania Gas & Water Co., Docket No. P-900353 (September 5, 1990) (The Commission approved Pennsylvania Gas & Water Co.'s ("PG&W") petition to defer costs of four water treatment plants that were nearing completion.); and *Petition of Pennsylvania Gas & Water Co.*, Docket No. P-920586, 1992 Pa. PUC LEXIS 126 (October 21, 1992) (The Commission approved for accounting purposes deferral of the costs of PG&W's Crystal Lake Water Treatment Plant). See also, *Petition of Philadelphia Electric Co.*, 58 Pa. PUC 522, Docket No. P-840514 (September 28, 1983) (Deferral of the costs of Limerick 1 Generating Station); *Petition of Philadelphia Electric Co.*, 69 Pa. PUC 481, 103 P.U.R. 4th 430 (May 3, 1989) (Deferral of costs of the Limerick 2 Generating Station); *Pa. P.U.C. v. Consumers Pennsylvania Water Co. – Roaring Creek Division*, Docket No. R-932655 (February 3, 1994) (Deferral of SFAS 106 costs); *Petition of Citizens Utilities Water Company of Pa.*, Docket No. P-00930746 (February 25, 1994) (Deferral of SFAS 106 costs).

31. Here, the Company will incur approximately \$2,865,000 in non-smart meter expenses associated with implementing its FOCUS project.

32. While the Company believes that these costs should be recoverable in a future ratemaking proceeding, an in-depth analysis of the merits of ratemaking recovery is unnecessary in this matter. Duquesne Light is not seeking any determination at this time as to the reasonableness or prudence of any specific costs. Therefore, no party will be prejudiced by granting of this Amended Petition. Duquesne Light understands that other parties will be permitted to challenge the Company's recovery of deferred costs caused by the non-smart meter FOCUS expenses in its next general base rate proceeding, except these parties cannot contend that Duquesne Light should have filed a petition to defer these costs on its book of account.

Duquesne Light will address the reasonableness and prudence of specific costs in the future in an appropriate proceeding before the Commission.

33. In several recent proceedings, the Commission has ruled that utilities should begin expensing deferred amounts on a reasonable amortization schedule upon entry of a Commission Order approving the deferral. See e.g., *Petition of PPL Electric Utilities Corporation for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage*, Docket No. P-2011-2270396, Order entered December 15, 2011 (“*PPL Electric Deferral Order*”); *Petition of Columbia Gas of Pennsylvania, Inc. for Authority to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage*, P-2011-2249757, Order entered November 14, 2011 (“*Columbia 2011 Deferral Order*”). In these Orders, the Commission has also held that utilities have the right to seek full recovery of the total amount of deferred expenses in their next base rate proceedings.

34. Consistent with the *PPL Electric Deferral Order* and the *Columbia 2011 Deferral Order*, in the event that the Commission determines that Duquesne Light should begin expensing its deferred amounts upon entry of a Commission Order, the Company requests that the Commission clarify that Duquesne Light has the right to seek full recovery of the total amount of deferred expenses in a subsequent base rate proceeding.

35. In its Answer to Duquesne Light’s original Petition, the Office of Consumer Advocate (“OCA”) states that if the Commission grants deferral treatment, the following conditions should apply.

- (i) That the authorization granted to Duquesne Light for deferred accounting treatment carries no assurance of future rate recovery;

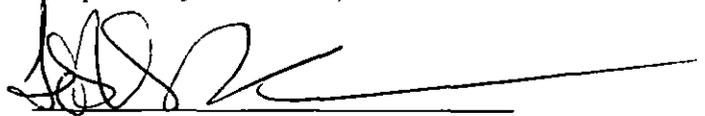
- (ii) That Duquesne Light be directed to claim the deferred costs at the first available opportunity;
- (iii) That the authorization for deferred accounting be limited to actual operations and maintenance costs and not extend to capitalized costs; and
- (iv) That any Opinion and Order in this matter not limit the ability of any party in any future rate case to oppose recovery of any of the costs deferred.

36. Duquesne Light notes that it can accept the OCA's conditions as described above and in the OCA's Answer at pages 4-5.

V. REQUESTED RELIEF

WHEREFORE, for all of the foregoing reasons, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission approve the instant Amended Petition for Authorization to Defer for Accounting Purposes Only certain costs as described herein. In addition, if the Commission requires amortization to commence immediately, the Company respectfully requests that the Commission clarify that the Company shall have the right to seek recovery of all deferred expenses in its next base rate proceeding, including any portion of those expenses that may be amortized prior to Duquesne Light Company's next base rate proceeding.

Respectfully Submitted,



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Anthony D. Kanagy, Esquire
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Date: December 21, 2012

Attorneys for Duquesne Light Company

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Amended Petition of Duquesne Light :
Company for Authorization to Defer : Docket No. P-2012-2333760
Expenses for Accounting Purposes Only :

VERIFICATION

I, Tishekia E. Williams, attorney for Duquesne Light Company, hereby state that the facts set forth above are true and correct to the best of my knowledge, information and belief, and that I expect that Duquesne Light Company will be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S§4904 related to unsworn falsification to authorities.

12/21/12
Date: December 21, 2012


Tishekia E. Williams

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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DEC 21 2012

CERTIFICATE OF SERVICE

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

VIA FIRST CLASS MAIL

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Counsel for Enernoc Inc.

Date: December 21, 2012

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

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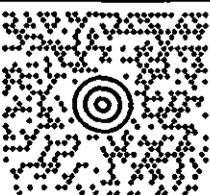
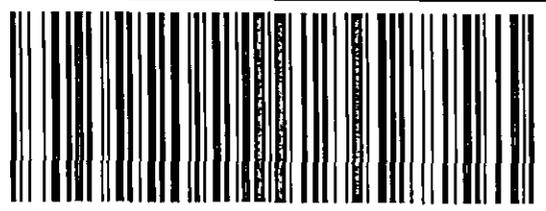
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