BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

DLC Statement No. 1

Direct Testimony of David B. Bordo

Date: August 2, 2013

Q. Please state your full name, business affiliation and address.

A. My name is David B. Bordo. I am the Vice President – Strategy & External Affairs for Duquesne Light Company ("Duquesne Light" or the "Company"). My business address is 411 Seventh Avenue, Pittsburgh, PA 15219.

Q. Please describe your education and work experience.

A. I graduated from West Virginia University with a Bachelor of Arts degree in Accounting in 1984. After graduating I was employed with Arthur Andersen & Co. for seven years and was a Senior Manager when I left the firm.

Prior to joining Duquesne Light, I had more than 20 years of diversified experience in financial and operations management, including positions as the division controller for Mittal Steel USA and the Treasurer of Weirton Steel Corporation. Since joining the Company in 2007, I have had responsibility for accounting and financial reporting, treasury and capital market activities, budgeting, financial analysis and taxes, most recently holding the position of Vice President – Finance & Accounting until late 2012 when I was promoted into my current position.

I am a Certified Public Accountant ("CPA"), and a member of both the Pennsylvania and American Institutes of Certified Public Accountants.

Q. Please describe your current responsibilities as Vice President Strategy and External Affairs.

A. I am responsible for and have direct oversight of the Strategy, Regulatory Affairs, Governmental Relations, Rates and Tariffs, Community Relations and Communications

functions within Duquesne Light Company. With this comes the responsibility to work with and coordinate internal subject matter experts and resources, including Customer Care, Operations, IT, Legal and Finance, to facilitate our understanding of and compliance with regulation and other requirements of external parties. In this role, I am also the Duquesne Light officer with overall responsibility for and oversight of this rate case proceeding.

Q. Have you previously testified before the Pennsylvania Public Utility Commission?

A. Yes, I submitted testimony in Duquesne Light's 2010 base rate proceeding at Docket No. R-2010-2179522.

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

A. The purpose of my direct testimony is to provide an overview of Duquesne Light, to explain the reasons for and primary drivers of the proposed rate increase and to identify the witnesses providing direct testimony on behalf of Duquesne Light. My testimony has been divided into four sections: Section I is an overview of Duquesne Light and its requested rate increase. In Section II, I discuss the Company's initiatives to manage costs, provide outstanding support for our customers and highly reliable electric service. I will also address the Company's proposal with regard to rate treatment of pension contributions in this section. In Section III, I detail the primary reasons for requesting this rate relief. Section IV describes the organization of the filing, introduces Duquesne Light's witnesses in the proceeding and reviews the importance of this case to Duquesne Light, its customers and Southwestern Pennsylvania.

I also wish to thank the Pennsylvania Public Utility Commission ("Commission") for the opportunity to file this rate case on a fully projected future test year basis. This change in the basis of rate cases in Pennsylvania allows us to reduce regulatory lag and likely extend the time between rate cases, reducing over time the costs associated with filing rate cases.

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

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

I. OVERVIEW OF DUQUESNE LIGHT AND THE REQUESTED DISTRIBUTION RATE INCREASE

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

A. For over 130 years, Duquesne Light has been providing the people of the Greater Pittsburgh region with reliable electricity. During this time the Pittsburgh region has undergone an enormous transition from being primarily an industrial center to having a diversified economy characterized by leading healthcare, banking, energy and educational organizations. During this tumultuous transition, Duquesne Light has been a key supporting pillar of the region – a public service provider, key employer, and well regarded community partner. Duquesne Light employees contributed over 4,400 hours last year in volunteer efforts on behalf of community organizations throughout Allegheny

and Beaver Counties. The Company contributed over $2.0 million in charitable and community donations last year. In today's dynamic world, the Company is more committed than ever to both providing leadership in the transmission and distribution of electricity to our over 588,000 customers and to continuing its history of support for the economic, social and human development programs throughout our region. Duquesne Light remains a Pennsylvania based electric distribution company ("EDC") with headquarters located in Pittsburgh.

Q. Please provide a summary of the Company's major initiatives since its last distribution rate case in 2010.

A. Duquesne Light's management team and Board of Directors are committed to excellence in the operation of a distribution and transmission business. Since our last rate case, we have expended considerable efforts on initiatives that will help us control costs, improve customer service and continue to provide the highest level of reliable distribution service. Specifically, some of these initiatives include:

- **Storm restoration improvements** – While Duquesne Light's territory did not experience the devastation caused by the recent super storm Sandy, Duquesne Light management participated fully in storm calls, best practice workshops and other activities that allowed us to learn lessons from those utilities who were hit by this major storm. Duquesne Light employees have invested a great deal of effort into implementing what we learned from those efforts. Among other efforts, we have enhanced our

storm management processes by expanding our social media outreach and improving our level of communication with local government officials.

- **Asset Management and Capital planning process improvements** – with the help of an outside expert in utility capital planning, our Operations team has implemented a new process for managing the capital planning process, helping ensure that capital dollars are spent to optimize our efforts to maintain and upgrade our distribution system.
- **Credit Ratings Improvement Initiative** – We have worked with the major rating agencies over the last several years to support a Duquesne Light Company credit rating upgrade that finally was achieved in the past few months. This recent ratings upgrade from an issuer rating of Baa2 to Baa1 by Moody's should contribute to lowering our interest and borrowing costs on future borrowings.
- **FOCUS Systems Initiative** -- The FOCUS Project is a major Information Technology ("IT") project to implement a new customer information and billing system, to install a Meter Data Management ("MDM") System and to provide the back office IT systems to support the use of smart meters. The Company is also using this opportunity to upgrade components of its customer information systems that are not directly related to smart meter support but which will allow the Company to meet changing customer requirements for how utilities interact with their customers and electric generation suppliers.

- **Listening to Our Customers** – We are constantly working to get better at listening to and responding to the needs of our customers. A recent example involves the educational seminars that we have started presenting to area municipalities, city and county managers. These seminars were instituted because of the need to strengthen working relationships with this category of customers. Seminar topics included public safety, reliability, storm restoration vegetation processes, social media communication channels and energy efficiency opportunities. These seminars have been very well received by the participants. In addition, in response to requests of municipalities, Duquesne Light will be introducing new street light tariff option for high efficiency LED street lights in this rate case.

This represents a sampling of some significant initiatives that Duquesne Light has undertaken to manage costs, serve our customers better and maintain our historically high standards of reliability.

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

A. Duquesne Light's filing in this docket requests that the Commission approve a $76.3 million distribution rate increase, or approximately 10.6% increase in the average residential default service customer's total bill, including distribution, generation and transmission.

As will be described in more detail in the testimony of other Duquesne Light witnesses, this level of rate relief is designed to provide the Company with an opportunity

to earn an overall rate of return of 8.36%, including a 11.25% return on common equity on a distribution rate base of $1.54 billion. This filing deals only with distribution base rates. Generation supply and transmission services are not an issue in this proceeding.

II. COMPANY INITIATIVES TO MANAGE COSTS, PROVIDE OUTSTANDING SUPPORT FOR OUR CUSTOMERS AND HIGHLY RELIABLE ELECTRIC SERVICE.

Q. Please describe in more detail some of Duquesne Light's efforts to control costs while concurrently maintaining high levels of customer service and reliability.

A. Duquesne Light has focused a great deal of energy on controlling cost increases. Since the last rate case, the Company adopted a zero based budgeting approach as part of our annual business planning process. Under this approach, cost center managers must justify their entire budget and any new personnel additions requested each year. This rigor in budgeting has been coupled with increased monthly accountability to ensure that cost center managers are adhering to approved budgets. Several examples of our efforts to control costs include the following:

- Since the last rate case we retained outside consultants to benchmark our safety practices and help us implement best practices in safety management. The resulting proactive safety practices and employee wellness programs contributed to 2011 and 2012 being two of our safest years in recent history. These changes also yielded cost improvements from lower workers compensation costs and improved productivity.

- Our Operations and IT groups worked together to purchase private radio licenses and install base stations that meet FCC regulations and can be used to support current sectionalizers and capacitors, assist with small substation SCADA, and small substation security, all at a much lower ongoing cost than the public wireless network the Company had used previously.
- Over the past several years, the Company has closed entry to its defined benefit pension plan for all new employees. This change will reduce post retirement costs for the Company and the volatility of pension contributions in future years.

Q. Has Duquesne Light been able to maintain high levels of customer service since its last base rate case?

A. As explained in the direct testimony of Ms. Michele Sandoe, Duquesne Light's Vice President of Customer Care (DLC St. No. 8), Duquesne Light has achieved consistently high levels of customer service, and as further explained by Ms. Sandoe, the Company has achieved or exceeded its customer service metrics.

The new customer information system implemented as part of the FOCUS Project will ultimately support the Company's ability to provide enhanced billing functionality to support customer choice suppliers, capture smart meter data so that consumers can take advantage of time-of-use and real time supply pricing programs, and manage CAP portability programs.

To support our efforts to further improve our customer service metrics, the Company has also undertaken customer satisfaction studies performed by Market

Strategies International (MSI), an independent third party polling organization. These studies measure overall customer satisfaction by gauging perceptions of performance in four main categories: Reliability and Restoration, Rates, Service Reputation, and Management Reputation. In the mid-year 2013 polling, Duquesne Light is in the first quartile on 29 of 33 measures, including being 3rd out of 99 utility companies on overall satisfaction.

Q. Please explain the FOCUS Project.

A. The FOCUS Project is a major IT project involving the implementation of a new customer information and billing system, a MDM System and several other systems that will provide the back office IT systems to support the use of smart meters.

As explained in Duquesne Light's 2013 filing at Docket No. M-2009-2123948, for approval of its Smart Meter Plan, the Company was required to replace substantial components of its IT systems for customer information and billing to support smart meters. The Company is also using this opportunity to upgrade components of its customer information systems that are not directly related to smart meter support.

Q. Did the Company obtain authority to recover a portion of its FOCUS Project costs under the Smart Meter charge?

A. Yes, in the Settlement at Docket No. M-2009-2123948, approved by the Commission by Order entered May 6, 2013, the Company was authorized to recover a portion of its FOCUS Project costs under the Smart Meter charge. In connection with this approval, the Company has been recovering operation and maintenance expenses incurred in

development of the portion of the FOCUS Project that are required to support Smart Meters pursuant to the Smart Meter Settlement. Capitalized costs of the FOCUS Project have not been included in the Smart Meter surcharge because the project is not yet in service.

Q. What is Duquesne Light's proposal for recovery of FOCUS costs in this proceeding?

A. The Company proposes to recover return and depreciation on all FOCUS capitalized costs in base rates. The projected FOCUS capital costs are approximately $95.5 million, and the Company is projecting an in service date for FOCUS during the second quarter of 2014. Under these circumstances, the Company concluded that it would be appropriate to include the entirety of these costs in base rates rather than have a portion of the costs in the Smart Meter charge and a portion in base rates. To the extent that this treatment requires amendment to the Order approving the Smart Meter Plan, the Company has requested such authority by Petition that it has requested be consolidated with this base rate proceeding.

The Company also is requesting that it be permitted to amortize the O&M costs it incurred or will incur (excluding internal labor) from the commencement of the historic test year through the end of the FPFTY to develop, implement and stabilize the IT systems created by the FOCUS Project. All costs that were recovered under the Smart Meter charge have been excluded from this claim. This claim is explained in the testimony of Mr. Robert O'Brien (DLC St. No. 5).

Q. Does the Company propose to continue to recover other costs under the Smart Meter Surcharge?

A. Yes. The Company is permitted by the Smart Meter Settlement to recover its smart meter capital costs (return and depreciation) and its ongoing external expenses to develop and implement smart meter technology. The costs beyond the FOCUS Project are primarily to develop and install the Advanced Meter Infrastructure (AMI) system which consists of four primary components: (1) a head-end data collection system, (2) new ITRON Smart Meters, (3) a wide area communication network, and (4) a local area communication network. Under the AMI program, the Company will obtain and install smart meters and install the communication equipment necessary to transmit data between the back office and smart meters. None of these costs have been included in the FPFTY projections.

Q. You have indicated that Duquesne Light has maintained excellent metrics for reliability since the last rate case. Please explain.

A. As explained in the direct testimony of Mr. Scott Ward, (DLC St. No. 4), the Company has over many years provided service reliability levels consistently at or near the top levels of performance of all the major EDCs in Pennsylvania. Our highly automated and smart distribution system provide our skilled operators the ability to manage real time situations and minimize outage times. Our employees and Company take pride in providing this high level of service.

Q. Is the Company taking efforts to maintain or improve its already high level of reliability and storm management?

A. Yes. As explained in Mr. Ward's testimony, the Company reviewed its 2012 reliability performance and identified opportunities for improvement with respect to outages that are typically longer in duration due to the nature and level of resources needed to restore service. The leading causes of longer duration outages in 2012 were falling trees, cable failures and storms. The Company will be expanding vegetation management specifications to address targeted trees in an effort to reduce the number of outages caused by falling trees and limbs, and the Company initiated a program to perform an analysis of outages caused by cable failures in order to identify improvement opportunities for impacted circuits. Additionally, the Company has expanded its storm evaluation and response programs. A Service Restoration Team, comprised of both management and union represented Operation employees has been formed to evaluate and implement restoration efforts. Also, stemming from the Company's lessons learned from participation in the Commission's Hurricane Sandy restoration communications, the Company has implemented cross functional efforts to include enhanced and proactive communications with local government entities, enhanced safety training for contractors, tree maintenance companies and other groups that frequently come in contact with our distribution network. Our expanded local government communications programs include expanded storm update calls, periodic training seminars and other activities intended to improve the coordination and flow of useful information between the Company and the borough managers, borough staff, and elected officials who have responsibility within the boundaries of our territory. As explained by Mr. Ward in DLC St. No. 4, the Company

will be increasing its vegetation management trimming and removal activities in the FPFTY. The scope and additional costs of these programs are explained in Mr. Ward's testimony.

Q. What is Duquesne Light doing to manage the increasingly sophisticated demands on its IT environment and to assure appropriate levels of Cyber Security?

A. The increasing complexity of today's sophisticated IT systems and the challenge of managing carefully the large financial commitments related to these systems have created the need for the establishment of a Chief Information Officer ("CIO") position who will, together with his/her staff, provide increased oversight of the Company's many IT systems investment initiatives and increase best practice performance expectations across the entire IT organization. In addition, the unprecedented level of cyber attacks upon the electric grid have dictated a more formalized focus in defending our assets from these attacks. The need for this more formalized focus on cyber security has led to plans to hire a Chief Information Security Officer ("CISO") and supporting staff. The CISO will provide leadership in ensuring the Company is efficiently evolving with the changing cyber security standards and security threats. The Company believes that these new groups will allow Duquesne Light to optimize its investments in IT systems and to provide enhanced security for these systems in order to reduce the potential for disruptions of Company services. Mr. Matthew Ankrum provides further details in his direct testimony (DLC St. No. 2).

Q. Please summarize Duquesne Light's plans with regard to funding its defined benefit pension plans.

A. In the Company's 2006 and 2010 rate cases, the Company agreed to make annual contributions to its defined benefit pension plan in amounts identified in each base rate proceeding. The expense component of such contributions is recovered in base rates and the remainder of the contribution is included in rate base in future base rate proceedings. The Company continues to fulfill its commitments from prior settlements to make the contributions to the pension trust.

The Company proposes to continue this process in this base rate case, basing the claimed expense allowance on the currently projected three-year average annual contribution level of $37.2 million. This amount compares to $55 million in the last case and reflects the increasing funded status of our defined benefit plans.

Q. Why has the pension contribution declined since the last case?

A. There are several reasons. First, the Company has made the contributions agreed to under prior settlements. Second, the defined benefit plan has been closed to new salaried employees since 2007 and to new union employees since 2010. The closure of our pension plan to new employees together with the creation of an enhanced and portable 401k program is one way that the Company is trying to minimize the growth and volatility of required pension contributions. Third, as most people are aware, equity market performance has improved since the 2008-2010 timeframe, thereby increasing the value of investments in the plan. As Mr. Ankrum explains in DLC Statement No. 2, all

of these factors have reduced the unfunded benefit obligation of the plan on an actuarial basis and reduced required annual contributions.

Q. Is the $37.2 million contribution required?

A. Yes, as Mr. Ankrum explains (DLC St. No. 2), this is the average level of pension contribution required for 2014, 2015 and 2016 under the provisions of the Pension Protection Act of 2006.

Q. Why is the Company proposing a pension adjustment mechanism?

A. As explained by Mr. Ankrum in his direct testimony (DLC St. No. 2), the Company expects continuing declines in pension contribution levels beyond 2016 as the pension trust approaches fully funded status. As Mr. Milligan explains in DLC St. No. 10, the Company is also taking steps to reduce risk and volatility in the assets held by the trust as it approaches fully funded status. The pension adjustment mechanism is designed to allow the Company to reduce the pension contribution and provide ratepayers with a corresponding reduction in rates as the improving funded status reduces required contributions. If pension costs increase after the first adjustment to decrease pension expense recovery, the adjustment mechanism could also be used to recover subsequent increases in expenses up to the level of expense included in base rates. Mr. William Pfrommer explains the operation of pension adjustment mechanism in his direct testimony (DLC St. No. 12).

III. REASONS FOR REQUESTED RATE RELIEF

Q. Please explain the reasons for the increase in base rates proposed in this proceeding.

A. Consistent with my earlier comments, the requested rate increase does not result due to lack of commitment to controlling costs, but rather due to a combination of purposeful investments that Duquesne Light is making to maintain its operations and address important regulatory mandates. More specifically, the key drivers of the requested rate increase include the following:

- Maintaining an appropriate level of ongoing investment in our distribution system to support high levels of customer service and reliability;
- Increasing our investments in Information Technology both to support smart meter functionality and to develop new customer information and billing systems necessary to meet our customers' changing service requirements;
- Expanding our cyber security defensive capabilities in a time when the electric grid is coming under increasing cyber attack, and
- Supporting our expanded storm damage prevention and restoration program by increasing the scope of our vegetation management programs.

All of these investments are being spread over flat to declining customer usage due, in part, to the customer conservation efforts that Duquesne Light is actively promoting. These factors have combined to produce a significant revenue deficiency for the Company based upon a FPFTY commencing May 1, 2014.

IV. ORGANIZATION OF THE FILING, WITNESSES AND THE IMPORTANCE OF THIS CASE TO DUQUESNE LIGHT

Q. Please identify the other witnesses presenting testimony on behalf of Duquesne Light and the principal matters they will address.

A. The witnesses presenting direct testimony on behalf of Duquesne Light in this proceeding are summarized in DLC Exhibit DBB-1, which is attached hereto. Several of these witnesses provide detailed explanations and support for the matters that I summarize in my testimony.

Q. Please explain the importance of the proposed rate increase to Duquesne Light.

A. The Company's last base rate increase became effective April 20, 2011. The Commission is providing leadership by requiring Pennsylvania electric utilities to improve and expand their storm restoration, cyber security and smart meter programs. These requirements are necessary to continue to improve the reliability of our service to the rate paying public and to thoughtfully prepare for changes that are coming in our industry and our society. As outlined previously, the revenue deficiency driving this request for increased base rates is important to allow the Company to fully support the Commission's leadership in these key areas during a period of low or negative load growth.

Q. **Please explain the special consideration that you are requesting from the Commission in this rate case.**

A. Duquesne Light, as an entirely Pennsylvania domiciled utility, is asking the Commission to use its discretion to award an ROE near the top end of the cost of equity range developed in this case based on several factors. First, Duquesne Light's strong customer service metrics document our track record of taking excellent care of the customers that have been entrusted to us. Second, Duquesne Light's record of excellent service reliability continues an outstanding history of fulfilling our mandate to provide "safe, reliable electricity". Finally, Duquesne Light is diligently working to support the Commission's leadership in moving the State forward on important energy policy issues. However, progress in important areas like installing smart meters, investing in sophisticated IT systems, improving storm restoration infrastructure, and enhancing cyber security all require the ability to raise capital and manage the cost structures of these progressive efforts, all while directing energy efficiency and conservation initiatives that reduce our throughput. Duquesne Light's Board of Directors and Management Team believe that the Company's active efforts in these areas merits an ROE near the top end of the cost of equity range developed in this case.

Q. Does this conclude your direct testimony?

A. Yes.

DUQUESNE LIGHT LIST OF WITNESSES

- **David B. Bordo** (Duquesne Light Statement No. 1), Duquesne Light Company's Vice President, Strategy & External Affairs, will provide an overview of the Company and explain the reasons for and primary drivers of the proposed rate increase.
- **Matthew Ankrum** (Duquesne Light Statement No. 2), Duquesne Light Company's Controller, will discuss Duquesne Light's financial records, budget, and pensions.
- **James Habberfield** (Duquesne Light Statement No. 3), Duquesne Light's Forecasting and Procurement Supervisor, will address the sales forecast.
- **Scott R. Ward** (Duquesne Light Statement No. 4), Duquesne Light Company's Director of Operations will discuss Duquesne Light's proposed capital investments in energy support and delivery infrastructure, reliability and vegetation management.
- **Robert L. O'Brien** (Duquesne Light Statement No. 5), Sole Member of O'Brien Innovative Regulatory Solutions, LLC, will analyze Revenue Requirements and Adjustments, Cash Working Capital Study, Financial Adjustments and Normalization, and Uncollectible-Write-offs.
- **John J. Spanos** (Duquesne Light Statement No. 6), Senior Vice President of Gannett Fleming, Inc., will address depreciation.
- **Matthew L. Simpson** (Duquesne Light Statement No. 7), Duquesne Light's Senior Tax Manager, will discuss taxes.
- **Michele R. Sandoe** (Duquesne Light Statement No. 8), Duquesne Light's Vice President of Customer Care, will provide a description of Duquesne Light's FOCUS project as well as describe the Company's customer service metrics.
- **Paul R. Moul** (Duquesne Light Statement No. 9), Managing Consultant for P. Moul & Associates, will discuss rate of return.
- **James H. Milligan** (Duquesne Light Statement No. 10), Duquesne Light Company's Manager of Treasury Operations, will discuss Rate of Return and pension funding management.
- **Howard S. Gorman** (Duquesne Light Statement No. 11), President of HSG Group, Inc., will address the jurisdictional separation study and class cost of service study.
- **William V. Pfrommer** (Duquesne Light Statement No. 12), Duquesne Light Company's Senior Manager of Rates and Tariff Services, will support the proposed allocation of the increase to the customer classes, the rate design, tariffs and new rates proposed in this base rate proceeding.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

Statement No. 2

Direct Testimony of Matthew S. Ankrum

Dated: August 2, 2013

DIRECT TESTIMONY OF MATTHEW S. ANKRUM

Q. Please state your full name, business affiliation and address.

A. My name is Matthew S. Ankrum. I am the Controller of Duquesne Light Company ("Duquesne Light" or the "Company"). My business address is 411 Seventh Avenue, Pittsburgh, PA 15219.

Q. Please describe your education and work experience.

A. I graduated from the University of Pittsburgh with a Bachelor of Arts in Economics and a Certificate in Accounting in 1997. After graduating I was employed with Deloitte & Touche LLP for six years and was an Audit Manager when I left the firm.

Prior to joining Duquesne Light, I spent almost 4 years at Equitable Resources, Inc., serving in the positions of Financial Specialist and Assistant Controller. I joined the Company in 2007 in the title of Assistant Controller and was promoted to Controller in 2012. In my role as Controller, I have responsibility for accounting and financial reporting, budgeting, financial analysis and taxes.

I am a Certified Public Accountant (CPA), and a member of both the Pennsylvania and American Institutes of Certified Public Accountants.

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

A. My testimony covers two main areas. First, I will provide an overview of the Company's accounting processes and explain the Company's actual financial results for the Historic Test Year ended March 31, 2013. Second, I will present and review the budgeted financial results for the Future Test Year ending March 31, 2014 and the Fully Projected Future Test Year ending April 30, 2015.

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

A. Yes, I am. I am responsible for all of the recorded historical accounts, as well as the budgeted and projected accounts of the Company. As such, I am sponsoring all of the Company's financial statements, including income statements and balance sheets for the Historic Test Year ended March 31, 2013. I am sponsoring the Company's budget for the Future Test Year ending March 31, 2014 and the Fully Projected Future Test Year ending April 30, 2015. With regard to the Pennsylvania Public Utility Commission's ("Commission") data filing requirements filed with this proceeding, I sponsor the responses related to the Company's financial statements and regarding measures of value and operating income. Please see Exhibit MSA-1 to my testimony for the listing of data filing requirements that I am sponsoring. My name is at the top of each data filing requirement that I sponsor.

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

A. Yes, various exhibits were either prepared by me or under my direction. Exhibits and data filing requirements relating to the Historic Test Year ended March 31, 2013, the Future Test Year ending March 31, 2014 and the Fully Projected Future Test Year ending April 30, 2015 generally reflect the Company's financial results for the historic test year and budgeted financial results for the future test year or fully projected future test years, respectively.

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

A. All of the data shown in Schedules B-1 through B-4 and Schedules B-6 through B-8 were derived from either the books and records of Duquesne Light for the twelve months ended March 31, 2013 and prior, or the budget for Duquesne Light for the twelve months ending March 31, 2014 and twelve months ending April 30, 2015. Schedules B-1 shows the budgeted balance sheet of Duquesne Light as of March 31, 2014 and April 30, 2015, and the actual balance sheet as of March 31, 2013. In accordance with Federal Energy Regulatory Commission ("FERC") requirements, these balance sheets are presented using the equity method of accounting for subsidiary companies. Schedules B-2 include the statements of Duquesne Light's operating income for the twelve months ended March 31, 2013 and budgeted for the twelve months ending March 31, 2014 and twelve months ending April 30, 2105. Details of actual and budgeted operating revenues are

provided in Schedules B-3. Schedules B-4 provide the actual and budgeted operations and maintenance expenses of Duquesne Light by FERC account, including the major categories of expense, such as purchased power, transmission, distribution, customer accounts, customer service, and administrative and general expenses. Schedules B-6 and B-7 present the embedded cost of debt and preferred stock as of March 31, 2013 and 2014, as well as April 30, 2015. The capital structure of Duquesne Light for the test year and prior years is shown on Schedules B-8.

Q. Have you made refinements in the financial information contained in Exhibits 2 and 3 to reflect changes in the Company's plans since the budget was prepared in late 2012?

A. Yes, we have. The adjustments we have made primarily pertain to three distinct areas that have undergone or are expected to undergo significant changes in 2013.

The first of these areas is within the Company's technology organization. Historically, the Company's technology organization was structured in a manner to support a stable, consistent environment with incremental change in technology, processes and people. This stable, consistent technology environment has dissipated over the last several years due to significant requirements mandated by several federal and state agencies. These requirements have compelled the Company to invest a significant amount of time and money into its technology infrastructure, systems and people. Due to these changes, the Company has

reevaluated the organizational structure of its technology group and concluded that it must bolster its information technology framework so as to be quicker to respond to the changing internal and external environments, and to be responsive to emerging areas like cyber security. The Company is currently working with several external consultants to develop an organization structure that allows Duquesne Light to be successful during this time of transition. As a result of the work done with these consultants, expense additions were made to the Company's base budget in order to reflect the new organizational structure.

The second area in which the Company made significant adjustments was within its operations organization. The primary drivers of these changes are increased costs related to the Company's vegetation management and safety programs. The Company has augmented the budgets prepared in 2012 to address items such as higher contractor bids, the impacts of destructive insects on vegetation within Duquesne Light's service territory, the efforts of the Company to provide greater clearance to protect against certain types of storms and enhanced communication outreach programs designed to promote public safety. Please refer to the testimonies of David Bordo (DLC Statement No. 1) and Scott Ward (DLC Statement No. 4) for additional details.

The last area where the Company made significant changes was within its customer care organization. In conjunction with the implementation of a new customer care and billing system, Duquesne Light has been reaching out to other

companies that have undergone similar implementations to gain a better understanding of what level of post implementation customer care support is needed. As a result of these discussions, as well as its continued internal evaluation, adjustments were made to the customer care organization's cost structure.

Q. Please explain the accounting system utilized by the Company.

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

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

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

A. Costs of new construction are tracked in the system by the use of work orders. At the completion of each project, operations personnel notify asset accounting that the constructed or purchased assets related to a specific work order are now used and useful for their intended purpose. Based on this information, the work order is placed in service and ultimately unitized, or charged to the correct units of property in the plant accounting system. At month end, journal entries are automatically generated and posted to the general ledger for these new in-service dollars. In addition, the system calculates the allowance for funds used during construction ("AFUDC"), spreads overheads, calculates depreciation expense, processes unitized additions and processes plant retirements. The related journal entries are created and automatically posted to our general ledger.

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

A. Duquesne Light has not included land held for future use in rate base in this proceeding because the land is not currently providing service to customers. However, larger projects often have relatively long lead times from commencement to completion. While Duquesne Light is authorized to record AFUDC on the project expenditures once the project commences, Duquesne Light frequently must acquire land or land rights before construction begins. It is appropriate to allow Duquesne Light to record AFUDC on land acquired to

provide future service and add such amount to rate base when the project is used to provide service to customers.

Q. Do you have an internal audit program?

A. Yes, Duquesne Light has an Internal Audit Department, which implements the annual internal audit program approved by the Audit Committee of our Board of Directors. This department reports to the Audit Committee, as well as the Vice President, General Counsel & Corporate Secretary. They perform a slate of annual internal audit and analysis projects to ensure the Company maintains strong internal controls.

Q. Do you have an external audit conducted periodically?

A. Yes, both Duquesne Light Holdings, Inc. and Duquesne Light ("Companies") have external audits conducted annually by Deloitte & Touche LLP. Deloitte & Touche LLP recently completed their audits of the financial statements of the Companies for 2012, the results of which were unqualified opinions on the consolidated financial statements of the Companies as of December 31, 2012.

Deloitte & Touche LLP also performs an annual audit of Duquesne Light's regulatory financial statements that are included in the FERC Form 1. Deloitte & Touche LLP has completed their audit of the December 31, 2012 regulatory financial statements included in the December 31, 2012 FERC Form 1. Their audit resulted in an unqualified opinion.

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

Q. Have any major accounting changes occurred since the Company's last rate case?

A. There have been accounting changes, albeit not significant, that have occurred since our last distribution rate case in response to new pronouncements that have been issued by the Financial Accounting Standards Board ("FASB") and others. The Company has implemented these new standards and pronouncements in order to maintain their accounting records in accordance with GAAP. Please refer to data filing requirement II-D-12 that outlines the accounting changes that have occurred since our last rate case filing.

Q. Are you responsible for the budget process for the Future Test Year and the Fully Projected Future Test Year?

A. Yes, I oversee the budgeting process for Duquesne Light. The Financial Planning & Analysis Department accumulates all of the budget data from various sources each year to prepare a full income statement, balance sheet and cash flow budget for the Company for the year. The Company prepares a three year budget during its annual budgeting process.

Q. Please describe the Company's budget process.

A. Each year there is an annual planning process that begins in August. The budget process requires active participation at many levels throughout the organization. Retail sales of electricity are budgeted by our Forecasting and Procurement Department, while other revenues such as pole and duct attachment and rental of electric property are budgeted by our operations group. Operations and maintenance expenses are budgeted by individual cost center managers within the Company. Our Human Resources Department provides input on employee levels, salary increase projections and fringe benefit costs. The Tax Department assists in the budgeting of taxes other than income taxes, as well as income tax expense. Asset Accounting prepares the budget for depreciation and amortization expense, as well as AFUDC, based in part on information received from the Operations Group for expected capital expenditures. Our Treasury Department assists by preparing financing plans, budgeting the interest expense and preferred dividends we expect to incur, and calculating the amortization of debt discounts and premiums. The information necessary for the budget is summarized by the Financial Planning & Analysis Department in cost element detail, which shows total labor, fringes, outside services and other cost elements. See Exhibit MSA-2 to my testimony which describes the cost elements the Company uses to prepare its budget and Exhibit MSA-3 for a listing of the individual cost centers within Duquesne Light.

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

A. No, we typically prepare the budget for Duquesne Light by cost element detail as this level of detail enhances the review by our cost center managers and assists them in estimating their expenses for budgeting purposes. To satisfy the requirements for this rate filing, our cost element budget was allocated to FERC accounts. Certain cost element budget amounts could be specifically assigned to certain FERC accounts as they are easily identifiable to those accounts. For other cost element budget amounts, an allocation to FERC accounts was performed based on the same percentage to the total as the actual costs shown for the Historic Test Year operating and maintenance expenditures, which were reported by both cost element and FERC account. Once this allocation was performed, the results were reviewed to ensure they appeared reasonable and adjustments were made as necessary to reflect expected variances. This process is more fully described in the testimony of Mr. Robert O'Brien (DLC Statement No. 5).

Q. Has the operating budget historically provided a reasonable estimate of actual expenditures?

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

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

A. Yes, Exhibit MSA-4 has been provided showing a breakdown of revenues and expenses for the Future Test Year and Fully Projected Future Test Year. We will provide quarterly comparisons of actual results to the budget numbers presented as the actual data for each quarter becomes available. In addition, the Company will provide, as directed by the Commission, data evidencing the accuracy of estimates contained in its Fully Projected Future Test Year.

Q. Have you made any adjustments in your Future Test Year or Fully Projected Future Test Year to account for known and measurable changes?

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

Q. How was the budgeted retail sales derived?

A. Mr. Habberfield prepares a detailed budget for retail sales based on an extensive econometric analysis. Please see his testimony in DLC Statement No. 3 for details regarding this budget process.

Q. How were the other operating revenues budgeted?

A. Other operating revenues may be divided into two categories, operationally-oriented and miscellaneous. Our Operations Group provides the budgeted amounts for operationally-oriented revenues such as pole and duct attachment,

rental of electric property, miscellaneous transmission charges and other miscellaneous operationally-oriented revenue. The miscellaneous categories are determined based on historical trends adjusted for known changes or initiatives being undertaken. These amounts include late payment charges, returned check fees and reconnect fees.

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

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

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

A. Yes they do. The Operations Group and other groups that spend capital dollars are provided with budget templates including all of the cost elements that are budgeted for capital. They use their understanding of the capital projects that have been planned for the next several years, as well as projections of the operating costs that they incur on an annual basis, to accurately project the capital spending for their cost center. During the year, these cost center managers receive monthly reports of the actual capital work they have performed to help them manage their costs and plan their work activities in a manner consistent with their budget.

Q. Do the budgeted employee levels for the Company include an assumed level of open positions at any given time?

A. Yes, the Company incorporates into its budget a "vacancy reserve" of 75 people to prevent ongoing, normal transitional openings from inflating our salary and wage expense. We anticipate that we will always have a level of open positions equal to our vacancy reserve unfilled but believe that vacant positions beyond those reflected in this reserve will be filled by the end of the fully projected future test year.

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

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

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

A. Yes, cost center managers provide information in the budgeting process regarding any work that their department is doing for any affiliate company. In addition, the Company maintains an electronic time recording system ("E-Time") for recording and allocating employees' time between various affiliates and projects. Employee costs are budgeted using actual historical allocation data from E-Time, adjusted for information received from cost center managers about changing circumstances or project assignments. A projected allocation of all employees' costs between the Company and its affiliates is prepared in this manner. The cost charged to any affiliate includes the employee's salary and related benefits, as well as proportionate rent and supply costs. A total of all of the allocation amounts is calculated and is included in the budget process as a reduction in Duquesne Light's expense, which we refer to as subsidiary reimbursements.

Q. Does Duquesne Light share office space with its affiliates, and are the affiliates charged for this space?

A. Affiliates of Duquesne Light do not lease office space in the same building as the Company, and those affiliates have separate lease agreements with the building owner for the space they utilize.

Q. How do you budget for fringe benefits provided to employees?

A. This process varies, depending on the type of fringe benefits. However, common benefit programs are provided to employees of Duquesne Light and its affiliates. Therefore, the initial step is determining the total cost expected to be incurred. The Human Resources department reviews each of the health coverage plan costs for the current year and then the budget is developed taking into consideration the present number of eligible employees, projected changes in the numbers of eligible employees, anticipated changes in employee contribution levels and estimated cost increases. Once the total cost has been established, the percentage of that total cost that is applicable to Duquesne Light employees and affiliate employees is determined on a pro-rated basis. The respective cost allocable to each company is then charged to the appropriate company.

Q. Do you allocate the cost of fringe benefits to both capital jobs and expense?

A. Yes we do. This allocation is calculated based on the total amount of budgeted labor costs to be incurred from the annual budgeting process. Based on past experience and their knowledge of planned capital projects, cost center managers

separately budget the amount of labor that will be charged to O&M expense or to capital. The result is used to allocate the benefit costs so that the benefit costs are allocated between expense and capital in a manner that is proportionate to the related labor costs.

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

A. Benefits for 2013 include medical and dental coverage, flexible spending accounts, life insurance, accident insurance, business travel insurance, disability benefits, an employee assistance program and tuition reimbursement. In addition, we maintain a retirement plan ("Plan") to provide pensions for eligible full-time employees. The Plan is closed to new participants. Upon retirement, an eligible employee receives a monthly pension based on his or her length of service and compensation. The cost of funding the pension plans is determined by the unit credit actuarial cost method. Our policy is to budget using the actuarially determined net periodic pension cost calculated by our actuaries under the provisions of Accounting Standards Codification 715 ("ASC 715"). All employees can also participate in the Company's defined contribution retirement plan; however, employees not eligible to participate in the pension plan receive expanded levels of Company matching funds in lieu of pension benefits.

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

A. Yes, Duquesne Light is self insured for its employee medical coverage, which is administered by Highmark Blue Cross Blue Shield under a national Preferred Provider Organization ("PPO") arrangement. The budget estimates are developed based on the previous year's claim costs with adjustments for anticipated changes in the number of eligible employees, employee contribution levels and cost increases based on healthcare industry outlook. Duquesne Light does maintain stop-loss insurance coverage to cover individual claims that are over $300,000 per incident.

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

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

Q. What is the current funded status of Duquesne Light's pension plan?

A. The Plan's funded status on a GAAP basis (the basis utilized for financial reporting purposes) as of December 31, 2012 is a deficit of approximately $366.6 million. The Plan's funded status on a Pension Protection Act of 2006 ("PPA") basis (the basis utilized for cash contribution purposes) as of December 31, 2012 is a deficit of approximately $54.5 million.

Q. What is the expected funded status at December 31 on a PPA basis over the next six years?

A. Please see the chart below:

Expected PPA Funded Status

	2014	2015	2016	2017	2018	2019
Pension Assets	$ 895.1	$ 940.9	$ 973.3	$1,012.8	$1,030.5	$1,046.3
Pension Liability	$ 966.3	$1,018.5	$1,057.5	$1,050.7	$1,030.3	$ 995.6
Funded Status	$(71.2)	$ (77.6)	$ (84.2)	$ (37.9)	$ 0.2	$ 50.7

Q. How does Duquesne Light determine its level of pension cash contributions?

A. Duquesne Light's contributions to its pension plan are typically the larger of either the minimum amount required under PPA or the amount required to fulfill regulatory commitments.

Q. What are Duquesne Light's projected pension contributions for the next 6 years?

A. Please see the below table for the Company's projected contributions (in millions).

2014	2015	2016	2017	2018	2019
$32.6	$38.0	$41.0	$26.5	$13.1	$4.1

Q. What level of pension funding is the Company requesting in this case?

A. Consistent with its 2010 distribution rate case settlement agreement, the Company has incorporated a three year average into its ratemaking calculations for the

portion of contributions that will be recovered as an expense for ratemaking purposes. Mr. O'Brien explains this calculation in his testimony.

Q. Why is the Company requesting a three-year projected average for pension funding and not a six year average?

A. Three years was selected as the most appropriate average because it is consistent with the typical and anticipated timing between distribution rate cases. Currently, projected pension contributions decrease significantly in years 2017 and beyond. Utilizing a six year average of pension contributions would result in an under recovery of the expense component of pensions that will be incurred during the period rates are likely to be in effect.

Q. Why do the Company's projected cash contribution requirements drop after three years?

A. The Company's projected pension contributions are based upon an expected asset return of 7.8% and interest rates as dictated by the Moving Ahead for Progress in the 21st Century Act ("MAP-21") that was signed into law in July 2012. MAP-21 provides, among other things, pension funding stabilization provisions and Pension Benefit Guarantee Corporation premium increases. MAP-21 offers significant short-term funding relief phasing down over five years.

Q. How is the Company proposing to address the projected decrease in pension funding that will occur after three years?

A. The Company is proposing a pension adjustment mechanism that would allow for it to adjust the amount of pension expense included in customer rates outside of a base rate case proceeding. The initial adjustment, if any, will be a reduction to rates. The mechanism could also be used to adjust rates for pension expense up to the levels initially included in base rates. The pension adjustment mechanism is explained in more detail in Mr. William V. Pfrommer's testimony (DLC Statement No. 12).

Q. How is Duquesne Light's pension plan managed?

A. Duquesne Light's Board of Directors periodically reviews the Plan's ongoing performance and approves any changes to the Plan's allocation targets between investment categories to ensure the portfolio is properly diversified. Plan performance is evaluated by reviewing the performance of individual money managers against established benchmarks. The Board delegates responsibility for implementing the approved allocation to a group of executives that compose the Pension Investment Committee. This Committee meets on a regular basis to review investment performance, interview managers of funds in which the Plan is invested and make the day to day decisions involved in managing the pension plan's investment portfolio. The Committee utilizes an outside investment advisory firm, LCG Associates, Inc., to provide technical analysis and administrative support in its work. Please refer to the testimony of Mr. James H.

Milligan (DLC Statement No. 10) for additional information on the Pension Investment Committee.

Q. What steps has Duquesne Light taken to minimize pension costs?

A. In 2007, the Company amended the Plan such that non-represented employees hired after June 1, 2007 would not be eligible to participate in the Company's pension plan. In 2010, the Company amended the Plan such that represented employees hired on or after October 1, 2010 would not be eligible to participate in the Company's pension plan. These two amendments effectively closed the plan to new participants. Employees hired after these dates receive expanded levels of Company matching under the Company's defined contribution retirement fund in lieu of pension benefits.

Q. Is the Company taking steps to reduce the investment risk associated with its pension trust?

A. Yes, we are. The Company is implementing a Liability Driven Investing ("LDI") strategy to mitigate the volatility associated with pension plan funding. LDI is an investment strategy that focuses on managing pension assets in relation to pension liabilities. The overall goal of LDI is to minimize the volatility of Plan funded status, and thus contribution volatility, by investing in long duration fixed income strategies that attempt to better match the duration of the Plan's liabilities. Please refer to the testimony of James Milligan for further discussion of the Company's LDI strategy.

Q. Why is it appropriate to take these steps?

A. Reduced volatility in the pension plan funded status and pension plan funding will provide greater predictability to the Company's cash management and capital planning and ultimately provide for more stable rates for customers.

Q. Has Duquesne Light made the pension contributions agreed to in its 2010 Distribution Rate Case?

A. Yes. The Company is required by its 2010 distribution rate case settlement to fund the pension trust in an amount equal to $55.0 million per year; provided, however, contributions in any year in excess of the foregoing may be used on a cumulative basis to satisfy future contribution obligations. The Company made pension contributions of $66.5 million and $43.5 million in 2012 and 2011, respectively. The Company plans to make pension contributions of $55.0 million in 2013.

Q. Given the significant amount of cash contributions since the Company's 2010 Distribution Rate Case, why has the GAAP funded status of the pension plan not improved significantly?

A. Despite significant amounts of cash contributions and positive returns on the Company's pension assets, long-term interest rates have remained at historical lows for the last several years thus negating the positive impacts of the rise in pension assets on funded status.

Q. Does the Company commit to making the pension contributions based on the three-year average on a cumulative basis?

A. Yes, unless rates are reduced pursuant to the adjustment mechanism. It is the commitment and the expected decline in required contributions that justify the pension adjustment mechanism.

Q. Is the Company claiming the actuarially determined net periodic pension cost for pensions in this rate proceeding?

A. No, we are not. Consistent with our 2006 and 2010 distribution rate cases, we are requesting recovery of the expense component of the annual contributions that we plan to make to the pension plan. These contributions reflect the minimum contribution amounts required under PPA. Therefore the expense claim for pensions in this proceeding is based on projected pension plan contributions required under PPA. The criteria used to determine these contributions are different from the criteria required to be used to determine pension costs under ASC 715.

Q. Please explain the proposed future accounting treatment with regard to pensions.

A. The Company is required to accrue an amount for pension costs each year determined in accordance with ASC 715. While the procedures used to determine the annual ASC 715 expense and procedures used by the Company's actuaries to project the required pension contributions under PPA are related, the annual

accrual will differ from the pension contribution on a year-to-year basis. However, over the duration of the pension plan, the total contributions will equal the sum of the annual accruals. For this reason, the Company requests that the Commission authorize the Company to record annually the difference between the pension reimbursement received in rates and the ASC 715 pension expense as either a regulatory asset or liability. These amounts will then be reversed over time in the future. As of March 31, 2013, the Company had recorded a regulatory asset of approximately $423.3 million related to its pension obligation. The Company records ASC 715 capitalized pension amounts as part of the previously discussed employee benefit allocation. Please refer to Mr. O'Brien's testimony for further discussion the Company's capitalized pension amounts.

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

A. Yes, the provision is as follows:

"Commencing with calendar year 2014, Duquesne Light will deposit into its pension trusts an amount equal to $37,200,000 per year; provided, however, that contribution(s) in any year in excess of the foregoing may be used on a cumulative basis to satisfy future contribution obligations. The provision provides for recovery of the expense component of $18,600,000 (50% of the average cash contributions) of projected future pension contributions. Additionally, Duquesne Light will be permitted to include the other 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 ASC 715 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 ASC 715 capitalized amounts. The adjusted amounts will be used for reporting rate base in reports to the Commission. Duquesne Light will meet these contribution requirements unless the contribution amount is reduced under the Pension Adjustment Mechanism."

Q. What other postretirement benefits ("OPEBs") does Duquesne Light provide to its employees?

A. In addition to pension benefits, the Company provides certain healthcare benefits and life insurance for retired employees hired before October 1, 2010. The retiree life insurance plan is non-contributory. Retirees participating in the health care plan do make contributions, which have increased as part of our efforts to control costs. Health care benefits terminate when a retiree reaches age 65. We currently account for and fund OPEBs through a Voluntary Employees Beneficiary Associated (VEBA) trust, into which we deposit the full amount of annual costs calculated by our actuary pursuant to ASC 715. Retiree OPEBs and administrative costs of maintaining the trusts and/or accounts are paid from the amounts deposited in the trust. The Company accrues the actuarially determined

costs of the aforementioned postretirement benefits over the period from the date of hire until the date the employee becomes fully eligible for benefits.

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

A. Yes we are. The Company has incorporated a two year average into its ratemaking calculations for the portion of actuarially determined net periodic cost for postretirement benefits that will be recovered as an expense for ratemaking purposes. Two years was selected to be consistent with the treatment in its last distribution rate case settlement.

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

A. Yes. Any difference between the annual book accrual and the ratemaking allowance will be deferred and amortized over a reasonable period as an increase or decrease to the rate allowance for OPEBs in the next rate proceeding. This procedure is consistent with the Commission's requirement that the rate allowance be placed in the trust without regard to the actual annual accrual. As of March 31, 2013, the Company had recorded a regulatory liability of approximately $1.1 million related to OPEBs. The Company has amortized this amount over a three year period in its ratemaking calculations. A three year

period was selected as it is consistent with the typical and anticipated timing between distribution rate cases.

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

A. Yes, Duquesne asks for the same treatment as its last distribution case when the following provision was adopted:

"The Company accounts for and funds OPEBs through a Voluntary Employees Beneficiary Associated (VEBA) trust, into which it will deposit the full amount of annual costs calculated by the Company's actuary pursuant to ASC 715. Retiree OPEBs and administrative costs of maintaining the trusts and/or accounts are paid from amounts deposited. The Company accounts for the difference between the net periodic postretirement benefit expense determined annually by the actuary in accordance with ASC 715 and the amount of ASC 715 postretirement benefit expense reimbursement used to establish rates. That difference is recorded as a regulatory asset or liability and will be expensed or credited in future rate proceedings in determining OPEB expense included in rates."

Q. How do you budget for depreciation expense?

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

Q. How are income taxes and taxes other than income taxes budgeted?

A. Our Tax Department performs calculations to project income taxes and each type of taxes other than income taxes for budgeting purposes. Budgeted pre-tax book income is used to project income taxes based on statutory tax rates. The process of budgeting taxes other than income differs based on the type of tax. Gross receipts tax is based on estimated taxable revenues multiplied by the expected tax rate, projected to be 59 mills in 2013, 2014 and 2015. The capital stock tax is budgeted based on the statutory formula of capital stock value multiplied by the expected tax rate, which was projected to be 0.89 mills in 2013, 0.67 mills in 2014 and 0.45 mills in 2015. The Public Utility Realty Tax ("PURTA") and other real estate taxes are budgeted based on the amounts paid in the prior year, adjusted for any major additions or sales of real estate property. Payroll taxes are budgeted based on the expected tax rates applied against the estimated payroll costs to be incurred. Miscellaneous taxes are budgeted based on the expected amounts expected to be incurred for items such as sales and use tax audits.

Q. Please describe how interest expense and the amortization of debt discounts are calculated for the budget.

A. Our Treasury Department calculates the interest and preferred dividend costs by multiplying the outstanding debt and preferred stock balances by the applicable interest and dividend rates. Annual amortization expense is determined by dividing the original unamortized balance of costs and premiums by the original life of the debt issuance. New financings are modeled into the budget when

capital requirements exceed cash sources. The expected costs for these new financings, such as the expected interest rates and costs to be incurred are provided by outside financial institutions.

Q. Please provide a summary of ring fencing measures that are in place at Duquesne Light in order to provide a separation between Duquesne Light's regulated operations and those of its parent and other nonregulated affiliates.

A. Duquesne Light and its parent, Duquesne Light Holdings ("Holdings"), maintain policies and practices which provide effective segregation (ring fencing) between the activities of the Company and those of its parent and nonregulated affiliates. In addition, various external agencies and regulatory bodies have placed restrictions on the Company that provide additional assurance that effective separation has been achieved. The Company is a separate legal entity from Holdings, maintains stand alone financial statements, receives its own credit rating from Standard & Poor's and Moody's and is able to independently raise capital via external markets.

Other ring fencing measures include:

- The Company's Articles of Incorporation limit it from declaring or paying dividends on any shares of capital stock ranking junior to Duquesne Light's Preferred Stock if the Common Stock equity of Duquesne Light is less than 25% of total capitalization.

- DQE Holdings LLC, the ultimate parent company, has appointed a locally based, independent director to its Board of Directors in order to ensure that our organization models best practices in corporate governance and that Corporate decisions reflect the interests of our local community.
- The Company does not participate in its Parent's cash concentration system (cash pool) with Holdings or other affiliates that are not regulated by the Commission. As a result, nonregulated entities cannot use the Company's surplus cash for their operations.

Q. Did the Commission review the Company's ring fencing procedures in 2011, in connection with the sale of Duet Investment Holdings Limited's ("DUET") shares in DQE Holdings LLC ("DQE Holdings") to Epsom Investment Pte Ltd. ("Epsom")?

A. Yes. In the settlement agreement approved by the Commission at the time of DUET's sale of its shares in DQE Holdings (Docket No. A-2010-2213369 and Docket No. A-2011-2221461), the Company agreed, among other things, to the following ring fencing measures:

- Duquesne Light shall not guarantee the debt or credit instruments of its parent or any affiliate not regulated by the Commission, except as approved by the Commission upon a determination that such guarantee provides net benefits to customers.
- Duquesne Light shall not grant a mortgage or other lien on any property used and useful by Duquesne Light in providing retail utility service to the public

subject to the Commission's jurisdiction, except for the financing needs of Duquesne Light.

- Duquesne Light shall not make any loan or otherwise extend credit to its parent or any affiliate not regulated by the Commission for a term of one year or more, except as approved by the Commission upon a determination that such loan or credit extension provides net benefits to customers.
- DQE Holdings will not permit a change in ownership among the members of DQE Holdings without prior Commission approval if such change would result in a change in control under the then-applicable Commission standards.
- Duquesne Light will seek Commission approval of all new or amended agreements with affiliates consistent with Chapter 21 of the Public Utility Code.
- Duquesne Light shall continue to have outstanding separately issued debt held by investors not affiliated with Duquesne Light or its affiliates, unless the Commission authorizes to the contrary.
- Duquesne Light's long-term debt ratio as a percentage of total capitalization shall not exceed 60%, absent approval from the Commission.
- Duquesne Light shall notify the Commission of its intention to declare a special cash dividend to Duquesne Light Holdings, Inc., at least 30 days before declaring the dividend.
- The Chief Executive Officer ("CEO") of Holdings will be a member of DQE Holdings Board of Directors (Board), and will also chair a management

committee, which will contain representatives of both the senior management team and the ownership consortium.

- Holdings shall maintain, and cause its subsidiaries including Duquesne Light to maintain, separate books and financial records.
- DQE Holdings will maintain corporate organizational and financial policies sufficient to permit Duquesne Light to continue to meet requirements to maintain its own credit ratings, separate from its parent.
- Unless the Commission grants approval to the contrary, for a period of three years from the closing with regard to sale of DUET's interests to Epsom, Duquesne Light shall not make a dividend payment to its parent if doing so causes its debt ratio as a percentage of total capitalization, as defined in Duquesne Light's current bank credit agreement, to exceed 60 percent, or if its debt ratio as so defined at the time of dividend declaration or payment exceeds 60 percent.
- Holdings and its subsidiaries shall remain organized in a manner that provides corporate separation of regulated and non-regulated activities.

Q. Did the Commission review the Company's ring fencing protections in conjunction with its recently completed Focused Management and Operations Audit of Duquesne Light Company (Docket No. D-2011-2269361)?

A. Yes, they did. The Audit Staff's review found no lack of compliance with the ring fencing measures agreed to by the Company in the settlement agreement

approved by the Commission at the time of DUET's sale of its shares in DQE Holdings (Docket No. A-2010-2213369 and Docket No. A-2011-2221461).

Q. Please provide a general description of the process used by the Company to determine its distribution revenue requirement.

A. The Company first developed the 2013, 2014 and 2015 budget for construction expenditures, operating revenues, operating expenses and other elements. From these calendar budgets, a budget for the twelve months ending March 31, 2014 and a budget for the twelve months ending April 30, 2015 were developed. Next, each of the budget elements were analyzed to determine where pro forma adjustments would be required to reflect the Future Test Year or Fully Projected Future Test Year under normalized conditions. The pro forma results for the Future Test Year and the Fully Projected Future Test year were used to prepare a jurisdictional separation to show the distribution plant, revenue and expenses for the Company's Pennsylvania jurisdiction only.

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

A. Yes, I can. I will use the operating budget as the example, but each of the measures of value, revenue and expense elements were determined following the same basic procedures. I was responsible for the development of the overall Duquesne Light budget for the fully projected future test year. With regard to the operating expenses, Mr. Robert O'Brien converted the Company's fully projected future test year budget from the cost element format that we use, to a FERC

format, which is presented on DLC Exhibit 2, Schedule B-4 and included on DLC Exhibit 2, Schedule D-2. Mr. O'Brien, working with myself and other Company personnel, developed pro forma adjustments to the budget expenses by cost element, as shown on DLC Exhibit 2, Schedules D-7 through D-15. Each of these adjustments was distributed to the appropriate FERC account as shown on DLC Exhibit 2, Schedule D-3. These processes provided a total Duquesne Light pro forma level of expenses by FERC accounts for the fully projected future test year ending April 30, 2015. Mr. Gorman then used these pro forma expenses in preparation of his Jurisdictional Separation Study, which is summarized on DLC Exhibit 2, Schedules C-1 and D-1.

Q. Was this process followed for each of the elements included in the Company's revenue requirement presentation?

A. Yes it was. For example, Mr. O'Brien used the Company's budget for construction expenditures, construction closed to plant, plant retirements, depreciation expense, and other measures of value components as a starting point for pro forma adjustments. The resulting total Company pro forma measures of value was used by Mr. Gorman in his Jurisdictional Separation Study to determine the amounts for the Pennsylvania jurisdiction. A comparison of the total Company and Pennsylvania jurisdictional pro forma measure of value amounts is shown on DLC Exhibit 2, Schedule D-1, page 3. In addition, Mr. O'Brien used the Company's budget calculation for depreciation expense and made pro forma adjustments to reflect the use of the year-end plant in service for

the Fully Projected Future Test Year ended April 30, 2015, using the depreciation rates recommended by Mr. Spanos and pro forma plant additions to determine the total pro forma depreciation expense for the total Company. Mr. Gorman used this data to determine the portion assigned to the Pennsylvania jurisdiction on a pro forma basis for the test year.

Q. Please briefly describe the process used to calculate the pro forma jurisdictional measure of value, net operating income and required revenue increase for the Pennsylvania jurisdiction.

A. The process began with the Company's 2013, 2014 and 2015 calendar year budgets by cost elements, which are determined by total Company requirements and can be compared to budget and recorded amounts from prior years. The budgeted cost elements were then distributed to FERC accounts where necessary. Pro forma adjustments were made to the Company's budget amounts that allow for easy comparison for each adjustment. Finally, the total pro forma amounts were separated to the Pennsylvania jurisdictional level in the aggregate as opposed to making this calculation for each budget element and each pro forma adjustment.

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

A. The requested increase is supported by the Company's budgeted financial data. In Schedule C-1 and D-1 of DLC Exhibit 2, we summarize the revenues,

expenses, rate base, and deficiencies in revenue for the Fully Projected Future Test Year. Duquesne Light is requesting an overall distribution rate increase for the total Pennsylvania Jurisdiction of $76.3 million. Duquesne Light's capital structure is shown in DLC Exhibit 2, Schedule B-8, with the requested return on equity of 11.25% reflected on DLC Exhibit 2, Schedule B-9.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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

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

53.53-III-E	**Parent - Subsidiary Relationship**
53.53-III-E-3	Balance sheet and income statement consolidated/parent
53.53-III-E-4	Organizational chart
53.53-III-F	**General Financial Data**
53.53-III-F-1	Quarterly and annual reports
53.53-III-F-2	Projected capital requirements and sources
53.53-V	**PLANT & DEPRECIATION**
53.53-V-A	**Adjusted original cost with accumulated depreciation**
53.53-V-A-1	Schedule of plant in service by function
53.53-V-A-3	Supporting schedules
53.53-V-A-4	Schedule of rate case adjustments
53.53-VI	**UNADJUSTED BALANCE SHEETS AND INCOME STATEMENTS**
53.53-VI-a	Balance sheet - 3 years
53.53-VI-b	Income Statement - 3 years
53.53-VI-c	Plant in Service - 3 years
53.53-VI-d	Accumulated depreciation - 3 years

Cost Elements

Cost Element	Description
10	Labor
11	Overtime Labor
12	Paid for Time Not Worked
14	Rent
15	Incentive Compensation
20	Stores Issues and Returns
22	Materials Purchased by Contractors
23	Materials Purchased
24	Utilities
30	Transportation
40	Telephone Services
42	Other Rent
43	Data Processing Leases
44	Insurance
45	Mobile Phone / Pager Costs
49	Regulatory Assessment & Fees
50	Healthcare & Misc. Benefits
51	Employee Expenses
52	Community Relations
53	Surcharge Revenue Offset
54	Pole Attachment Fees
55	Fiber Lease & Sonet Network – DQE Comm
56	DataCom Service Fees
57	Outside Engineering Services
58	Consulting Services
59	Outside Services
60	Pension Costs
61	Transmission Expenses
65	Uncollectible Accounts
66	Deferred Cost
67	Reimbursements
70	Social Security & Unemployment Taxes
72	Mailing Costs
75	Memberships / Dues
76	Business Meals
88	Subsidiary Reimbursements
99	Miscellaneous

Group	Cost Center	Description
Accounting & Treasury	406	VP Finance
	407	Regulatory Reporting - Taxes
	410	Financial Accounting
	422	Accounts Payable
	435	Financial Planning and Analysis
	438	Corporate Finance
Customer Care	019	Customer Care
	028	Customer Revenue Management
	029	Meter Reading
	030	Credit and Collections
	031	Field Services
	310	Universal Services Surcharge
	480	Energy Efficiency and Demand Reduction
	490	Residential Customers
	495	Universal Services
	496	Revenue Cycle Services
	497	Payment Processing
	847	Commercial/Industrial Customers
Strategy & External Affairs	018	Consumer Education Surcharge
	032	Customer Relations
	040	Government Relations
	449	Strategy
	465	Supply Procurement & Settlement
	470	Rates & Tariff Services
	475	VP Strategy & External Affairs
	492	Regulatory Affairs
Office of General Counsel	002	Risk Management
	003	Internal Audit
	005	Office of General Counsel
	006	Legal
Human Resources	301	HR - Employee & Labor Relations
	302	Employee & Labor Relations
	311	Safety and Workplace Development
	512	HR Programs and Services
Operations	502	Vegetation Management
	503	Construction Management
	810	Asset Management
	820	Engineering & New Business
	830	Operations Budgeting and Planning
	832	Maint & Serv - Penn Hills
	833	Maint & Serv - McKeesport
	838	Maint & Serv - Raccoon
	839	Maint & Serv - Edison
	840	Operations
	845	Maint & Serv - Preble
	849	Outage Coord & Field Operation
	850	Transmission Planning
	852	Substation Raccoon
	853	Substation Preble Avenue
	855	Underground Transmission
Operations Services	530	Property Services
	572	Transportation
	586	Materials Services
	705	Environmental Affairs
	848	Security Services
Sr. Management	001	Executive Office
	400	Finance & Customer Service
Technology	445	Program Office
	450	Smart Meter Program
	546	IT Infrastructure and Support
	549	Communication Systems

DUQUESNE LIGHT COMPANY
STATEMENT OF INCOME
Operating Budget

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total 12 Mos. End 3/31/2014
UTILITY OPERATING INCOME					
Operating Revenues (400)	$ 184,776,040	$ 195,662,990	$ 174,858,200	$ 181,641,193	736,938,423
Operating Expenses					
Operation Expenses (401)	76,321,214	80,019,862	71,941,051	82,914,756	311,196,882
Maintenance Expenses (402)	11,935,436	11,316,476	10,708,430	5,982,242	39,942,584
Depreciation Expense (403)	28,013,886	28,013,886	28,013,886	30,798,598	114,840,256
Amort. & Depl. Of Utility Plant (404-405)	1,170,893	1,170,893	1,170,893	1,287,286	4,799,966
Regulatory Debits (Credits), net (407.3,407.4)	60,903	-	-	-	60,903
Taxes Other Than Income Taxes (408.1)	11,673,949	12,548,820	10,981,574	11,961,284	47,165,627
Income Taxes - Federal (409.1)	(390,814)	345,213	345,213	1,039,833	1,339,446
Income Taxes - Other (409.1)	349,368	1,427,641	1,427,641	1,354,507	4,559,157
Provision for Deferred Income Taxes, net (410.1,411.1)	20,069,324	14,924,813	14,924,813	149,717	50,068,667
Investment Tax Credit, net (411.7)	-	-	-	-	-
Total Utility Operating Expenses	149,204,159	149,767,604	139,513,501	135,488,222	573,973,487
Net Utility Operating Income	35,571,881	45,895,385	35,344,699	46,152,971	162,964,935
OTHER INCOME AND DEDUCTIONS					
Other Income					
Equity in Earnings of Subsidiary Companies (418.1)	-	-	-	-	-
Interest and Dividend Income (419)	-	-	-	-	-
Allowance for Other Funds Used During Construction (419.1)	1,244,028	1,244,028	1,244,028	1,250,341	4,982,425
Miscellaneous Nonoperating Income (421)	-	-	-	-	-
Gain on Disposition of Property (421.1)	-	-	-	-	-
Total Other Income	1,244,028	1,244,028	1,244,028	1,250,341	4,982,425
Other Income Deductions					
Loss on Disposition of Property (421.2)	-	-	-	-	-
Donations (426.1)	610,000	710,000	605,000	735,000	2,660,000
Penalties (426.3)	-	-	-	-	-
Exp. for Certain Civic, Political, & Related Activities (426.4)	110,563	110,563	110,567	113,543	445,236
Other Deductions (426.5)	105,891	-	375,000	-	480,891
Total Other Income Deductions	826,454	820,563	1,090,567	848,543	3,586,127
Taxes Applicable to Other Income and Deductions					
Income Taxes - Federal (409.2)	(4,174)	(17,056)	(17,056)	(16,183)	(54,470)
Income Taxes - Other (409.2)	(1,324)	(5,409)	(5,409)	(5,132)	(17,273)
Provision for Def. Inc. Taxes (410.2)	732,828	2,994,597	2,994,597	2,841,192	9,563,214
(Less) Provision for Def. Inc. Taxes (411.2)	(99,159)	(405,200)	(405,200)	(384,443)	(1,294,003)
Total Taxes on Other Inc. and Ded.	628,171	2,566,932	2,566,932	2,435,435	8,197,469
Net Other Income and Deductions	(210,597)	(2,143,466)	(2,413,470)	(2,033,637)	(6,801,171)
Interest Charges					
Interest on Long-Term Debt (427)	5,843,716	5,843,716	7,468,716	7,984,966	27,141,112
Amortization of Debt Disc. and Expense (428)	702,331	699,388	699,607	667,725	2,769,051
Amortization of Loss on Reaquired Debt (428.1)	82,483	82,483	82,483	59,721	307,171
Amortization of Premium on Debt - Credit (429)	-	-	-	-	-
Amortization of Gain on Reacquired Debt - Credit (429.1)	-	-	-	-	-
Interest on Debt to Assoc. Companies (430)	3,445,361	3,483,222	3,483,222	3,445,361	13,857,166
Other Interest Expense (431)	191,563	191,563	191,563	191,563	766,250
Allowance for Borrowed Funds Used During Construction-Cr. (432)	(494,959)	(494,959)	(494,959)	(497,471)	(1,982,349)
Net Interest Charges	9,770,494	9,805,412	11,430,631	11,851,864	42,858,401
Net Income	$ 25,590,789	$ 33,946,507	$ 21,500,598	$ 32,267,469	$ 113,305,363

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

DLC Statement No. 3

Direct Testimony of James Habberfield

Dated: August 2, 2013

DIRECT TESTIMONY OF JAMES HABBERFIELD

Q. Please state your full name and business address.

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

Q. What is your position at Duquesne Light Company ("Duquesne Light" or "Company")?

A. I am employed by Duquesne Light as Forecasting and Procurement Supervisor.

Q. How long have you worked at Duquesne Light?

A. I joined Duquesne Light in December 2008.

Q. What are your current responsibilities?

A. I produce all of the sales forecasts for the Duquesne Light Control Area, which includes all electrical customers in our load zone -- whether served by Duquesne Light Company default service or by a competitive electric generation supplier ("EGS"). I conduct analysis of historical sales and weather-normalization. I also coordinate business risk analysis with our Risk Management team. In addition, I conduct solicitations to procure power to serve Duquesne Light's default service load, and organize all necessary interaction between DLC, PJM, and the competitive suppliers.

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

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

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

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

A. The purpose of my testimony is to present the Company's sales forecast and the methodology used in its development.

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

A. Yes, I am. I am sponsoring Exhibit JH-1, which is the past five years of Company sales segmented by customer class. I am also sponsoring Exhibit JH-2, which is the Company's forecast of sales during the Future Test Year and Fully Projected Future Test Year, also segmented by customer class. Finally, I am sponsoring Exhibit JH-3, which displays the savings we expect to achieve through the Company's Act 129 Programs during the two Future Test Years.

Q. Please explain how these exhibits were prepared?

A. These exhibits were prepared by me, starting with Exhibit JH-1, which is based off of internal Company sales records. Exhibit JH-2 comes from the results of the annual forecast models I develop, which will be further described in this testimony. Lastly, Exhibit JH-3 comes from the Company's most recent filing detailing our energy efficiency and conservation programs related to Act 129 of 2008, which was approved by the Public Utility Commission on March 14, 2013.

Q. Please summarize your findings.

A. Duquesne Light control area sales are projected to decline 2.1% between the Historic Test Year and the Future Test Year, and are further projected to decline 2.3% in the Fully Projected Future Test Year. These forecasts are detailed in Exhibit JH-2. The projected decline in sales is led by a drop in industrial sales, for reasons which will be explained further in this testimony. Commercial sales are projected to be flat to slightly positive. Residential sales are projected to be 2% lower in the Future Test Year, due to higher summer temperatures than normal in the Historic Test Year. This forecast assumes normal weather patterns for both the Future Test Year and the Fully Projected Future Test Year. A 0.3% increase in residential sales is projected between the Future Test Year and the Fully Projected Future Test Year.

Q. What procedures and methodology does Duquesne Light utilize for preparing its forecasts?

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

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

A. There are three main data inputs into each forecast model: monthly historical sales by rate class going back to 2002, 15-year historical daily weather for the Pittsburgh area, and historical and forecasted economic data for the Pittsburgh Metropolitan Area.

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

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

Q. Could you explain Duquesne Light Company's sales forecast for both the Future Test Year and Fully Projected Future Test Year?

A. Each of Duquesne Light's tariffed rate schedules is forecasted on an individual basis. Further, non-residential rates are divided into segments splitting small and large customers, and commercial and industrial customers. This increased level of granularity improves the accuracy of the forecast. These separate models are then rolled into one to create a Duquesne Light Control Area forecast. In the same way, forecasts can also be created for each customer class – Residential,

Commercial, and Industrial. Each rate schedule model is created by aligning the economic and weather variables with the historical monthly sales data. The specific variables placed into the model are chosen to maximize the predictive power of the forecasts, in accordance with econometrics and statistical theory. The same process is separately done to forecast customer counts in each rate schedule. The end result is a monthly kWh and customer forecast for the entire test period.

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

A. The Company has developed specific energy efficiency and conservation programs which fully comply with Pennsylvania's Act 129 requirements. The projected kWh savings from these programs are broken down in a number of ways. First, the programs are developed into a monthly implementation schedule, with the projected kWh savings from each program separated on a month-by-month basis. Second, each program is classified by which customer class it impacts: Residential, Commercial, or Industrial. Finally, the kWh savings for each customer class are summed together and subtracted from the initial Company sales forecast described above. This results in a monthly Act 129-reduced forecast for each of the Company's customer classes. The monthly Act 129 kWh reductions are factored into the Company's overall sales forecasts.

Q. Are there any major events impacting the Company's test year forecasts?

A. Yes. A major industrial customer is closing down operations at the end of 2013. As a large manufacturer, the customer currently utilizes a significant amount of electricity through Duquesne Light. Without these sales, the Company will experience a noticeable drop in throughput.

Q. If you exclude the impact of the plant closure, what are your overall conclusions regarding all three forecasts?

A. Excluding the impact of this plant closure, Duquesne Light's Control Area consumption is expected to decline by 0.1% annually over the next five years. This can be broken down into the three separate customer classes:

Residential usage makes up close to 29% of our annual sales, and residential usage is expected to increase 0.1% annually. This is equal to the projected residential customer growth in the Pittsburgh Metropolitan area. There is projected to be income growth in the area, which would normally have the effect of increasing sales, however this effect will be negated by expected energy efficiency savings.

Commercial usage makes up over 47% of Duquesne Light's annual sales, and this segment is expected to grow at an annual rate of 0.15%. Commercial customer counts are expected to grow 0.4% annually over the next five years, however, energy efficiency programs should reduce our commercial use on a per-customer

basis and result in a commercial sales growth rate that is slightly lower than the growth in commercial customer accounts.

Finally, Industrial usage makes up about 24% of the company's annual sales. With the exception of the expected plant closure, the usage by industrial customers is expected to decrease by 0.9% annually over the next five years. The strong recovery following the recession in the industrial segment has peaked, and recent sales have declined as the industrial economy has softened in our region.

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

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

Q Does this conclude your direct testimony?

A. Yes, it does.

Duquesne Light Company

Annual Retail Sales (mWh) by Customer Class

	2008	2009	2010	2011	2012
Residential	4,060,410	3,945,655	4,326,761	4,251,109	4,168,931
Commercial	6,631,217	6,537,414	6,712,326	6,637,382	6,538,581
Industrial	3,008,742	2,575,393	2,955,883	3,078,795	3,406,312
Lighting	66,811	64,351	63,598	63,391	60,532
Total	13,767,180	13,122,813	14,058,568	14,030,677	14,174,356

Year to Year Change by mWh

	2008	2009	2010	2011	2012
Residential		(114,755)	381,106	(75,652)	(82,178)
Commercial		(93,803)	174,912	(74,944)	(98,801)
Industrial		(433,349)	380,490	122,912	327,517
Lighting		(2,460)	(753)	(207)	(2,859)
Total		(644,367)	935,755	(27,891)	143,678

Year to Year Change by Percentage

	2008	2009	2010	2011	2012
Residential		-2.8%	9.7%	-1.7%	-1.9%
Commercial		-1.4%	2.7%	-1.1%	-1.5%
Industrial		-14.4%	14.8%	4.2%	10.6%
Lighting		-3.7%	-1.2%	-0.3%	-4.5%
Total		-4.7%	7.1%	-0.2%	1.0%

Duquesne Light Company

Forecasted Retail Sales (mWh) by Customer Class

	Historic Test Year 4/2012-3/2013	Future Test Year 4/2013-3/2014	Fully Projected Future Test Year 5/2014-4/2015
Residential	4,277,293	4,190,709	4,203,111
Commercial	6,573,359	6,576,292	6,584,819
Industrial	3,387,077	3,166,891	2,820,871
Lighting	60,291	62,447	62,073
Total	14,298,020	13,996,340	13,670,875

Year to Year Change by mWh

	Historic Test Year 4/2012-3/2013	Future Test Year 4/2013-3/2014	Fully Projected Future Test Year 5/2014-4/2015
Residential		(86,584)	12,401
Commercial		2,933	8,527
Industrial		(220,186)	(346,020)
Lighting		2,156	(374)
Total		(301,680)	(325,465)

Year to Year Change by Percentage

	Historic Test Year 4/2012-3/2013	Future Test Year 4/2013-3/2014	Fully Projected Future Test Year 5/2014-4/2015
Residential		-2.0%	0.3%
Commercial		0.0%	0.1%
Industrial		-6.5%	-10.9%
Lighting		3.6%	-0.6%
Total		-2.1%	-2.3%

Exhibit JH-3
James Habberfield

Duquesne Light Company

Act 129 Program Savings (mWh) by Customer Class

	Historic Test Year 4/2012-3/2013	Future Test Year 4/2013-3/2014	Fully Projected Future Test Year 5/2014-4/2015
Residential	-	40,850	96,000
Commercial	-	29,100	68,300
Industrial	-	18,200	42,850
Lighting	-	0	0
Total	-	88,150	207,150

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

DLC Statement No. 4

Direct Testimony of Scott R. Ward

Dated: August 2, 2013

DIRECT TESTIMONY OF SCOTT R. WARD

Q. Please state your full name and business address.

A. My name is Scott R. Ward. My business address is 2839 New Beaver Avenue, Pittsburgh, PA 15233.

Q. What is your position at Duquesne Light Company?

A. I am the Director of Operations, at Duquesne Light Company ("Duquesne Light" or the "Company").

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

A. I am responsible for oversight of the following departments at the Company: Asset Management, Engineering and Project Management, Operations Planning and Budgeting, Substations Construction and Maintenance, and Transmission and Distribution Construction and Maintenance.

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

A. I received a Bachelor of Science degree in Systems Engineering from the United States Naval Academy in 1990. I completed the Navy's nuclear propulsion training program and served three years onboard a nuclear powered submarine holding various positions involving plant operations. I am a licensed Professional

Engineer in the Commonwealth of Pennsylvania and have the designation of Certified Energy Manager (CEM) from the Association of Energy Engineers.

I have been employed by Duquesne Light since 2005 and have held three positions within the Operations group. From 2005 through 2007, I was responsible for the Company's emergency response plans and worked on several collateral assignments including projects involving transmission and distribution system capital improvements, system reliability, and system operations. From June 2007 through April 2011, I was responsible for developing and monitoring the work plan and budget for the Operations organization. I have held my current position since April 2011.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to describe and explain Duquesne Light's capital additions planned to be placed in service through the end of the fully projected future test year ("FPFTY"). Specifically, my testimony: (1) provides a brief description of Duquesne Light's electric delivery system, (2) explains Duquesne Light's planning process to ensure its electric system continues to meet the needs of its customers, (3) explains the process followed by Duquesne Light to determine which capital additions are necessary and when they must be added, (4) explains the primary reasons why Duquesne Light makes capital additions, and (5) describes major capital additions through the FPFTY. In addition to

describing the Company's planned capital additions, I will describe Duquesne Light's reliability performance and vegetation management program.

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

A. Duquesne Light provides electric service to approximately 588,000 customers located in Allegheny and Beaver counties (including the city of Pittsburgh), a service territory of approximately 800 square miles. Duquesne Light delivers electricity from a variety of generation sources through a transmission and distribution system at the voltage and in the quantity required by our customers. The system includes approximately 45,000 miles of power lines, approximately 175 distribution substations, approximately 200,000 utility poles, and over 100,000 transformers.

The transmission system consists of a network of 345 kV, 138 kV, and 69 kV transmission lines that supply a network of substations. These lines move bulk power from various sources of supply, which are not owned by Duquesne Light, to the places in Duquesne Light's service territory where it is needed. They enable the movement of large quantities of bulk power with minimal energy loss or voltage drop. These transmission lines supply power to various types of substations within our service territory. Substation transformers then convert the transmission voltages to lower (distribution) voltages that are used for distribution to Duquesne Light's customers.

Once converted down to distribution voltages (typically 23 kV or 4 kV, except in our downtown Pittsburgh network system where there is both 11 kV and 23 kV primary distribution voltage), electricity is delivered to customers through the local distribution system. The local distribution system consists of distribution substations, distribution lines, transformers, switches, breakers, and other electrical equipment that Duquesne Light uses to deliver power to the customer.

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

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

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

A. Yes. Duquesne Light identifies the need and priority for capital additions by comparing knowledge regarding the condition and use of its assets to knowledge regarding the future performance requirements of those assets. In cases when a problem with future performance is predicted, or where a need to improve

performance has been identified, Duquesne Light engineers develop a variety of reasonable alternatives to resolve the problem or meet the need. Each alternative is then evaluated on its technical and financial merits and the alternative with the greatest customer value consistent with Duquesne Light's service and cost-effectiveness objectives is recommended.

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

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

In 2012 the Company implemented a new staged capital approval process to improve project planning and to provide more controls for the capital project approval process. Also, the Company recently formed an Asset Management

department to provide more focus on managing company assets and to support the capital project selection and planning processes.

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

A. Duquesne Light makes capital additions in order to provide safe and reliable service to our customers. Capital additions, including those planned through the end of the FPFTY, are necessary for four primary reasons and are categorized accordingly as: (1) Service Restoration, (2) Customer Commitments, (3) Service Capacity and Reliability, and (4) Infrastructure Support. Duquesne Light's capital plans for distribution and infrastructure support for the period April 1, 2013 through April 30, 2015 include placing approximately $310 million of assets in service as described in the remainder of my testimony. In addition to this $310 million, Duquesne Light plans to place approximately $61 million of Transmission System Service Capacity and Reliability projects in service during the same time period. The Company is not claiming any capital costs for transmission projects in its rate base claim in this proceeding. The value of assets to be placed in service during the period April 1, 2013, through April 30, 2015 is summarized in DLC Exhibit SRW-1.

Q. Please explain "Service Restoration" as a primary reason for making capital additions.

A. Duquesne Light customers expect their electric service to be restored promptly if it is interrupted. Service Restoration includes capital additions to replace

equipment that has failed in service and either resulted in a service interruption to Duquesne Light customers or presented a significant risk of an imminent service interruption. Capital additions in this category include additions to replace equipment failures related to storms, adverse weather conditions, animal contacts, and equipment that fails due to reaching the end of its service life. This category also includes capital additions in response to outages caused by customers and/or their equipment including motor vehicle accidents.

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

Q. Please summarize the types of capital additions that are included in the April 1, 2013, through April 30, 2015, projections for "Service Restoration".

A. In the time period April 1, 2013, through April 30, 2015, Duquesne Light projects to place $73 million of assets in service in the Service Restoration category. The service restoration program provides funding for the restoration of equipment that may require replacement due to damage caused by storms, wind, ice, or heat. Replacement includes both overhead and underground facilities. It also includes funding to replace equipment that may fail and cause customer outages or has the potential for causing imminent outages to customers. In calendar year 2012, Duquesne Light placed approximately $36 million of capital additions in service in the Service Restoration category.

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

A. Duquesne Light serves residential, commercial and industrial customers. All customer classes rely on us to provide service for new or remodeled homes and businesses, and also to move facilities or upgrade existing services to meet new capacity requirements as a result of facility relocation and modernization. Customer Commitments also include capital additions associated with relocations of Company facilities that are regularly requested by governmental agencies due to highway improvements or other rights-of-way interferences. These projects include road widening, bridge repairs, sewer and water main replacements/upgrades, or other infrastructure improvements.

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

Q. Please summarize the types of capital additions that are included in the April 1, 2013, through April 30, 2015, projections for "Customer Commitments".

A. In the time period April 1, 2013, through April 30, 2015, Duquesne Light's projections include placing $43 million of assets in service for Customer

Commitments. This amount funds hundreds of various sized projects to install overhead or underground distribution equipment requested by residential, commercial or industrial customers, or governmental agencies in accordance with Duquesne Light service policies.

Q. Please explain "Service Capacity and Reliability" as a primary reason for making capital additions.

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

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

Q. Please summarize the types of capital additions that are included in the April 1, 2013, through April 30, 2015, projections for "Service Capacity and Reliability".

A. The majority of Duquesne Light's additional capital spending is focused in the area of Service Capacity and Reliability. In the time period April 1, 2013, through April 30, 2015, Duquesne Light projects to place in service $61 million and $131 million, respectively, for Transmission and Distribution Service Capacity and Reliability. Of the approximately $131 million for distribution capital additions, $30 million is associated with equipment replacement programs to address emergent issues and to systematically replace equipment identified to be at the end of its useful life due to operational inefficiency or obsolescence. Examples of these programs include replacement of deteriorated or damaged line equipment, minor line hardware replacement, minor voltage or reliability improvement projects, and substation relay, breaker and switch replacement programs.

The remaining balance of $101 million for distribution additions through the FPFTY is associated with assets being placed in service as a result of the projected completion of significant projects. $73 million is associated with five major projects that I will discuss in more detail.

Q. Please describe each of the five major capital projects included in the Distribution "Service Capacity and Reliability" category.

A. These major capital projects include additions such as network transformer replacements, circuit capacity enhancement, rehabilitating deteriorated underground residential distribution circuits, replacement of Duquesne Light underground facilities as the result of a major PennDOT roadway rehabilitation project, and pole replacements. The five major projects are described as follows with a brief summary of need, work scope, and customer benefit for each of the five projects:

Service Capacity and Reliability Major Project #1: Replacing end of life network transformers and protectors in the downtown Pittsburgh distribution network.

Duquesne Light has a capital program that provides for the identification and replacement of network transformers and network protectors that are approaching end of life. The Golden Triangle of Downtown Pittsburgh is served by a low voltage network which includes 26 individual circuits in 5 distinct areas to ensure uninterrupted reliability. This distribution system has been very reliable. The majority of these transformers are located in sidewalk vaults that are wet due to rain and snow and are corroded due to salt applied to the sidewalks in the winter season. These factors contribute to the deterioration of the transformers which may lead to failure of the unit. Over the past 5 years Duquesne Light has been increasing the rate of replacement for deteriorated transformers. Some vaults are located in buildings in either the basement or in upper floors for high rise buildings, and these are not usually deteriorated.

Another important piece of equipment in the Downtown Network system is the Network Protector. The Network Protector connects the secondary side of the Network Transformer used to serve customer load. The Protector automatically opens when the primary is interrupted to the transformer. This is done to protect against reverse current flow which would continue to feed the fault from the transformer side. The protector is monitored and can also be opened or closed upon command from the Operations Center to add operational flexibility.

A combination of age and field condition assessment of transformers and protectors is used to set the priority for replacement. Duquesne Light's projections include replacing approximately 60 network transformers and approximately 15 network protectors from April 1, 2013, to April 30, 2015. Replacing network transformers and protectors identified through assessment and inspection programs benefits customers by reducing the potential for outages and minimizing the likelihood of transformer failures that can pose a safety hazard due to their location in sidewalk vaults.

The Company projects placing $5.4 million of assets in service as a result of this project.

Service Capacity and Reliability Major Project #2: Increasing the capacity of certain distribution circuits to accommodate load changes and maintain continued reliability.

This project involves modifications to several circuits in order to address load migration and growth in certain areas. Modifications are specific to each circuit and its requirements and may include extension of existing circuits, establishing ties to other circuits in the area, rewiring a circuit by using a larger size conductor, or upgrading 4kV circuits to 23 kV operation. Customers benefit from these circuit modifications, because the distribution circuits are better sized to meet customer quality and service requirements.

The Company projects placing $6.1 million of assets in service as a result of this project.

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

The URD rehabilitation program is an ongoing, long-term program to systematically replace earlier URD designs that utilized submersible transformers and primary separable splicing junctions in bituminous fiber vault housings installed below grade. Certain vaults housing submersible transformers and

splicing junctions are deteriorating which allows foreign material to enter the vault and either partially or completely cover our equipment. These installations create service restoration problems when a failure occurs, because the foreign material must be removed before repairs can begin. These URD systems within housing developments served by Duquesne Light were constructed in the late 1960's and early 1970's. The selection criteria used to prioritize URD rehabilitation includes the number of service interruptions, number of equipment failures, type of URD construction and operating condition, field observations, and the number of customers within the residential development.

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

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

Projects to be completed in the time period April 1, 2013, through April 30, 2015, include URD-served residential customers in Monroeville, Hampton, Robinson, Penn Hills, Jefferson Hills, and McCandless.

The Company projects placing $7.2 million of assets in service as a result of this project.

Service Capacity and Reliability Major Project #4: Replacement of underground assets due to a PennDOT major roadway project

PennDOT is rebuilding West Carson Street from the West End Bridge to the City of Pittsburgh boundary with McKees Rocks. Duquesne Light occupies this area under the authority of a state permit with three ductlines and 90 manholes. As a result of this rebuild Duquesne Light will lose the existing manholes and ductlines that are now in place. The Duquesne Light project will install approximately 24,500 feet of 5 inch PVC ductline and 40 manholes in West Carson Street. Specifically, a minimum of two 16 position ductlines will be installed from the Brunot Island Area to the West End Bridge and one 12 position ductline from the Brunot Island Area to the boundary of the City of Pittsburgh with McKees Rocks. The total conduit length is approximately 260,000 feet. Some rebuilding of existing manholes may also be required where the new ducts are tied into the existing non-impacted ductlines. The new duct line will be connected to the existing system as needed in order to make the new duct system an integral part of

the overall duct system. New cable will be required to relocate twenty major 23kV distribution circuits and two low tension circuits into the new ductlines. In addition, certain communications equipment that exists will be replaced in order to maintain telecommunications with operations equipment. This work will be done while PennDOT is rebuilding West Carson Street from the West End Bridge to City of Pittsburgh boundary with McKees Rocks.

The Company projects placing $30.5 million of assets in service as a result of this project.

Service Capacity and Reliability Major Project #5: Replacement of distribution poles found in need of replacement through the pole inspection program.

Duquesne Light has a program in place to ensure that its poles are inspected on a continual basis, and those poles that fail the structural integrity or visual inspection test are then engineered and replaced. The objective of this ongoing project is to identify and replace deteriorated and damaged poles before they fail. The Company projects to replace approximately 1,600 poles during the time period April 1, 2013, through April 30, 2015. Replacing a pole prior to failure prevents outages that may have occurred if the pole had failed and also minimizes safety hazards associated with poles that fail.

The Company projects placing $24.1 million of assets in service as a result of this project.

Q. Please explain "Infrastructure Support" as a primary reason for making capital additions.

A. Meeting the critical needs of Duquesne Light customers requires more than an electric distribution system. It requires assets to support the workforce who operate and maintain that system and provide other services to our customers. Infrastructure Support capital additions include items such as new vehicle purchases needed to replenish our fleet, information processing system improvements needed to provide customer account, billing, and payment processing services, upgrades to existing facilities, and the construction of new facilities needed to support our workforce.

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

Q. Please summarize the types of capital additions that are included in the April 1, 2013, through April 30, 2015, projections for "Infrastructure Support".

A. Duquesne Light will invest $63 million in Infrastructure Support projects including annual replacements and improvements for facilities, communications equipment, information technology, and the vehicle fleet. Of this $63 million projected to be placed in service, $16.4 million is associated with two significant projects with the remainder associated with annual programs and smaller projects.

Q. Please describe the two significant capital projects included in "Infrastructure Support" category.

Infrastructure Support Project #1: Build a new Alternate Operations Center and add technology and communications infrastructure for functional independence.

In 2005, Duquesne Light completed construction of an Alternate Operations Center ("AOC"). The Alternate Operations Center was constructed and complete redundancy was installed on all systems except the Supervisory Control and Data Acquisition system ("SCADA"). A duplicate SCADA computer was installed at the AOC, but the communications equipment connecting the field devices (breakers, sectionalizers, reclosers, regulators, network protectors, etc.) to the SCADA computers remained at the Company's Operation Center. This risk was acknowledged and if the Operations Center was destroyed, all essential substations must be staffed 24x7 to operate devices manually until the communications infrastructure was rebuilt. Since the time the AOC was installed, North American Electric Reliability Corporation ("NERC") Reliability Standards

have been revised to require that the all aspects of the operations of the transmission system be completely redundant at back-up operations centers. This requirement, combined with the need to provide more space for practical use of the AOC in the event of certain emergency event scenarios, created the need for this project.

This project installs a single story addition at the AOC and furnishes it with necessary equipment to make it fully functional. The project includes installation of communications infrastructure and hardware/software to enable continuous operation of SCADA, and other necessary systems to enable continuous operation of the Transmission and Distribution systems if the infrastructure at the main operations center was inoperable or if the main operations center could not be occupied.

The Company projects placing $7.3 million of assets in service as a result of this project.

Infrastructure Support Project #2: Build a new service center in McKeesport.

The existing McKeesport service center is at the end of its useful life. Around the year 2007, the office building at McKeesport was demolished and construction trailer type offices were moved to the location for use as offices. The construction trailers serve as offices for the supervisory and administrative

personnel as well as a headquarters for the overhead line crews. These trailers are now at the end of their useful life and need to be replaced. The truck garage was built in 1928 and there have not been any major renovations since the facility was built. The building has structural and roof issues along with end of life plumbing and electrical systems. Keeping this structure in use will result in significant future maintenance expense in the upcoming years.

This project will build a new McKeesport Service Center at a different location in McKeesport and demolish the existing facility.

The Company projects placing $9.1 million of assets in service as a result of this project.

Q. What is the Company's FOCUS project?

A. Under the Company's FOCUS project, the Company is upgrading its existing billing systems and installing a Meter Data Management system. Additional details regarding the FOCUS project are provided in Duquesne Light Statement No. 8, the Direct Testimony of Michele Sandoe and Duquesne Light Statement No. 1, the Direct Testimony of David Bordo.

Q. Has the Company included the capital costs for the FOCUS project in its rate base claim in this proceeding?

A. Yes, the Company is proposing to include all FOCUS capital costs in rate base. See Duquesne Light Statement No. 1 for additional detail.

Q. Have you included any FOCUS costs in your infrastructure support claim?

A. No. None of these costs are contained in this infrastructure support budget identified in my testimony.

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

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

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

A. Yes. During this period, Duquesne Light has maintained high levels of service and reliability. In fact, Duquesne Light has provided its customers with reliability levels that are at or near the top of the levels provided by all of the major Pennsylvania EDCs in terms of all three system and customer reliability metrics (CAIDI, SAIFI and SAIDI). As shown in the most recent Pennsylvania Public Utility Commission ("PUC" or "Commission") report on Electric Service Reliability in Pennsylvania, excerpt included below, Duquesne Light has consistently provided very high levels of reliability as compared to all the major electric utilities in the Commonwealth for the three-year period (2009-2011) measured by the report. Duquesne Light management and employees have made

focused and continuous efforts to improve reliability even though Duquesne Light has been at the top of the list for some time. We are proud to provide customers this high level of service.

Customer Average Interruption Duration Index (CAIDI)				3-Year	3-Year	% Above (+) or
EDC	2009	2010	2011	Average	Standard	Below (-) Standard
Citizens'	75	98	126	100	115	-13.3
Duquesne Light	85	80	107	91	119	-23.8
Met-Ed (FE)	111	120	117	116	129	-10.1
PECO	106	126	135	122	123	-0.5
Penelec (FE)	117	124	167	136	129	5.4
Penn Power (FE)	116	95	138	116	111	4.8
Pike County	178	253	297	243	192	26.4
PPL	117	135	151	134	160	-16.0
UGI	105	99	128	111	186	-40.5
Wellsboro	96	76	73	82	136	-40.0
West Penn (FE)	166	190	151	169	187	-9.6
System Average Interruption Frequency Index (SAIFI)				3-Year	3-Year	% Above (+) or
EDC	2009	2010	2011	Average	Standard	Below (-) Standard
Citizens'	0.20	0.19	0.35	0.25	0.22	12.1
Duquesne Light	0.97	1.09	0.93	1.00	1.29	-22.7
Met-Ed (FE)	1.21	1.51	1.21	1.31	1.27	3.1
PECO	0.98	1.09	1.14	1.07	1.35	-20.7
Penelec (FE)	1.22	1.31	1.40	1.31	1.39	-5.8
Penn Power (FE)	0.75	1.01	1.03	0.93	1.23	-24.4
Pike County	0.60	0.60	0.73	0.64	0.67	-4.0
PPL	0.89	1.09	1.07	1.02	1.08	-5.9
UGI	0.76	0.48	0.95	0.73	0.91	-19.8
Wellsboro	1.21	0.98	1.62	1.27	1.35	-5.9
West Penn (FE)	0.97	1.00	1.40	1.12	1.16	-3.2
System Average Interruption Duration Index (SAIDI)				3-Year	3-Year	% Above (+) or
EDC	2009	2010	2011	Average	Standard	Below (-) Standard
Citizens'	15	18	44	26	25	2.7
Duquesne Light	82	87	99	89	153	-41.6
Met-Ed (FE)	134	181	142	152	163	-6.5
PECO	103	137	154	131	167	-21.4
Penelec (FE)	143	162	233	179	179	0.2
Penn Power (FE)	87	95	143	108	136	-20.3
Pike County	106	153	216	158	129	22.7
PPL	104	147	162	138	172	-20.0
UGI	80	48	121	83	170	-51.2
Wellsboro	117	74	119	103	185	-44.1
West Penn (FE)	161	191	211	188	217	-13.5

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

In addition, in the Commission's Focused Management and Operations Audit of Duquesne Light issued in February 2013, the Commission recognized the Company's reliability performance for the five-year period of 2007-2011 as reflected in the table below.

Year	SAIFI	CAIDI	SAIDI
2007	0.79	107	84
2008	0.99	98	97
2009	0.97	85	82
2010	1.09	80	87
2011	0.93	107	99
Benchmark	1.17	108	126
12-Month Standard	1.40	130	182

Source: PUC Annual Reliability Reports

Duquesne Light's SAIFI, CAIDI and SAIDI numbers for all five years were better than the Commission's Benchmarks.

Q. Please summarize Duquesne Light's reliability metrics for 2012.

A. Duquesne Light achieved a SAIFI of 0.67 and a SAIDI of 79 minutes. Both of these results are significantly better than the Benchmarks of 1.17 and 126 minutes and are also the Company's best SAIFI and SAIDI results in the past 18 years. The Company's CAIDI for 2012 was 117 minutes which exceeded the Benchmark of 108 minutes but was better than the 12-Month Standard of 130 minutes.

Q. What caused the higher CAIDI results for 2012?

A. While the Company's excellent performance in SAIFI and SAIDI indicates that fewer customers experienced outages and that on a system-wide basis, the total duration of these outages was significantly lower than the Benchmark, the fact that CAIDI was above the Benchmark indicates that the Company performed better in eliminating outages than it did in shortening the duration of certain types of outages. A review of the outages that occurred in 2012 revealed that the three biggest contributors to CAIDI were outages caused by falling trees, cable failures, and storms. Outages caused by these events are typically of longer duration. Falling trees generally cause outages by causing extensive damage to facilities such as downed wires, broken poles, and broken cross arms. In addition to the amount of time to repair this type of damage, tree crews generally have to remove the fallen trees to clear the way for lineworker repair crews to restore service. Cable failure outages require a more lengthy restoration process because of the time required to: (1) find the faulted cable section, (2) establish a clearance to allow repairs to be made, and (3) make repairs which typically includes removing damaged sections of cable, installing new sections, and making splices. Storm outages can be longer in duration due to the volume of outages occurring at the same time. While Duquesne Light did not have any major storms in 2012, the Company did experience 26 days on which restoration activities were required due to storms.

Q. Why has the Company's reliability been so good over the past several years?

A. The Company has achieved excellent reliability through the use of distribution automation, preventative maintenance programs including a vegetation management program, monitoring reliability performance and responding to variances in performance, effective processes such as the emergent work process and restoration of service process, and effective prioritization of capital spending.

Distribution Automation. Duquesne Light's distribution system includes 4kV and 23kV circuits which are designed and built with switches to allow for sectionalizing of circuits and ties to other circuits. This design allows Duquesne Light to minimize the number of customers affected by an outage by providing opportunity to sectionalize the outage and to tie parts of an affected circuit to nearby circuits. Duquesne Light's 23kV distribution system includes automatic and remotely controlled sectionalizing devices that allow operators at a central Operations Center to quickly isolate portions of circuits when an outage occurs. Additionally, this high level of automation provides real time feedback on circuits and voltage. Operators can switch circuits that are becoming overloaded on a real time basis and prevent circuit overloading. This minimizes the number of customers that experience an extended outage. The Company's substations include remotely controlled circuit breakers which also enhances the ability of operators to respond to problems on the system. In addition to the use of technology, the Company has added fuses to many of its circuit laterals which help to isolate outages to customers in the vicinity of the outage cause.

Preventive Maintenance. Duquesne Light has numerous preventive maintenance programs to improve the likelihood of its equipment functioning properly and to identify equipment concerns before equipment failure occurs. Inspection discrepancies are recorded and corrective action prioritized to address those discrepancies that may impact safety or reliability. The Company has several inspection programs for its overhead assets including infrared and visual inspections of circuits and associated equipment, visual inspections of above ground pad mounted transformers, testing of wood poles, and transmission line inspections.

The Company's vegetation management program, described in more detail in response to another question in my testimony, is also an important part in maximizing the reliability of our overhead circuits. Duquesne Light's substations maintenance programs include substation control battery testing, power circuit breaker inspection and testing, power circuit breaker mechanism lubrications, relay testing, and transformer oil testing. Underground maintenance programs include manhole inspections, downtown network vault inspections, and network transformer inspections.

Reliability Monitoring. In addition to tracking SAIDI, SAIFI, and CAIDI, the Company monitors other measures of reliability including devices that experience Four or More Outages. The Four or More Outages analysis allows the Company to identify circuits that might be experiencing an increased frequency of outages.

By reviewing distribution devices that have operated four or more times in the previous six months, the Company is able to review the area of the circuit experiencing outages, identify corrective actions, and implement those actions to prevent future reliability issues for those impacted customers.

Emergent Work and Restoration of Service Processes. The Company's emergent work process includes a review of equipment issues that may result in reliability issues if not addressed. A cross-functional team meets on a regular basis to review the latest equipment issues and assign follow-up actions to correct or mitigate the equipment issues identified. Duquesne Light's restoration of service process includes protocols to respond to outages during normal weather conditions through severe storms. The Company's storm plan is updated on at least an annual basis to incorporate lessons learned from our own experience or from other utilities. An annual drill is held to ensure all storm team participants are familiar with their roles and to confirm the adequacy of the plan.

Capital Prioritization. As described earlier in my testimony, Duquesne Light has planning and prioritization processes to identify the best use of capital funding to address reliability concerns.

Q. What steps is the Company taking to further improve its service reliability and reduce outages?

A. In addition to continuing the activities described in the previous section that contribute to the Company's reliability performance, Duquesne Light has implemented three activities based on its review of its CAIDI performance in 2012.

The Company is planning on modifying its vegetation line clearance specifications to include pruning or removal of targeted trees that have a higher potential of causing outages due to falling trees and limbs that become damaged due to weather events. The Company's vegetation management program is described in more detail later in my testimony.

Earlier this year the Company established a Service Restoration Team to identify opportunities for improving the time required to restore customers who have experienced an outage. This cross functional team includes representatives from management and union employees. Their direction is to review all aspects of the restoration process, include input from all functions involved in the process, identify areas for improvement, and identify actions to achieve the improvement.

In response to cable failures having a significant input on CAIDI, the Company's Asset Management department has initiated a program to analyze outage reports and then target circuits for improvements such as repairs, cable replacement, or installation of switches to establish ties to other circuits.

Q. Please describe the Company's vegetation management program.

A. Duquesne Light takes responsible measures to manage the growth of trees and vegetation to minimize vegetation-related interruptions to customer service. The Company's integrated vegetation management ("IVM") program is based on current techniques and industry best management practices and includes provisions to comply with NERC Reliability Standards for certain transmission lines and with the PUC Inspection and Maintenance Standards. The Vegetation Management department develops technical specifications for line clearance work in order to provide sufficient distance between vegetation and the Company's lines while allowing for vegetation growth between routine maintenance efforts. The line clearance work is accomplished through the use of four to five qualified professional line clearance contractors. Scheduled maintenance work is competitively bid on a firm price per project basis with supplemental work performed on a time and material basis to cover certain unknowns such as potential hazard tree removal. Successful bidders are also used to address emergent work in the vicinity of their assigned maintenance projects including customer inquiries, emergency conditions, and storm events. The Company's vegetation management program is designed with the goal of optimizing routine maintenance efforts for circuits based on growth characteristics of vegetation common to the area and clearance requirements based on the design of the involved facilities. Distribution maintenance cycles range from four to six years with an annual goal of 1,300 distribution miles. Transmission cycles range between four to six years with annual miles maintained averaging between 110 to

166 miles. In addition to planned maintenance work, the Vegetation Management department responds to line clearance needs to establish reliable new rights-of-ways or improve upon existing rights-of-ways for capital projects. The Vegetation Management department also responds to vegetation in need of pruning or removal that is identified as a reliability threat to Company facilities due to weather damage, tree disease, insect infestation, or extraordinary growth habits of individual trees.

Q. Please identify the Company's spending in the Historic Test Year and the planned spending in the Future Test Year and Fully Projected Future Test Year.

A. The Company spent approximately $8.1 million on vegetation management for its distribution system during the Historic Test Year Period. The projected spending on distribution system vegetation management for the Future Test Year ("FTY") is $12.3 million and for the FPFTY is $15.0 million.

Q. Why are the Company's vegetation management expenses increasing as compared to the Historic Test Year ?

A. The Company's excellent reliability performance would not be possible without a strong vegetation management program. The budgeted spending for the FTY and FPFTY is based on the Company's estimated costs to execute our planned vegetation management line clearance work that is necessary to maintain reliable service to our customers and address emerging issues. The cost for the Company

to perform distribution line clearance activities is increasing due to higher prices from qualified line clearance contractors, the impact of the Emerald Ash Borer, and a change in our vegetation specifications planned for 2014.

We have recently noticed increased costs from all of our vendors through our competitive bidding process, and we have included these increases in our forecasted spending in the FTY and FPFTY. While annual increases of approximately 2% to 3% are typical due to annual increases in the contractors' labor costs, we have noticed that contractor prices are increasing beyond that amount. While we have not identified the exact cause of these price increases, we have negotiated with our contractors to obtain lower pricing and will continue to work towards identifying the drivers of those across the board cost increases.

The Emerald Ash Borer ("EAB") is causing significant mortality of ash trees throughout our service territory. Nearly all trees affected by the EAB die and become hazard trees capable of causing facility-damaging outages of lengthy duration when they are in the vicinity of our lines. The cost of performing planned maintenance work has increased as trees affected by the EAB are identified and removed during line clearance work. Also, off-cycle mitigation of identified infested ash trees that will adversely impact our circuits and reliability is now necessary. With ash species comprising an estimated 15-20% of the tree canopy along the Company's overhead facilities, the amount of work associated with addressing potential hazard trees has increased due to the impact of the EAB.

Finally, part of the increase in vegetation management maintenance costs is associated with a change in the Company's specifications that is planned for 2014 and future work. The Company routinely evaluates its vegetation management specifications to ensure that the resulting vegetation pruning and removal provides adequate clearance in order to maintain reliable service to our customers. Occasionally, specifications are revised in response to changing environmental conditions that may impact the vegetation growth rates or patterns. Based on field observations of vegetation growth patterns and a review of customer outages in 2012, the Company is revising its vegetation management specifications to include pruning or removal of targeted trees that have a higher potential of causing outages due to falling trees and limbs that become damaged due to weather events. Outages that result from falling trees and limbs are generally longer in duration, and as discussed earlier in my testimony, these types of outages were one of the leading contributors to the Company's CAIDI result in 2012. This specification change is aimed at reducing these types of outages during normal day-to-day operations as well as during storm events.

Q. What impact will the Company's vegetation management program have on its reliability of service?

A. By maintaining our current vegetation management program and enhancing the specifications as described in the previous question, the Company aims to address emerging issues to maintain or improve reliability performance.

Q. Does this conclude your direct testimony?

A. Yes, it does.

Exhibit SRW-1

Duquesne Light Company

April 1, 2013 through April 30, 2015 Capital Projections

($ Millions)

	In-Service Projections
Distribution	
Service Restoration	73
Customer Commitments	43
Service Capacity & Reliability	131
Subtotal – Distribution	247
Infrastructure Support	63
Transmission - Service Capacity & Reliability	61
Total	**371**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

Statement No. 5

Direct Testimony of Robert L. O'Brien

Dated: August 2, 2013

TABLE OF CONTENTS

DIRECT TESTIMONY
OF
ROBERT L. O'BRIEN

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. Please state your full name and business address.

A. My name is Robert L. O'Brien, and my business address is 1753 Via Mazatlan, Rio Rico, Arizona 85648.

Q. By whom are you employed and in what capacity?

A. I am employed by O'Brien Innovative Regulatory Solutions, LLC where I am the Sole Member.

Q. Please summarize your professional experience and educational background.

A. I have been employed in my current position since January 4, 2008 after my retirement from Black & Veatch Corporation ("B&V) where I worked in the Executive Management Services division as a Principal Consultant. Prior to that, I was employed by R.J. Rudden Associates ("Rudden"), where I served as Vice President. In these positions, I have assisted clients in the areas of Strategic Planning, State Regulatory Operations, Financial Planning, Cash Working Capital Calculations, Rate Case Preparation, Revenue Requirement Determination and Revenue Requirement Model Design.

Prior to joining Rudden in 2000, I was employed by Citizens Communications Company (formerly Citizens Utilities Company) ("Citizens") from 1975 to 1999 holding the positions of Vice President, Strategic Planning and Regulatory Affairs for Citizens' Public Utilities Sector (1997 to 1999); Vice

President, Corporate Regulatory Affairs (1978 to 1997); and Manager of Special Studies (1975 to 1978). From 1967 to 1975, I was employed as controller by a series of companies engaged in the financial, communications, educational and printing industries. Prior to 1967, I was employed by Ernst & Young where I attained the status of Senior Auditor after four years (including two years work experience during a 5-year work-study program at the University of Cincinnati). I graduated from the University of Cincinnati in 1965 with a Bachelor of Business Administration, having majored in Accounting. I am a Certified Public Accountant.

Q. Have you previously testified before the Pennsylvania Public Utility Commission ("Commission") or any other regulatory agencies?

A. Yes. I have testified or filed testimony before this Commission many times on behalf of Citizens' water and telephone operations; on behalf of Duquesne Light Company ("Duquesne Light" or the "Company") in its 2006 and 2009 applications for a general rate increase; on behalf of PECO Energy Company in a 2008 gas rate proceeding and again in the 2010 rate applications for its gas division and its electric division. In addition, I have presented testimony and or testified in over 250 proceedings before state regulatory commissions in Arizona, California, Colorado, Hawaii, Idaho, Illinois, Indiana, Missouri, Montana, Nevada, Ohio, Rhode Island, Tennessee, Vermont and West Virginia on behalf of electric, natural gas, communications, water and wastewater utility companies. Those proceedings involved company-initiated rate increases, commission-

ordered rate reviews, purchased energy pass-through proceedings, acquisitions and sales of utility companies, disaster relief requirements and the recovery of acquisition premiums. I have testified concerning all measures of value elements, including deferred income taxes and cash working capital, as well as revenues, operating expenses, income taxes, rate design and rate of return issues. I have also testified in generic proceedings related to income taxes, as well as changes in the regulation of the communications and electric industries.

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

A. I was asked by Duquesne Light to assist it in preparing and presenting a request for a general rate increase for its Pennsylvania electric distribution delivery operations. More specifically, I develop the components of Duquesne Light's overall revenue requirement, and will support certain pro forma ratemaking adjustments for the fully projected future test year ended April 30, 2015 ("FPFTY"), the future test year ended March 31, 2014 ("FTY") and the historic test year ended March 31, 2013 ("HTY"), and portions of the claimed measures of value, including Duquesne Light's cash working capital allowance.

Q. Before discussing the specific adjustments and schedules you are sponsoring, please describe the relationship of your work to that of the other Company witnesses.

A. In general, my assignment was to prepare pro forma adjustments to each of the three test years to obtain total Company pro forma balances for each test year.

The total Company values were developed and classified by use of the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts for Mr. Gorman to use in his Jurisdictional Separation Study ("JJS") which determines the pro forma earnings at present rates and the revenue increase required for the Company's Pennsylvania jurisdictional distribution assets. As a starting point, I used the actual, budgeted and/or projected data provided by Mr. Ankrum. In addition, I developed, working with Company personnel, pro forma adjustments based on total Company operations. Finally, I provided the total Company pro forma measures of value and operating results for the HTY, FTY and FPFTY to Mr. Gorman who, through a JSS for each test year, determined the allocated jurisdictional amounts correctly assigned to the Pennsylvania jurisdiction for the Company's distribution operations.

Q. Are you sponsoring all or portions of any exhibits in this proceeding?

A. Yes. Together with other Company witnesses, I am sponsoring portions of DLC Exhibits 2, 3 and 4, which comprise Duquesne Light's principal accounting exhibits for the FPFTY, FTY and the HTY respectively. As explained by Mr. Ankrum (DLC St. No. 2), Duquesne Light's Controller, the base data for the FPFTY in DLC Exhibit 2 were derived, for the most part, from Duquesne Light's capital and operating forecasts for the twelve months ended April 30, 2015; the corresponding data for the FTY in DLC Exhibit 3 were taken from Duquesne Light's budgets, books and records for the year ended March 31, 2014 and finally the data for the HTY in DLC Exhibit 4 from the actual data for the year ended

March 31, 2013. In addition, I am responsible for the responses provided to certain of the Commission's standard data filing requirements.

Q. Will you be discussing DLC Exhibit 2, DLC Exhibit 3 and DLC Exhibit 4?

A. Yes, I will. However, because Duquesne Light is basing its proposed rate increase on the adjusted FPFTY (April 30, 2015) data, I will focus my comments on Section C (Measures of Value/Rate Base) and Section D (Operating Income/Revenues and Expenses) of DLC Exhibit 2. My testimony regarding DLC Exhibit 3, which is Duquesne Light's FTY (March 31, 2014) and DLC Exhibit 4 which is Duquesne Light's HTY (March 31, 2013) are organized in essentially the same format as DLC Exhibit 2, will briefly address the pro forma adjustments and any area that requires additional comment or information.

Q. How is the balance of your testimony structured?

A. In Section II, I present an overview of Duquesne Light's FPFTY revenue requirement and explain, in summary fashion, how the claimed measures of value, pro forma present rate revenues, operating expenses, depreciation and taxes were determined. Section III of my testimony provides a more detailed description of the individual components comprising Duquesne Light's requested measures of value for the FPFTY, while Section IV discusses the derivation, including appropriate ratemaking adjustments, of Duquesne Light's revenue and expense claims for the FPFTY. Finally, Section V contains the presentation of the FTY and the HTY data.

II. OVERVIEW OF DUQUESNE LIGHT'S FULLY PROJECTED FUTURE TEST YEAR REVENUE REQUIREMENT

Q. Please explain how the Company's FPFTY April 30, 2015 measures of value were determined.

A. First, to determine FPFTY-end utility plant in service, the Company began with the closing plant balances at March 31, 2013, added the budgeted capital expenditures that are projected to close to plant in service monthly during thirteen months ended April 30, 2014 and subtracted the appropriate plant retirements which resulted in the plant balances at that date. The same procedures were followed using monthly plant closings for the months of May 2014 through April 2015 which resulted in the plant balances at April 30, 2015. The accumulated depreciation at April 30, 2015 was determined in a similar fashion, using the balances at March 31, 2013 plus the budgeted and or pro forma monthly depreciation expense, amortization of net salvage and the plant retirements for the 13 months ended April 2014 and the FPFTY. The accumulated deferred income taxes ("ADIT") credit includes an amount for the federal ADIT, net of an offset for the federal income tax previously paid by the Company on the receipt of contributions-in-aid-of-construction ("CIAC"). The claimed levels of materials and supplies and customer deposits are based on 13-month historic averages for the period ended March 31, 2013, and working capital was calculated using lead-lag study procedures. Each of these components and the other elements shown on DLC Exhibit 2, Schedule D-1, page 3 of 3, column 1, lines 1 to 11 of the measures of value will be described later in my testimony. This total Company

data, as described by Mr. Gorman, are then allocated to the Pennsylvania Jurisdiction as shown in column 2.

Q. How were the revenues at present rates derived?

A. Revenues at present rates were derived by adjusting the forecasted revenues for Duquesne Light's electric operations for the twelve months ending April 30, 2015 to reflect the removal of surcharge revenues; to reflect changes in data from the time the initial revenues were developed to reflect the annualization of customers to year-end levels in the FPFTY and to reflect the other pro forma revenue adjustments as described in connection with those adjustments which are summarized in DLC Exhibit 2, Schedule D-5.

Q. How were the claimed operating expenses for the FPFTY determined?

A. The pro forma FPFTY expenses were calculated using Duquesne Light's forecast for the twelve months ended April 30, 2015 as a starting point. Those expenses, which were prepared based on business activities and related cost elements such as payroll, employee benefits, etc., were distributed to FERC accounts using the distribution actually experienced by the Company during the HTY ended March 31, 2013. The forecast data were then annualized or normalized in accordance with established Commission ratemaking practices and other appropriate adjustments are summarized on DLC Exhibit 2, Schedule D-3 pages 1 and 2 and are described in connection with the specific schedules included in DLC Exhibit

2. Each annualization and normalization adjustment was then included in the appropriate FERC accounts.

Q. Please describe how the taxes-other-than-income ("TOTI") were determined for the FPFTY.

A. Those amounts were determined by using forecasted amounts for the twelve months ended April 30, 2015, with pro forma adjustments to payroll taxes to reflect the impact of the increase to FPFTY salaries and wages and other adjustments to reflect known and measurable changes, as shown on DLC Exhibit 2, Schedule D-16.

Q. Please describe the calculation of depreciation expense for the future test year.

A. The pro forma depreciation expense for the FPFTY was determined using monthly plant in service balances by FERC account for the twelve months ended April 30, 2015 and the depreciation rates, supported by Mr. Spanos in his testimony (DLC St. No. 8). The total for these calculations results in a pro forma depreciation expense of $111,291 million as shown on DLC Exhibit 2, Schedule D-17, page 1, line 63, column 15. This was then adjusted to reflect the use of the year-end plant at April 30, 2015. The five-year amortization of net salvage is shown by FERC account on page 2 totaling 10.514 million as shown on line 63, column 15, page 2. Page 3 reflects the sum of the calculated depreciation expense and the amortization of the net salvage of $121,805 million as shown on page 3,

line 63, column 15. The pro forma depreciation and amortization expense for the FPFTY of $122,485 million is reflected on page 3, line 63 in column 16 of DLC Exhibit 2, Schedule D-17.

Q. How were income taxes calculated?

A. Income taxes were calculated using the regulatory procedures normally followed by the Commission, including the use of synchronized interest expense; the normalization of the federal method difference for accelerated depreciation and other normalized deductions; the flow-through of other tax/book timing differences; and the results of a consolidated income tax adjustment calculation as explained by Mr. Simpson in DLC St. No. 7. The income tax expense for the FPFTY for total Company operations at present and proposed revenue levels is shown on DLC Exhibit 2, Schedule D-18, page 1 of 3. Income taxes for the distribution operations are performed and supported by Mr. Gorman.

Q. Please describe how the pro forma revenue increase and revenues at proposed rates were established.

A. Each of the total Company forecasted amounts and pro forma adjustments, which will be described in testimony related to the specific filing schedule or requirement, were used to determine the total Company pro forma measures of value, revenues at present rates and expenses. These total Company amounts were provided to Mr. Gorman and used by Mr. Gorman as the basis for the JSS which determined the fully distributed costs and the revenue requirement for the

Company's Pennsylvania distribution operations. The summary results for the Company's jurisdictional distribution operations are presented in DLC Exhibit 2, Schedule D-1 pages 1 to 3.

Q. What is the overall required increase in annual revenues for the Company's jurisdictional distribution operations for the FPFTY?

A. As shown on DLC Exhibit 2, Schedule D-1, page 1 of 3, column 2, line 2 and also on line 21 of DLC Exhibit 2, Schedule D-1, page 2 of 3, the proposed increase in annual operating revenues is $76.277 million. Mr. Gorman will testify regarding the calculations related to the distribution revenue increase.

Q. What is contained in Schedule B?

A. Schedule B contains financial data for the FPFTY which is being sponsored by Messrs. Ankrum, Simpson, Milligan and Moul.

III. MEASURES OF VALUE

A. Plant In Service

Q. Please describe Schedule C-1 of DLC Exhibit 2.

A. Schedule C-1 summarizes the measures of value for the FPFTY for the total Company and the Pennsylvania jurisdiction, the pro forma returns at present rates for the total Company and the Pennsylvania jurisdiction and the pro forma return at proposed rates for the Pennsylvania jurisdiction. The data for the total Company are supported by me and the data for the Pennsylvania jurisdiction will be described and supported by Mr. Gorman. As shown on line 1, the Company's

total Measures of Value for the total Company (column 1, line 1) is $2.073 billion and $1.543 billion (column 2, line 1) for the Pennsylvania jurisdiction. The net operating income and earned rate of return at present rates for the total Company and the Pennsylvania jurisdiction is shown on lines 2 and 3 in columns 1 and 2 respectively. Finally, the return of $129.016 million required to attain the target rate of return of 8.36% is shown on line 4.

Q. Please describe Schedule C-2 of DLC Exhibit 2.

A. Schedule C-2 contains 6 pages and presents the Company's claimed FPFTY utility plant in service.

Q. How was the utility plant in service of $3.562 billion shown on Schedule C-2, page 1, line 39 determined?

A. That amount represents the estimated plant in service balance at April 30, 2015 and is based on utility plant in service at March 31, 2013 plus budgeted and forecasted capital expenditures estimated to be closed to plant monthly in the FTY, the month of April 2014 and the FPFTY, less FTY, the month of April 2014 and FPFTY estimated monthly retirements and pro forma adjustments to the FTY, the month of April 2014 and FPFTY plant.

Q. Please describe what is contained on Schedule C-2, page 2.

A. Page 2, column 2, presents the estimated year-end plant balances for the FPFTY by functional plant category. Column 3 shows that there are no adjustments to the

Company's estimated plant balance at April 30, 2015. The balance in column 4 reflects the Company's pro forma plant in service at the end of the FPFTY by FERC plant categories. The total plant in service at April 30, 2015 of $3.562 billion shown on line 10 in column 4 is entered on DLC Exhibit 2, Schedule D-1, page 3 of 3 at column 1, line 1 for the total Company.

Q. What is shown on page 3 of Schedule C-2?

A. Page 3 shows the month-end plant balances by FERC account for the FPFTY. These balances are determined using the balance at the end of the prior month plus the monthly additions closed to plant from page 4 and the monthly retirements from plant from page 5. The balance at April 30, 2015 in column 14 represents the plant at the end of the FPFTY and is reflected on pages 1 and 2 of Schedule C-2.

Q. How about Schedule C-2, pages 4 and 5?

A. Pages 4 and 5 set forth the Company's estimated monthly additions and retirements to be closed to plant during the FPFTY. The monthly additions closed to plant shown on page 4 were developed using the FPFTY capital budget for construction expenditures, specific projects during the FPFTY and historic data for general plant additions to determine the months that major additions would be completed and in-service. This process provided the Company with specific in-service dates for major construction projects and a historic basis for general plant additions. The Company believes this multi-stage process provides an accurate

projection for the in-service dates for plant additions for the FPFTY. The monthly retirements shown on page 5 were determined using data from the monthly additions and reflect retirements associated with the additions.

Q. Please describe page 6 of Schedule C-2.

A. Page 6 is reserved for adjustments to plant. There are no adjustments to the Company's estimated plant in service at the end of the FPFTY.

Q. What is the total plant in service pro forma for at the end of the FPFTY?

A. The total plant in service for the Company in the FPFTY is $3.562 billion as shown on Schedule C-2, page 1 of 6, line 39 and also on Exhibit 2, Schedule D-1, page 3, column 1, line 1.

B. Accumulated Depreciation

Q. What is the purpose of Schedule C-3 of DLC Exhibit 2?

A. This schedule, consisting of 6 pages, presents the accumulated provision for depreciation at April 30, 2015 by FERC account. Duquesne Light's accumulated depreciation at April 30, 2015 is $1.144 billion as summarized on page 1, line 39 of Schedule C-3 and then carried forward to page 3, column 1, line 2 of Schedule D-1.

Q. Please describe page 1 of DLC Exhibit 2, Schedule C-3.

A. This page shows the accumulated depreciation balance by FERC account at the end of the FPFTY. It includes the accumulated depreciation at April 30, 2014

plus the sum of the monthly data for depreciation expense, less retirements, less cost of removal-net of salvage and adjustments which are reflected on schedules D-17, C-2, page 5, C-3 page 4 and page 5.

Q. What is contained on pages 2 to 5 of Schedule C-3?

A. Page 2 shows the pro forma accumulated depreciation for the FPFTY by FERC account category, including the adjustment to the accumulated depreciation related to the plant adjustments to the plant in service are summarized in column 3. Page 3 contains the estimated monthly FPFTY accumulated depreciation balances by FERC account. Page 4 shows the amount of cost of removal net of salvage, by month that is included in the FPFTY accumulated depreciation calculations. Page 5 reflects accumulated depreciation related to the plant adjustments discussed in connection with the plant accounts. These components of the accumulated depreciation provide an accurate presentation of the monthly balances for the FPFTY.

Q. What is the balance for accumulated depreciation at the end of the FPFTY?

A. That amount is $1.144 billion shown on DLC Exhibit 2, Schedule C-3, page 1, column 2, line 39 and also on DLC Exhibit 2, Schedule D-1, page 3, column 1, line 2.

Q. Please describe page 6 of Schedule C-3.

A. Page 6 contains a roll-forward of the plant and accumulated depreciation by FERC account from the end of the FTY (3-31-14) and the beginning of the FPFTY (4-30-15) which uses the plant and accumulated depreciation balances at April 30, 2014 as a starting point. Columns 2 to 5 show the data for the plant accounts and columns 6 to 10 show the data for the accumulated depreciation accounts.

C. Cash Working Capital

Q. What is set forth on Schedule C-4, page 1, of DLC Exhibit 2?

A. This is a summary of the Cash Working Capital ("CWC") calculations, which are detailed on pages 2 to 11 of this schedule. The total of $42.531 million shown on line 6 is included in Duquesne Light's claimed measures of value as shown on DLC Exhibit 2, Schedule D-1, page 3 of 3, column 1, line 4.

Q. Please describe page 2 of Schedule C-4.

A. Page 2 summarizes the derivation of Duquesne Light's revenue collection lag and overall operating expense payment lag. The revenue lag days of 54.72 days are shown on line 1; the expense lag days for each of the expense components appear on lines 2 to 6 and totaled on line 7; and the composite O&M expense lag days of 28.19 days is shown on line 8. The net lag in the collection of revenue of 26.53 days (54.72 -28.19) shown on line 9 is then multiplied by the average daily operating expense balance on line 10 to arrive at the base CWC amount of $22.501 million for operating expenses shown on line 11. The average daily operating expense balance of $848,000 on line 10 was determined by dividing the

total pro forma annual operating expenses of $309,547,000 on line 7, column 2, which excludes uncollectible accounts expense, by the number of days in a year, 365. The other components of CWC are shown on lines 12 to 15 and will be described in connection with my discussion of related supporting schedules.

Q. Please describe the revenue lag calculation shown on Schedule C-4, page 3.

A. The total revenue lag days shown on line 21 of 54.72 days were determined by dividing the average month-end accounts receivable balances for the thirteen months ended March 31, 2013 shown in column 2 on line 17 into the annual revenue billed during 12 months ended March 31, 2013, as shown in column 3 on line 17. This results in an accounts receivable turnover rate of 9.73 (column 4, line 17), which is equivalent to 37.51 lag days (365 days divided by 9.73 accounts receivable turnover rate), as shown in column 5 on line 17. This is referred to as the collection lag or the payment portion of the revenue lag. The payment portion of the revenue lag is added to (1) the 2.0-day lag between the meter reading day and the day bills are recorded as revenue and accounts receivable by the Company and (2) the 15.21 day service period lag, which is the time from the mid-point of the service period until the meter reading date, generating a total revenue lag of 54.72 days, as shown on line 21.

Q. How was the mid-point of the service period calculated?

A. The mid-point of the service period is equal to the days in an average month (365 days divided by 12, or 30.42 days) divided by 2, or 15.21 days.

Q. What is shown on page 4?

A. Page 4 shows the monthly revenue by class of service for the years ended March 31, 2011 through 2013.

Q. Please describe page 5 of Schedule C-4.

A. Schedule C-4, page 5, shows the calculation of the expense lags used in the CWC calculation as shown on Schedule C-4, page 2, column 3, lines 3 to 6. Lines 1 to 5 reflect the payroll expense lag. The payroll amounts reflect the forecasted payroll amounts for the FPFTY as shown on Schedule D-7. The lag periods for the payment of union and non-union payroll are shown separately to reflect Duquesne Light's actual payment cycles for each classification. Lines 6 to 12 show the lag in the payment of pension costs for the FPFTY. The lag period is calculated using a mid-point of October 1 and the payment dates shown in column 1. This results in an average payment lead of 26.5 days, which was applied to the pro forma pension expense from Schedule D-9, page 1, line 9 and shown on line 4 of Schedule C-4, page 2 of 10.

Q. How did you develop the lag days associated with the purchased energy costs shown on line 13 of Schedule C-4, page 5?

A. Effective June 1, 2013, Duquesne Light will purchase power for its default-service customers through a Supply Master Agreement. The payment terms under this contract result in a lag-day component of 33.88 days which is used for the

purchased energy lag-days. This includes a service period lag of 15.21 days; a bill processing lag of 8.67 days and a payment lag of 10 days.

Q. Please describe how you determined the payment lag associated with other operating and maintenance expenses.

A. The summary of the average payment lag for all remaining expenses, as set forth on lines 14 to 18 of page 5 of Schedule C-4, was derived from data for the four months shown on page 6 of Schedule C-4. More specifically, I requested that the Company provide a listing of all cash disbursements during each of the four months selected in a format that would show the payee, the date the service was provided or the invoice date, the amount of the disbursement, the date the payment cleared the bank, the account to which the disbursement was charged and certain other data. Each month's listing contained thousands of cash disbursements.

Q. How did you utilize the data provided by the Company?

A. I used the column showing the number of days it took each disbursement to clear the bank from the invoice or service date and calculated the dollar days (the amount of the disbursement times the number of days the payment took to clear the bank) and sorted the disbursements by amount. I then eliminated disbursements that should not be included in a CWC calculation.

Q. What disbursements did you eliminate from the balances used on page 6 of Schedule C-4?

A. First, referring to line 1 of page 6, I started with a total number of cash disbursements of 3,525 (column 1) and a total dollar amount of those disbursements of $517.199 million (column 2). I then removed all disbursements under $1,000 since those amounts, while significant in number, would not have a meaningful impact on the overall lag-day calculation. Next I removed all disbursements charged to asset and liability accounts, except charges to accounts payable and also all disbursements in excess of $200,000 since they are not likely to represent normal monthly operating expenses that are not accounted for elsewhere in the lead-lag study. The results of these removals provided the balances on line 2 which provided a base number of lag days for the other disbursements. Finally, I removed disbursements for accounts payable and also for charges recorded "below-the-line" which are not included in monthly operating expenses for regulatory purposes. The final result for February 2012, shown on line 3, is 40.24 lag-days. A similar process was followed for the months of May, August and November 2012 with the lag-days for each month shown on lines 6, 9 and 12 in column 4. The totals for the four months are included on lines 13 to 15 which result in 41.06 lag-days for other disbursements as shown on line 15, column 4. These data are summarized on page 5, lines 14 to 18 and the average of 41.06 lag-days is reflected on page 2 of 11, column 3, line 6.

Q. Please explain how the average prepayments of $4.401 million included on line 12 of Schedule C-4, page 2 were determined.

A. That amount is calculated on page 11 of Schedule C-4 and represents the thirteen-month average of actual amounts for each month end from March 2012 to March 2013. As shown on page 11, the prepayments in question comprise 20 different items, ranging from commission assessments to insurance.

Q. How did you determine the lag days for the tax expense component of working capital shown on page 7 of Schedule C-4 and brought forward to page 2 on line 13?

A. The calculations on page 7 of Schedule C-4 use the pro forma tax expense at proposed rates shown in column 1 and the net revenue lag days for each tax as shown in column 4. The result of the multiplication of those components is shown in column 3 and used as the working capital related to the taxes paid by the Company. The net payment lag days for each of the taxes are calculated on page 10 of Schedule C-4.

Q. Please describe the calculation of the interest expense lag shown on page 8 and included on page 2 of Schedule C-4.

A. This calculation measures the lag associated with the semi-annual payment of interest on outstanding debt. The pro forma interest expense is the amount resulting from the synchronized interest calculation using the pro forma measures of value and the weighted cost of debt included in the requested rate of return.

The daily interest expense amount, calculated on line 5, is multiplied by the net payment lag of 36.5 for a reduction to the working capital allowance of $4.616 million, as shown on line 9 and included on page 2 at line 14.

Q. Please describe the calculation of the working capital component related to preferred stock payments.

A. This calculation, shown on page 9 of Schedule C-4, follows the same procedures as the calculation for interest expense on page 8. The pro forma dividend amount is developed on lines 1 to 4 and the per day amount shown on line 5. The lag days are calculated based on the quarterly dividend payment and the result is an addition to the working capital requirement of $156,000 as shown on line 9 and also on line 15 of Schedule C-4, page 2.

Q. What is presented on page 10 of Schedule C-4?

A. As noted previously, this page provides the calculations of the net payment lag days for the tax expense components of Duquesne Light's CWC allowance. The type of tax and the payment schedule for that tax are shown in the description column with the actual payment dates reflected in column 1. The payment lead or (lag) from the midpoint of the year is shown in column 3. The pro forma payment amount for each tax is shown in column 4 on the line with the name of the tax. For example, the federal income tax amount, pro forma at proposed revenue levels, of $75.316 million is shown on line 1 in column 4. The payment amounts required are reflected for each tax on the dates shown in column 1 and the

weighted lead (lag) for each payment is calculated in column 5 for each tax. The payment lead (lag) days are calculated and shown on the total line for each tax. These days are compared to the lag days for revenue shown in column 7 and the net payment lag is shown in column 8 and also reflected on page 7 of Schedule C-4.

Q. Why are separate calculations made for the various categories of tax expense?

A. This is necessary because each of the tax expense items has separate payment dates. For example, as shown on page 10 of Schedule C-4, 25 percent of the estimated federal income tax liability is due on April 15, June 15, September 15 and December 15 of each year. The tax payment dates and percents due for other tax expense items are not the same. Using a separate calculation for each tax expense provides a matching of the cash requirement for payment of those expenses with the anticipated cash from revenues.

Q. What is shown on Schedule C-4, page 11?

A. This page shows the calculation of the average prepaid expenses included in the CWC which was described earlier in my testimony.

Q. What is the total amount of CWC included in the claimed measures of value?

A. That amount is the $42.531 million shown on Schedule C-4, page 1, line 6 and on Schedule D-1, page 3 of 3, column 1, line 4.

Q. Please describe Schedule C-5.

A. Schedule C-5 reflects the Materials and Supplies for the FPFTY based on the thirteen month average from March 2012 to March 2013 of $20.627 million as shown on line 16. The distribution of the average to various functions is shown on lines 17 to 22.

D. Accumulated Deferred Income Taxes

Q. What is the purpose of Schedule C-6?

A. Schedule C-6 shows the March 31, 2011 balance of accumulated deferred income taxes ("ADIT") that is deducted in the determination of the measures of value. The ADIT shown on line 5 of $469,029 million reflects the federal income tax that must be deferred in compliance with the normalization provisions concerning the use of accelerated tax depreciation on test year plant balances. The ADIT balance also reflects the normalization of the Tax repair deductions as permitted by the Commission. The accelerated tax depreciation and tax repair deductions used in the determination of taxable income for federal and state income tax expense calculations are reflected on Schedule D-18, pages 1 and 2 of 3. These amounts are supported in the testimony of Mr. Simpson

Q. What is the amount of ADIT used in the measures of value?

A. The amount for the total Company is $469.029 million as shown on line 5 of Schedule C-6 and on line 9 of page 3 of 3 of Schedule D-1 in column 1.

E. Customer Deposits

Q. Please explain the data concerning customer deposits on Schedule C-7 that was deducted from the claimed measures of value on Schedule D-1, page 3.

A. The amount for customer deposits shown in column 1 reflects the average month-end balance for the thirteen months ended March 2013. The amount for the interest expense paid to customers on the customer deposits is shown in column 2. The customer deposit amount is reflected as a reduction to the measures of value and the interest expense is shown as an operating expense for the FPFTY.

Q. Where are these amounts of customer deposits and interest shown?

A. The amount of customer deposits for the total Company is a deduction of $8.115 million, as shown on line 15 of Schedule C-7 and on Schedule D-1, page 3 of 3, line 8, column 1. In addition, the calculated interest expense related to these customer deposits of $488,000 is included in the Company's operating expenses as shown on DLC Exhibit 2, Schedule D-3, page 2 of 2, column 19, line 52.

Q. Please describe DLC Exhibit 2, Schedule C-8.

A. This schedule shows the calculation of the excess pension capitalized which, based on the Commission's acceptance of a settlement provision in the Company's last rate case, Docket No. R-2010-2179522, the Company can include in its measures of value. The amount to be included in as a rate base adjustment is, "...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 2007 forward." (Settlement in Docket No. R-2010-

2179522). Following the conditions of the settlement, the schedule shows the capitalized pension contributions in column 1 and the amount of the SFAS 87 pension capitalized in column 2. The difference in column 3, $69,215 million is the amount for the excess pension capitalized included in the measures of value for the FPFTY.

Q. Has the Company recognized the deferred income taxes related to the excess pension capitalized amounts as a reduction to measures of value in this proceeding?

A. Yes, it has.

Q. Where is that reflected in the calculation of the measures of value?

A. As explained by Mr. Simpson in DLC St. No. 7, it is included in the calculation of the ADIT shown on DLC Exhibit 2, Schedule C-6.

Q. Would the deferred income taxes resulting from the excess pension capitalized have been included in the ADIT under the procedures followed by the Company in Docket No. R-2010-2179522?

A. No, they would not have been. The Company, as will be described in more detail in the testimony of Mr. Simpson, has changed its procedures regarding the recording of the excess pension capitalized on its tax accounting records. Currently, the excess pension capitalized is recorded as an increase in the tax basis of plant in service on the Company's tax accounting records and is

depreciated using appropriate accelerated tax depreciation methods. As such, the deferred income taxes related to the excess pension capitalized are reflected in the ADIT shown on DLC Exhibit 2, Schedule C-6.

Q. Has the Company made an estimate of the amount of ADIT at the end of the FPFTY that is related to the excess pension capitalized?

A. Yes. Mr. Simpson has made a calculation that estimates the allocated distribution ADIT amount related to the excess pension capitalized at $15.6 million.

Q. What is the adjustment to include the excess pension capitalized in rate base for the FPFTY?

A. As shown on DLC Exhibit 2, Schedule 8, column 3, line 15, the amount is $69.215 million.

Q. What is the Company's claimed measures of value in this proceeding?

A. Duquesne Light's claimed measures of value, or rate base, for the FPFTY equals $2.073 billion, as shown on line 12, page 3 of 3, column 1 of Schedule D-1 for the total Company and $1.543 billion for the Pennsylvania jurisdictional measures of value shown on Schedule D-1, page 3 of 3, column 2, line 12, which will be supported by Mr. Gorman.

IV. REVENUES AND EXPENSES

Q. What is shown on Schedule D-1 of DLC Exhibit 2?

A. Schedule D-1, which is supported by myself and Mr. Gorman, contains three pages showing the calculation of the total Company and Pennsylvania jurisdictional measures of value (rate base) on page 3, the total Company and Pennsylvania jurisdictional revenue, expense and operating income on page 2 and the Pennsylvania jurisdictional revenue requirement including the measures of value, revenues and expenses at present rates, the revenue increase required and the revenues and expenses at proposed rates.

Q. Please describe Schedule D-2.

A. Schedule D-2 shows the revenues and expenses by major FERC account classification. It begins with the Company's forecasted revenues and expenses for the FPFTY in column 1, and then annualizes and/or normalizes those figures through adjustments summarized in column 2. The pro forma data in column 3 are summarized and brought forward to Schedule D-1, page 2, column 1 and used in the determination of the required revenue increase. The various revenue adjustments in column 2 are summarized on Schedule D-3 and listed by adjustment on Schedule D-5, and the expense adjustments are summarized on Schedule D-3 and described in more detail on the separate adjustment schedules beginning with Schedule D-6 through Schedule D-11.

Q. Please describe Schedule D-3.

A. Schedule D-3 summarizes the various adjustments that were made to the forecast revenue and expense data to derive the pro forma present rate revenues that

appear in column 3 of Schedule D-2 and are included in the adjusted amounts that are carried forward to Schedule D-1. The FPFTY forecasted amounts are shown in column 1 on page 1 and the revenue adjustment totals are shown in column 2 on page 1. The various expense adjustments are reflected in columns 3 to 11 of page 1 and in columns 14 to 23 of page 2 of Schedule D-3. Each of the pro forma adjustments will be described in connection with the specific schedule supporting the adjustment.

A. Revenue Adjustments

Q. Please describe Schedule D-5.

A. Schedule D-5 presents a summary of the separate pro forma adjustments to revenue for the FPFTY. Each of these adjustments will be described in detail in connection with the separate calculation of the adjustment shown on Schedules D-5A to D-5C.

Q. Please describe the adjustment calculated on Schedule D-5A, which is shown on Schedule D-5 in column 3.

A. This adjustment removes revenue recovered through surcharges. Related costs and expenses are also removed from other sections of the presentation for the FPFTY. The forecasted revenue amounts are shown in columns 2 and 3 with the related gross receipts tax amounts in column 4 and the net amounts in column 5. The total adjustment to revenue of $45.711 million on line 17 is shown on Schedule D-5, column 3, line 1.

Q. What is adjustment on Schedule D-5B which is included on Schedule D-5 in column 4?

A. This adjustment is based on data provided by Mr. Pfrommer that updates the forecasted revenue using more current data than was available when the forecasted data was developed. The forecast is included in column 2, the removal of the surcharge revenue is shown in column 3 and the revised revenue forecast is shown in column 4. The adjustment in column 5 is brought forward to Schedule D-5 in column 4.

Q. Please describe adjustment D-5C.

A. This adjustment annualizes revenues for the projected number of customers at the end of the FPFTY. Line 1 shows the distribution revenue for each customer classification for the FPFTY. These total revenues are reduced by the commodity revenues on line 2 and the resulting non-commodity revenues are shown on line 3. These non-commodity revenues are divided by the average number of customers for the test year on line 4 to determine the average non-commodity revenue per customer on line 5. The average non-commodity revenue, or margin on line 5 was then multiplied by the difference between the average number of customers (line 4) and the number of customers at the end of the FPFTY (line 6) which difference is shown on line 7, yielding the revenue annualization adjustment shown on line 8. For example, the average revenue per customer for the residential customer in column 1 on line 5 of $449 per year was multiplied by the increase in the number of customers of 304 on line 7 for an annualization

adjustment for residential customers of $136,000 as shown on line 8. The total annualization adjustment of $40,000 for all customer classes is shown on column 5, line 8 and also in column 5 on Schedule D-5.

B. Operating Expense Adjustments

Q. Does the Company budget its operating expenses by FERC account?

A. No, as mentioned previously, it does not. Rather, the Company budgets its operating expenses by cost element or business activity, such as payroll, employee benefits, rent, etc.

Q. How were the FPFTY data restated by FERC account for purposes of preparing this rate application?

A. The recorded FERC balances for the 12 months ended March 31, 2013 ("HTY") were analyzed to develop a chart showing charges for each cost element within each FERC account. After this process was completed, I then distributed the forecasted FPFTY charges by cost elements to the FERC accounts using the ratios actually experienced in the HTY. For example, I determined how much of the payroll expensed in the HTY was charged to each FERC account in the HTY and then distributed the FPFTY forecasted payroll to FERC accounts based on those ratios. This process was used for each cost element category to transform the FPFTY expense by cost element forecast to a FERC-based forecast.

Q. Why was it necessary to transform the FPFTY cost category forecast to a FERC-account based forecast?

A. Essentially for two basic reasons. First, the Company's annual reports to the Commission are presented on a FERC-account basis, and having the FPFTY forecast presented in the same format facilitates a comparison of the FPFTY forecast data to prior years' experience. Second, it was necessary to have the FPFTY data available by FERC account for use by Mr. Gorman in his Jurisdictional Separation Study and also in his Cost of Service Study.

Q. Is this the same procedure you used in the last rate case for the Company?

A. Yes, with one change. In this case, I removed the expenses that are recovered through surcharges and those expenses that are charged below-the-line from the Cost Elements before they were distributed to the FERC accounts. This process clearly shows that expenses recovered through surcharges and also those that are charged below-the-line are not included in the Company's revenue requirement in this application.

Q. Have you prepared a schedule showing the total expenses by Cost Element for the FPFTY and the removal of the expenses recovered through surcharges as well as the expenses that are charged below-the-line?

A. Yes, I have. Attachment A to my testimony shows expenses by Cost Element for the years 2010 through the FPFTY. The total expenses for the FPFTY are shown in column 10 in the amount of $243.414 million on line 48. From this total amount, the expenses recovered by surcharge (column 8) in the amount of $32.801 million; the expenses charged below-the-line (column 9) in the amount of

$3.493 million are removed leaving a net expense for the FPFTY of $207.120 million as shown on line 48 in column 7. The amount of each Cost Element distributed to FERC accounts and therefore included in the FPFTY expenses is the amount in column 8, after the removal of the expenses recovered through surcharges and the expenses charge below-the-line. A similar procedure was used for the FTY and HTY as reflected on Attachments B and C which will be described later in my testimony.

Q. In your opinion, does this process result in a fair presentation of the Company's FPFTY forecast expenses by FERC account?

A. Yes, it does.

Q. Were each of the pro forma adjustments reflected on Schedule D-3 also charged to the appropriate FERC accounts?

A. Yes, they were.

Q. Are the various pro forma expense adjustments presented on Schedule D-3 shown by the type of expense and also by the FERC account distribution?

A. Yes, they are. The expense categories are identified in the headers of the columns on pages 1 and 2 of Schedule D-3 and each adjustment is described in connection with a separate schedule showing its derivation. These adjustments are shown by FERC expense category on Schedule D-3 and also on the Section D summary schedules.

Q. What is contained on Schedule D-6, page 1 of 2?

A. Schedule D-6 contains adjustments to remove the expenses, by cost element, related to each of the revenue surcharges removed in adjustment D-5A discussed earlier. The major differences in the amounts for each surcharge reflect the fact that the revenue amounts include gross receipts taxes which are removed in the taxes other than income adjustment and the recovery of amounts for plant additions for the smart meter program. There are also some minor differences resulting from true-up recording periods.

Q. Please describe the adjustment contained on Schedule D-6, page 2 of 2.

A. This adjustment is based on data provided by Mr. Pfrommer that updates the forecasted generation revenue and related expense using more current data than was available when the forecast was developed. The forecast is included in column 2 and the updated forecast is shown in column 4. The adjustment in column 5 is brought forward to Schedule D-3 in column 3 on line 17.

Q. Please describe Schedule D-7.

A. Schedule D-7 consists of two pages and shows the calculation of the FPFTY annualization adjustments for salaries and wages ("S&W"). Page 1, column 2 contains the FPFTY forecast data summarized by FERC account categories showing a total to be expensed of $65.372 million on line 16, columns 2 and 4. Column 5 shows the annualization adjustment of $1.422 million distributed to the

FERC expense categories, while column 6 lists the pro forma amounts for salaries and wages expense, totaling $66.794 million as shown on line 16 and an annualization adjustment to increase S&W of 2.175 percent as shown on line 17. The adjustment of $1.422 million is reflected on Schedule D-3, column 4 on lines 19 through 24.

Q. How was the annualization adjustment derived?

A. The calculation is shown on page 2 of Schedule D-7. In short, the adjustment annualizes forecast S&W expense to reflect the number of employees at the end of the FPFTY and certain pay rate increases to become effective during the FPFTY. More specifically, I have annualized a union pay rate increase forecasted to be effective on October 31, 2014 (lines 4 to 6 in column 2) based upon historic pay increases and the increase for non-union employees which will be effective on January 1, 2015 (lines 4 to 6 in column 3). As shown on line 6, each of these adjustments reflects the portion of these S&W increases that was not included in the FPFTY forecast. These adjustments seek to capture the S&W expense that Duquesne Light will incur at the end of the FPFTY.

Q. Please explain the calculations on lines 12 to 18 of Schedule D-7, page 2.

A. These calculations would normally provide an annualization for an increase in the number of employees during the FPFTY. However, since the FPFTY forecast included most of the new hires for the FPFTY at the beginning of the FPFTY,

they are already included in the budget for a full year and therefore the annualization adjustment for new hires in the FPFTY is zero as shown on line 18.

Q. What is the total pro forma adjustment for S&W for the FPFTY?

A. The amount is $1.422 million, which is an adjustment of 2.175 percent as shown on lines 21 and 22 respectively.

Q. Please describe Schedule D-8 of DLC Exhibit 2.

A. Schedule D-8 shows the adjustment to normalize rate case expense. The Company expended approximately $150,000 on this filing through March 31, 2013 (line 3) and has budgeted an additional $2.050 million for the FPFTY. This total, $2.200 million (line 6) is normalized over a period of 3.0 years as shown on lines 7 and 8, which results in a total estimated normalized cost per year for this case of $733,000 as shown on line 8.

Q. Why are you using a 3.0 year period for the normalization of the rate case expenses related to this proceeding?

A. As of now, the Company plans to file its next rate increase application before July 31, 2016 using a FPFTY ended April 30, 2018 with new rates effective on May 1, 2017. This will be three years after new rates in this proceeding are expected to be effective. The normalization period of 3.0 years reflects this period. In addition, it has been approximately 3 years since the Company filed its last base rate proceeding.

Q. Please describe the normalization for the POLR "VI" costs shown on lines 9 to 13.

A. This normalization adjustment is related to the expenses incurred by Duquesne Light related to the development, processing and approval of the POLR "VI" rates in Docket No. P-2012-2301664 which plan was approved by Order entered January 25, 2013 and which will became effective on June 1, 2013. The rates approved in POLR VI will be in effect for a period of two-years when the will be replaced by POLR VII. Since this two-year period is expected to be repeated when rates are established in POLR VII, establishing a two-year normalization period will allow for recovery of POLR VI costs during the period those rates are effective and establish a normalized expense which will also recover costs for establishing POLR VII rates which will be effective from June 1, 2015 to May 31, 2017. The total amount for POLR VI is $2.137 million which provides a normalized amount of $1.069 for the FPFTY as shown on line 13. The total normalized expense for the FPFTY of $1.802 million as shown on line 14. The adjustment on line 16 of $1.738 million recognizes that $64,000 was included in the FPFTY forecast amounts as shown on line 15. The adjustment of $1.738 million is reflected on Schedule D-3, page 1, line 26, column 6.

Q. Please describe Schedule D-9 of DLC Exhibit 2.

A. Schedule D-9 reflects the calculation of the pension cost adjustment for the FPFTY. The adjustment reflects a three-year average of the expense component

of contributions that the Company will make to its pension funds during the three years ending December 31, 2014, December 31, 2015 and December 31, 2016, which are supported by the testimony of Mr. Ankrum. The total for these three years is $111.6 million as shown on line 6 which results in a pro forma FPFTY amount for the pension contribution of $37.2 million as shown on line 8. Since a portion of these pension costs are capitalized, the Company has reduced this average contribution amount by 50 percent to reflect the portion of the pension contribution that will be expensed. The amount to be expensed in the FPFTY, $18.6 million, is shown on line 11. The $24.2 million on line 12 is the amount included in the Company's FPFTY forecasted expenses which results in a negative adjustment of $5.6 million as shown on line 15 and brought forward to Schedule D-3, page 1, column 7, line 24.

Q. What is presented on Schedule D-10 of DLC Exhibit 2?

A. Schedule D-10 calculates an adjustment to the Company's forecasted uncollectible expenses. Lines 1 to 5 develop a five-year average rate of net uncollectible accounts charged off to total tariff revenue for the 2008-2012 period, which is then used in determining the level of uncollectibles expense at pro forma proposed rates, as shown in the reference column on line 23 of Schedule D-2. It is also used to adjust the amount of uncollectible expense in the forecast for the FPFTY to conform to the five-year average for the charge offs. The resulting 0.880 percent shown on line 6 in column 5 of Schedule D-10 is used on line 9

with the pro forma revenues at present rates for the FPFTY to calculate the pro forma uncollectibles of $5.796 million shown in column 5 on line 10.

This pro forma amount is added to the normalization amount of $1.5 million on line 7 to recognize a substantial increase in delinquent accounts that is occurring in 2013 over those amounts in prior years.

Q. Why is the Company proposing this adjustment?

A. The Company has experienced an increase in its delinquent accounts during the first five months of 2013 over the average for the same months in the years 2008 to 2012 of approximately 8.1 percent. The Company believes that this increase in delinquencies will result in an increase in uncollectibles above the five-year average calculated on lines 1 to 6 of Schedule D-10. In addition, the Company will be cutting over a new customer service and billing system during the FPFTY which it believes will also increase uncollectibles beyond the five-year average uncollectible rate. The normalization adjustment of $1.5 million reflects a normalized estimate of the increase in uncollectibles for the FPFTY.

Q. What is the total uncollectible expense for the FPFTY proposed by the Company?

A. The total pro forma amount for uncollectibles at present rates for the FPFTY is $7.296 million which is a net decrease of $944,000 from the forecast as shown on line 12 and brought forward to Schedule D-3 in column 8 on line 21 on page 1. In addition, the 0.880 percent rate is used to provide for uncollectible expenses

associated with the required revenue increase as shown on Schedule D-2, line 22 in the reference column.

Q. Please describe Schedule D-11.

A. Schedule D-11 presents the calculation of a reduction in information technology expenses for the FPFTY from $9.155 million to $4.662 million to reflect a normal level of expense using the actual and forecasted expenses from April 2012 through April 2015. Lines 1 to 4 reflect the expense amounts included in each of the three test years and also the amount projected for the month of April 2014 which is between the FTY and FPFTY.

Q. Why is it necessary to reduce the FPFTY expenses for information technology support?

A. The Company believes that these expenses, which are mainly for consulting services for various information technology support projects, will vary from year-to-year and should be normalized for ratemaking purposes.

C. Taxes – Other Than Income Taxes

Q. Please describe Schedule D-16 of DLC Exhibit 2.

A. Schedule D-16 contains 2 pages. Page 1 presents a summary of the forecast amounts for the FPFTY (column 3), adjustments to those amounts in column 4, and the pro forma expense amounts in column 5. The calculations for the payroll related changes are made on Schedule D-16, page 2 while the changes in the gross receipts tax ("GRT") are shown on page 1, lines 12 to 19. The calculations for the

increase in payroll taxes, as shown on page 2, lines 1 to 4 for FICA expense, use the ratio of tax expense to payroll expense included in the FPFTY forecast times the payroll adjustment for the FPFTY to produce an adjustment to FICA expense for the FPFTY of $125,000 as shown on line 4. The same procedures were followed for the other related payroll tax items. The total pro forma increase of $145,000, shown on page 2, column 5, line 14. These amounts are then reflected on page 1 in column 4. The adjustment to decrease GRT on line 7 of page 1 in the amount of $2.638 million calculated on page 1, lines 12 to 19. The total adjustment is a net decrease of $2.519 million in pro forma FTY expense for taxes other than income. The pro forma taxes other than income expense is $45.742 million as shown on Schedule D-16, page 1, line 11, column 5.

Q. Do you make an adjustment to recognize the additional GRT that will be required to be paid by the Company on the revenue increase allowed by the Commission in this proceeding?

A. Yes. As will be described in connection with DLC Exhibit 2, Schedule D-18, page 3, the incremental GRT is recovered through the gross revenue conversion factor ("GRCF") used to determine the amount of revenue required to provide the net income increase found reasonable in this proceeding.

D. Depreciation Expense

Q. Please describe DLC Exhibit 2, Schedule D-17, pages 1 to 3.

A. Schedule D-17 contains the monthly calculation of depreciation expense for the FPFTY on page 1, the monthly amortization of the cost of removal on page 2 and

the total of the two elements is contained on page 3. The total of the monthly calculations, which were prepared and will be supported by Mr. Spanos, results in the FPFTY amount of $121.805 million as shown on page 3, column 15, line 63.

Q. Is that amount used as the FPFTY expense for depreciation and amortization?

A. No. The amount used for the FPFTY expense is the $122.485 million shown in column 16 on line 63. The annualized amount is used to conform to the use of year end plant, accumulated depreciation and other annualization adjustments made in the Company's presentation.

E. Income Taxes

Q. Please describe the income tax calculation shown on DLC Exhibit 2, Schedule D-18, page 1.

A. This schedule calculates the pro forma income tax expense for the FPFTY pro forma at present rates for the total Company in column 3 and the revenue increase required at the 8.36 percent rate of return supported by the Company if applied to the total Company data in the FPFTY. Page 2 contains various elements used in the calculation of income taxes such as state and Federal tax depreciation, repair deductions, cost of removal and deferred income tax expense for both transmission and distribution operations. These calculations are supported by Mr. Simpson in DLC St. No. 7. Finally, page 3 shows the calculation of the gross revenue conversion factor which is used to calculate the revenue increase required once the amount of net operating income increase is determined.

Q. Is the calculation of the income tax expense for the distribution operations shown on Schedule D-18?

A. No. The distribution related calculations are provided by Mr. Gorman as part of his Jurisdictional Separation Study.

V. FUTURE TEST YEAR AND HISTORIC TEST

Q. Please describe the process used to prepare the pro forma FTY and HTY presentation contained in DLC Exhibit 3 and DLC Exhibit 4 respectively.

A. The basic process was the same as described in connection with DLC Exhibit 2, including the preparation of a Jurisdictional Separation Study based on the FTY and HTY data, except that I used budgeted data for the FTY and actual recorded data for the HTY as the starting point for each exhibit. As with the FPFTY, I reviewed the budgeted and recorded data and, where appropriate, made pro forma adjustments. In addition, I used data from DLC Exhibit 2 as the basis for several of the pro forma amounts used in DLC Exhibits 3 and 4. Again, Mr. Gorman will testify to the Jurisdictional Separation Study and the results each which are applicable to the FTY and HTY.

Q. What assumptions did you make to determine what pro forma adjustments would be necessary for the FTY and HTY?

A. I included pro forma adjustments that reflected the annualization and normalization of FTY and HTY elements and also adjustments for future events that have impacted the FPFTY. The pro forma adjustments for the FTY and HTY

are numbered consistent with the adjustments for the FPFTY. For example, the adjustment for salaries and wages is on Schedule D-7 in all three test years to facilitate reference between the FPFTY, the FTY and the HTY. Where there is no adjustment required for the FTY or the HTY it will simply show that it is not applicable.

Q. Referring now to DLC Exhibit 3, for the FTY, what is contained on Schedules B-1 to B-8?

A. These schedules contain forecast financial data for the year ended March 31, 2014 and are supported by Messrs. Ankrum, Simpson, Milligan and Moul.

Q. Please describe Schedule B-9.

A. This contains the pro forma capital structure and rate of return used for the FTY. As shown on lines 1 to 4, the Company is using the capital structure and cost rates for the FPFTY which represents the Company's expected capital structure at FPFTY end and I believe should be used for the FTY presentation as well as for the FPFTY.

Q. Please describe Schedule C-1.

A. Schedule C-1, which will be supported by me and Mr. Gorman, shows the measures of value and pro forma return at present rates for the total electric utility and for the Pennsylvania jurisdiction. In addition, it shows the pro forma return at proposed rates for the Pennsylvania jurisdiction.

Q. What is contained in Schedule C-2?

A. Schedule C-2 contains 6 pages and shows the utility plant in service balances at March 31, 2014 as well as the monthly additions, retirements and adjustments for the year ended March 31, 2014. Page 1 contains the projected plant balances pro forma by FERC account at March 31, 2014. Page 2 shows a summary of the recorded plant, adjustments and pro forma plant by major FERC plant category while the monthly balances by FERC account are contained on page 3. Page 4 reflects the monthly additions and adjustments to plant for the FTY while the monthly retirements are contained on page 5. Finally, adjustments to plant are reflected on page 6 of Schedule C-2. The total pro forma plant in service at the end of the FTY, $3.330 billion is shown on line 39 of Schedule C-2, page 1 and also on Schedule D-1, page 3, column 1, line 1 for the total Company.

Q. Please describe Schedule C-3.

A. Schedule C-3 contains 5 pages and presents the accumulated depreciation at March 31, 2014. These pages reflect the monthly pro forma balances by FERC account following the same procedures used in the FPFTY for the FTY. The accumulated depreciation at the end of the FTY is $1.056 billion as shown on line 39 and also on Schedule D-1, page 3, column 1, line 2 for the total Company.

Q. What is contained in Schedule C-4?

A. Schedule C-4 contains 11 pages that show the calculation of the CWC allowance for the FTY of $43,100 million (line 6) and also on Schedule D-1, page 3, column 1, line 4.

Q. Please describe page 2 of 11 of Schedule C-4.

A. Page 2 provides a summary of the calculations for each of the elements of the CWC for the FTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the pro forma amounts for the FTY while the prepayment amount is the thirteen month average through March 31, 2013. The resulting $43,100 million of CWC shown on line 16 is brought forward to Schedule D-1, page 3 in the calculation of the measures of value.

Q. Please describe pages 3 to 11 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the FTY following the same procedures used for the FPFTY as described in connection with DLC Exhibit 2, Schedule C-4. While the amounts for the FTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same and were described in connection with the same DLC Exhibit 2 schedules.

Q. What is contained on Schedule C-5?

A. Schedule C-5 shows the 13-month average month end balance for the period March 2012 to March 2013 for plant materials and operating supplies. The 13-month average of $20.627 million is shown on line 22 in column 2 and also on Schedule D-1, page 3, column 1, line 5.

Q. Please describe the calculations on Schedule C-6.

A. These calculations present the ADIT for the FTY. The procedures followed are the same as those utilized for the ADIT calculation at the end of the FPFTY except that year-end March 31, 2014 balances were used. The resulting ADIT of $458.569 million for the FTY is shown on line 5 and also on Schedule D-1, page 3, column 1, line 9.

Q. Please describe the data presented on Schedule C-7.

A. Schedule C-7 shows the 13-month average month end balance for the period March 2012 to March 2013 customer deposits in column 1 and also for the 12-month interest expense related to those customer deposits in column 2. The 13-month average of $8.115 million is shown on line 15 in column 1 and also on Schedule D-1, page 3, column 1, line 8. The interest expense of $488,000 is included on Schedule D-3, page 2, column 19, line 56 as an adjustment to FTY expenses.

Q. Please describe Schedule C-8.

A. Schedule C-8 shows the FTY amount for the excess pension capitalized. As with the presentation for the FPFTY, the amount of $59.915 million is only the amount for the excess pension capitalized. The related amount for the deferred income taxes has been included in the ADIT reflected on Schedule C-6.

Q. What is presented on Schedule D-1?

A. Schedule D-1, the jurisdictional amounts which will be supported by Mr. Gorman, shows the net operating income at present rates for the FTY, the pro forma revenue deficiency and the pro forma required revenue level for the Pennsylvania Jurisdiction.

Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses recorded for the FTY, pro forma adjustments and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

Q. Did you prepare a schedule showing that the Cost Element expenses related to surcharge expenses and below-the-line expenses were removed from the Cost Element expenses before using the FTY expenses in determining total Company or jurisdictional related expenses?

A. Yes, I did. The schedule is included as Attachment B to my testimony and with the addition of a column reducing FTY operating expenses for the reclassification of expenses to purchased energy, it is similar to Attachment A for the FPFTY. The net expenses shown in column 7 reflect the base for expenses in the FTY.

Q. Please describe Schedule D-3.

A. Schedule D-3 contains two pages which present a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes-other than income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

Q. What is contained in Schedule D-4?

A. This schedule contains two pages and shows the recorded, pro forma adjustment and Pennsylvania jurisdiction amounts for the FTY by revenue category and by FERC account for expenses.

Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the FTY recorded revenue. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5C.

Q. Please describe the adjustment on Schedule D-5A.

A. This adjustment, as with the adjustment to the FPFTY, removes the surcharge revenues from the FTY. Surcharge related expenses were removed from the Cost Elements before those Cost Element amounts were used as a base for the expense adjustments in the FTY.

Q. What is adjustment on Schedule D-5B?

A. This adjustment updates the budgeted revenue for the FTY to reflect more current data than available at the time the budget was prepared. Mr. Pfrommer supports the pro forma revenue levels that are the basis for this adjustment. The process utilized is as described in connection with the same adjustment for the FPFTY on DLC Exhibit 2, Schedule D-5B.

Q. Please describe the adjustment on Schedule D-C.

A. This adjustment annualizes revenues for customer growth during the FTY. The process utilized is as described in connection with the same adjustment for the FPFTY on DLC Exhibit 2, Schedule D-5C.

Q. Please describe Schedule D-7.

A. Schedule D-7 annualizes salaries and wages for the FTY. Page 1 shows the budgeted amounts in column 2 and the pro forma adjustment in column 5 by FERC expense category. Page 2 shows the calculation of the annualization adjustment, which follows the same procedures described in connection with the FPFTY using the data from FTY for the wage increases. There was no

adjustment to annualize numbers of employees on page 2, lines 12 to 18 because the level of employees was relatively constant during the FTY.

Q. What is contained on Schedule D-8?

A. Schedule D-8 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation on DLC Exhibit 2, Schedule D-8.

Q. Please describe the adjustments on Schedule D-9.

A. This adjustment for pension expense follows the same procedures used in the FPFTY and described in connection with DLC Exhibit 2, Schedule D-9.

Q. Are the adjustments on Schedules D-10 to D-11 and D-16 similar to the adjustments included in DLC Exhibit 2 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

Q. Please describe Schedule D-17.

A. Schedule D-17 presents adjusted depreciation and cost of removal net of salvage amortization expense for FTY annualized for plant amounts at the end of the FTY. The only difference is that the monthly calculations were made by me, following the same procedures used by Mr. Spanos for the FPFTY.

Q. Please describe the income tax calculations on Schedule D-18.

A. This schedule shows the calculation of the pro forma income tax expense for the FTY reflecting the total Company revenue, expenses and measures of value included in the pro forma present rate data for the total Company. As with the FPFTY, Mr. Gorman calculates the income taxes for the jurisdictional operations.

Q. Referring now to DLC Exhibit 4, for the HTY, what is contained on Schedules B-1 to B-8?

A. These schedules contain forecast financial data for the year ended March 31, 2013 and are supported by Messrs. Ankrum, Simpson, Milligan and Moul.

Q. Please describe Schedule B-9.

A. This contains the pro forma capital structure and rate of return used for the HTY. As shown on lines 1 to 4, the Company is using the capital structure and cost rates for the FPFTY which represents the Company's expected capital structure at FPFTY end and I believe should be used for the HTY presentation as well as for the FPFTY.

Q. Please describe Schedule C-1.

A. Schedule C-1, which will be supported by me and Mr. Gorman, shows the measures of value and pro forma return at present rates for the total electric utility and for the Pennsylvania jurisdiction. In addition, it shows the pro forma return at proposed rates for the Pennsylvania jurisdiction.

Q. What is contained in Schedule C-2?

A. Schedule C-2 contains 6 pages and shows the utility plant in service balances at March 31, 2013 as well as the monthly additions, retirements and adjustments for the year ended March 31, 2013. Page 1 contains the plant balances pro forma by FERC account at March 31, 2013. Page 2 shows a summary of the recorded plant, adjustments and pro forma plant by major FERC plant category while the monthly balances by FERC account are contained on page 3. Page 4 reflects the monthly additions and adjustments to plant for the HTY while the monthly retirements are contained on page 5. Finally, adjustments to plant are reflected on page 6 of Schedule C-2. The total pro forma plant in service at the end of the HTY, $3.162 billion is shown on line 39 of Schedule C-2, page 1 and also on Schedule D-1, page 3, column 1, line 1 for the total Company.

Q. Please describe Schedule C-3.

A. Schedule C-3 contains 5 pages and presents the accumulated depreciation at March 31, 2013. These pages reflect the monthly pro forma balances by FERC account following the same procedures used in the FPFTY for the HTY. The accumulated depreciation at the end of the FTY is $990.702 million as shown on line 39 and also on Schedule D-1, page 3, column 1, line 2 for the total Company.

Q. What is contained in Schedule C-4?

A. Schedule C-4 contains 11 pages that show the calculation of the CWC allowance for the HTY of $49,384 million (line 6) and also on Schedule D-1, page 3, column 1, line 4.

Q. Please describe page 2 of 11 of Schedule C-4.

A. Page 2 provides a summary of the calculations for each of the elements of the CWC for the HTY. The expenses in column 2 and those included in the determination of the lead-lag amounts for taxes, interest and preferred dividends are the pro forma amounts for the HTY while the prepayment amount is the thirteen month average through March 31, 2013. The resulting $49,384 million of CWC shown on line 16 is brought forward to Schedule D-1, page 3 in the calculation of the measures of value.

Q. Please describe pages 3 to 11 of Schedule C-4.

A. These pages show the calculations of various leads and lags and working capital requirements for the HTY following the same procedures used for the FPFTY as described in connection with DLC Exhibit 2, Schedule C-4. While the amounts for the HTY expenses vary from those in the FPFTY, the procedures followed to determine the lead/lag periods applied to those expense levels are the same and were described in connection with the same DLC Exhibit 2 schedules.

Q. What is contained on Schedule C-5?

A. Schedule C-5 shows the 13-month average month end balance for the period March 2012 to March 2013 for plant materials and operating supplies. The 13-month average of $20.627 million is shown on line 22 in column 2 and also on Schedule D-1, page 3, column 1, line 5.

Q. Please describe the calculations on Schedule C-6.

A. These calculations present the ADIT for the HTY. The procedures followed are the same as those utilized for the ADIT calculation at the end of the FPFTY except that year-end March 31, 2013 balances were used. The resulting ADIT of $429.822 million for the HTY is shown on line 5 and also on Schedule D-1, page 3, column 1, line 9.

Q. Please describe the data presented on Schedules C-7.

A. Schedule C-7 shows the 13-month average month end balance for the period March 2012 to March 2013 customer deposits in column 1 and also for the 12-month interest expense related to those customer deposits in column 2. The 13-month average of $8.115 million is shown on line 15 in column 1 and also on Schedule D-1, page 3, column 1, line 8. The interest expense of $488,000 is included on Schedule D-3, page 2, column 19, line 56 as an adjustment to HTY expenses.

Q. Please describe Schedule C-8.

A. Schedule C-8 shows the HTY amount for the excess pension capitalized. As with the presentation for the FPFTY, the amount of $50.615 is only the amount for the excess pension capitalized. The related amount for the deferred income taxes has been included in the ADIT reflected on Schedule C-6.

Q. What is presented on Schedule D-1?

A. Schedule D-1, which will be supported by Mr. Gorman, shows the net operating income at present rates for the HTY, the pro forma revenue deficiency and the pro forma required revenue level for the Pennsylvania Jurisdiction.

Q. Please describe Schedule D-2.

A. Schedule D-2 shows revenue and expenses recorded for the HTY, pro forma adjustments and the pro forma revenue and expense amounts at present rates. This schedule summarizes the adjustments that are detailed on Schedules D-3 and D-5 and explained in connection with other supporting schedules to be described later in my testimony.

Q. Did you prepare a schedule showing that the Cost Element expenses related to surcharge expenses and below-the-line expenses were removed from the Cost Element expenses before using the HTY expenses in determining total Company or jurisdictional related expenses?

A. Yes, I did. The schedule is included as Attachment C to my testimony and with the addition of a column reducing HTY operating expenses for the reclassification

of expenses to purchased energy, it is similar to Attachment A for the FPFTY. The net expenses shown in column 7 reflect the base for expenses in the HTY.

Q. Please describe Schedule D-3.

A. Schedule D-3 contains two pages which present a summary of each of the pro forma adjustments made to revenues and operating expenses, including depreciation and taxes-other than income taxes. Each of the adjustments will be described in connection with the specific schedule containing the calculation of the adjustment.

Q. What is contained in Schedule D-4?

A. This schedule contains two pages and shows the recorded, pro forma adjustment and Pennsylvania jurisdiction amounts for the HTY by revenue category and by FERC account for expenses.

Q. Please describe Schedule D-5.

A. Schedule D-5 shows the pro forma adjustments to the HTY recorded revenue. Each of the listed adjustments is discussed in connection with Schedules D-5A to D-5C.

Q. Please describe the adjustment on Schedule D-5A.

A. This adjustment, as with the adjustment to the FPFTY, removes the surcharge revenues from the HTY. Surcharge related expenses were removed from the Cost

Elements before those Cost Element amounts were used as a base for the expense adjustments in the HTY.

Q. What is adjustment on Schedule D-5B?

A. This adjustment updates the budgeted revenue for the HTY to reflect more current data than available at the time the budget was prepared. Mr. Pfrommer supports the pro forma revenue levels that are the basis for this adjustment. The process utilized is as described in connection with the same adjustment for the FPFTY on DLC Exhibit 2, Schedule D-5B.

Q. Please describe the adjustment on Schedule D-5C.

A. This adjustment annualizes revenues for customer growth during the HTY. The process utilized is as described in connection with the same adjustment for the FPFTY on DLC Exhibit 2, Schedule D-5C.

Q. Please describe Schedule D-7.

A. Schedule D-7 annualizes salaries and wages for the HTY. Page 1 shows the budgeted amounts in column 2 and the pro forma adjustment in column 5 by FERC expense category. Page 2 shows the calculation of the annualization adjustment, which follows the same procedures described in connection with the FPFTY using the data from HTY for the wage increases. There was no adjustment to annualize numbers of employees on page 2, lines 12 to 18 because the level of employees was relatively constant during the HTY.

Q. What is contained on Schedule D-8?

A. Schedule D-8 normalizes rate case expenses using the same recorded and estimated amounts used in the FPFTY calculation on DLC Exhibit 2, Schedule D-8.

Q. Please describe the adjustments on Schedule D-9.

A. This adjustment for pension expense follows the same procedures used in the FPFTY and described in connection with DLC Exhibit 2, Schedule D-9.

Q. Are the adjustments on Schedules D-10 to D-11 and D-16 similar to the adjustments included in DLC Exhibit 2 and described in connection with the schedules presented in that exhibit?

A. Yes, they are.

Q. Please describe Schedule D-17.

A. Schedule D-17 presents adjusted depreciation and cost of removal net of salvage amortization expense for HTY annualized for plant amounts at the end of the HTY.

Q. Please describe the income tax calculations on Schedule D-18.

A. This schedule shows the calculation of the pro forma income tax expense for the HTY reflecting the total Company revenue, expenses and measures of value

included in the pro forma present rate data for the total Company. As with the FPFTY, Mr. Gorman calculates the income taxes for the jurisdictional operations.

Q. Does this complete your direct testimony at this time?

A. Yes, it does.

DLC Statement No. 6

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF JOHN J. SPANOS

ON BEHALF OF
DUQUESNE LIGHT COMPANY

CONCERNING DEPRECIATION

DOCKET NO. R-2013-2372129

AUGUST 2, 2013

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

RE: DUQUESNE LIGHT COMPANY

DOCKET R-2013-2372129

DIRECT TESTIMONY OF JOHN J. SPANOS

Line No.

Q. Please state your name and address.

A. John J. Spanos. My business address is 207 Senate Avenue, Camp Hill, Pennsylvania.

Q. With what firm are you associated?

A. I am associated with the firm of Gannett Fleming, Inc.

Q How long have you been associated with Gannett Fleming, Inc.?

A. I have been associated with the firm since college graduation in June 1986.

Q. What is your position in the firm?

A. I am a Senior Vice President.

Q. What is your educational background?

A. I have Bachelor of Science degrees in Industrial Management and Mathematics from Carnegie-Mellon University and a Master of Business Administration from York College of Pennsylvania.

Q. Are you a member of any professional societies?

A. Yes. I am a member and past President of the Society of Depreciation Professionals. I am also a member of the American Gas Association/Edison Electric Institute Industry Accounting Committee.

Q. Have you taken the certification examination for depreciation professionals?

A. Yes, I passed the certification examination of the Society of Depreciation Professionals in September 1997 and was recertified in August 2003, February 2008 and January 2013.

Q. Will you outline your experience in the field of depreciation?

A. In June 1986, I was employed by Gannett Fleming Valuation and Rate Consultants, Inc. as a Depreciation Analyst. During the period from June 1986 to December 1995, I took part in the preparation of numerous depreciation and original cost studies for utility companies in various industries. Depreciation studies of telephone companies were performed for United Telephone of Pennsylvania, United Telephone of New Jersey and Anchorage Telephone Utility. My work in the railroad industry included depreciation studies for Union Pacific Railroad, Burlington Northern Railroad and Wisconsin Central Transportation Corporation.

Assignments in the electric industry included depreciation studies for Chugach Electric Association, The Cincinnati Gas and Electric Company, The Union Light, Heat & Power Company, Northwest Territories Power Corporation and the City of Calgary - Electric System. Pipeline industry assignments included studies for TransCanada Pipelines Limited, Trans Mountain Pipe Line Company Ltd., Interprovincial Pipe Line Inc., Nova Gas Transmission Limited and Lakehead Pipeline Company.

My work for the gas industry included depreciation studies for Columbia Gas of Pennsylvania, Columbia Gas of Maryland, The Peoples Natural Gas Company, T. W. Phillips Gas and Oil Co., The Cincinnati Gas and Electric Company, The Union Light, Heat & Power Company, Lawrenceburg Gas

Company and Penn Fuel Gas, Inc. Assignments in the water industry included depreciation studies for Indiana-American Water Company, Consumers Pennsylvania Water Company and The York Water Company; and depreciation and original cost studies for Philadelphia Suburban Water Company and Pennsylvania-American Water Company.

My participation in each of the above studies included assembly and analysis of historical and simulated data, field reviews, the development of preliminary estimates of service life and net salvage, calculations of annual depreciation, and the preparation of reports for submission to state or provincial public utility commissions or federal regulatory agencies. I performed these studies under the general direction of William M. Stout, P.E., the President of Gannett Fleming Valuation and Rate Consultants, Inc.

In January 1996, I was assigned to the position of Supervisor of Depreciation Studies. In July 1999, I was promoted to the position of Manager, Depreciation and Valuation Studies. In December 2000, I was promoted to the position as Vice President of Gannett Fleming Valuation and Rate Consultants, Inc. In April 2012, I was promoted to my current position as Senior Vice President of the Valuation and Rate Division. I am responsible for all depreciation, valuation and original cost studies, including the preparation of final exhibits and responses to data requests for submission to the appropriate regulatory body.

Since January 1996, I have conducted depreciation studies similar to those previously listed including assignments for Pennsylvania-American Water Company; Aqua Pennsylvania; Kentucky-American Water Company; Virginia-

American Water Company; Indiana-American Water Company; Hampton Water Works Company; Omaha Public Power District; Enbridge Pipe Line Company; Inc.; Columbia Gas of Virginia, Inc.; Virginia Natural Gas Company; National Fuel Gas Distribution Corporation - New York and Pennsylvania Divisions; The City of Bethlehem - Bureau of Water; The City of Coatesville Authority; The City of Lancaster - Bureau of Water; Peoples Energy Corporation; The York Water Company; Public Service Company of Colorado; Enbridge Pipelines; Enbridge Gas Distribution, Inc.; Reliant Energy-HLP; Massachusetts-American Water Company; St. Louis County Water Company; Missouri-American Water Company; Chugach Electric Association; Alliant Energy; Oklahoma Gas & Electric Company; Nevada Power Company; Dominion Virginia Power; NUI-Virginia Gas Companies; Pacific Gas & Electric Company; PSI Energy; NUI - Elizabethtown Gas Company; Cinergy Corporation – CG&E; Cinergy Corporation – ULH&P; Columbia Gas of Kentucky; South Carolina Electric & Gas Company; Idaho Power Company; El Paso Electric Company; Central Hudson Gas & Electric; Centennial Pipeline Company; CenterPoint Energy-Arkansas; CenterPoint Energy – Oklahoma; CenterPoint Energy – Entex; CenterPoint Energy - Louisiana; NSTAR – Boston Edison Company; Westar Energy, Inc.; United Water Pennsylvania; PPL Electric Utilities; PPL Gas Utilities; Wisconsin Power & Light Company; TransAlaska Pipeline; Avista Corporation; Northwest Natural Gas; Allegheny Energy Supply, Inc.; Public Service Company of North Carolina; South Jersey Gas Company; Duquesne Light Company; MidAmerican Energy Company; Laclede Gas; Duke Energy Company; E.ON U.S. Services Inc.; Elkton Gas Services; Anchorage Water and

Wastewater Utility; Kansas City Power and Light; Duke Energy North Carolina; Duke Energy South Carolina; Duke Energy Ohio Gas; Duke Energy Kentucky; Duke Energy Indiana; Northern Indiana Public Service Company; Tennessee-American Water Company; Columbia Gas of Maryland; Bonneville Power Administration; NSTAR Electric and Gas Company; EPCOR Distribution, Inc.; B. C. Gas Utility, Ltd; Entergy Arkansas; Entergy Texas; Entergy Mississippi; Entergy Louisiana, Entergy Gulf States Louisiana, the Borough of Hanover, Madison Gas and Electric, Central Maine Power; Atlantic City Electric and Greater Missouri Operations. My additional duties include determining final life and salvage estimates, conducting field reviews, presenting recommended depreciation rates to management for its consideration and supporting such rates before regulatory bodies.

Q. What is the extent of your formal instruction with respect to utility plant depreciation?

A. I have completed the "Techniques of Life Analysis", "Techniques of Salvage and Depreciation Analysis", "Forecasting Life and Salvage", "Modeling and Life Analysis Using Simulation" and "Managing a Depreciation Study" programs conducted by Depreciation Programs, Inc. Also, I have completed the "Introduction to Public Utility Accounting" program conducted by the American Gas Association.

Q. Have you previously testified on public utility ratemaking matters?

A. Yes. I have submitted testimony to the Pennsylvania Public Utility Commission; the Commonwealth of Kentucky Public Service Commission; the Public Utilities Commission of Ohio; the Nevada Public Utility Commission; the

Public Utilities Board of New Jersey; the Missouri Public Service Commission; the Massachusetts Department of Telecommunications and Energy; the Alberta Energy & Utility Board; the Idaho Public Utility Commission; the Louisiana Public Service Commission; the State Corporation Commission of Kansas; the Oklahoma Corporate Commission; the Public Service Commission of South Carolina; Railroad Commission of Texas – Gas Services Division; the New York Public Service Commission; Illinois Commerce Commission; the Indiana Utility Regulatory Commission; the California Public Utilities Commission; the Federal Energy Regulatory Commission ("FERC"); the Arkansas Public Service Commission; the Public Utility Commission of Texas; Maryland Public Service Commission; Washington Utilities and Transportation Commission; The Tennessee Regulatory Commission; the Regulatory Commission of Alaska; Utah Public Service Commission; District of Columbia Public Service Commission; Wyoming Public Service Commission; Maine Public Utility Commission; Iowa Utility Board; and the North Carolina Utilities Commission.

Q. What is the purpose of your testimony?

A. My testimony is in support of the depreciation studies conducted under my direction and supervision for the utility plant of Duquesne Light Company.

Q. Have you prepared exhibits presenting the results of your studies?

A. Yes. Exhibit JJS1 presents the results of the depreciation study as of March 31, 2013. Exhibit JJS2 presents the results of the depreciation study as of March 31, 2014 and Exhibit JJS3 presents the results of the depreciation study as of April 30, 2015. In addition, I am responsible for the responses to the Filing Requirements – Depreciation V-A-2, V-B-1, V-B-2, V-C-1, V-D-1, V-D-2 and V-

E-1 which present summaries of the study results as of the historic test year end, March 31, 2013, the future test year end, March 31, 2014 and the fully forecasted test year end April 30, 2015.

Q. Please describe Exhibits JJS1, JJS2 and JJS3.

A. Exhibit JJS1 titled "Depreciation Study Related to Electric Plant at March 31, 2013," includes the results of the depreciation study as related to the original cost at March 31, 2013. The report also includes the detailed depreciation calculations. Exhibit JJS2, titled "Depreciation Study Related to Electric Plant at March 31, 2014," includes the results of the depreciation study as related to estimated original cost at March 31, 2014. The report also includes explanatory text, statistics related to the estimation of service life, and the detailed depreciation calculations. Exhibit JJS3, titled, "Depreciation Study Related to Electric Plant at April 30, 2015," includes the results of the depreciation study as related to estimated original cost of April 30, 2015. The report also includes the detailed depreciation calculations.

Q. What is the basis for the Company's historic, future and fully forecasted test year depreciation expense claims in this proceeding?

A. The Company's depreciation expense claims are based on the service life study conducted in conjunction with the last rate case proceeding related to electric plant in service as of December 31, 2009. In addition, the remaining two and three quarter year amortization of the variance between the unrecovered book reserve and calculated accrued depreciation as a result of converting to amortization accounting for General Plant determined as of March 31, 2010, are included in the depreciation claims.

Q. What was the purpose of your depreciation study?

A. The purpose of the depreciation study was to estimate the annual depreciation accruals for ratemaking purposes using Commission approved procedures, resulting from the service life study that I conducted incorporating plant accounting data through 2009 and the electric plant in service as of March 31, 2013, March 31, 2014 and April 30, 2015.

Q. Is it reasonable to apply the depreciation rates calculated as of March 31, 2013, to the average plant balance for the twelve months ended March 31, 2014 and the average monthly plant balance for the thirteen months ended April 30, 2015 for purposes of determining the depreciation expense claims in this proceeding?

A. Yes, it is. The depreciation rates that were used are based on a service life study and the subsequent changes in plant balances to the calculated rates.

Q. Is the Company's claim for annual depreciation in the current proceeding based on the same methods of depreciation as were used in its most recent electric rate proceeding in Docket No. R-2010-2179522?

A. Yes, it is. For most plant accounts, the current claim for annual depreciation is based on the straight line remaining life method of depreciation. For Accounts 391, 393, 394, 395, 397 and 398, the claim is based on the straight line remaining life method of amortization. The annual amortization is based on amortization accounting which distributes the unrecovered cost of fixed capital assets over the remaining amortization period selected for each account.

Q. What group procedure is being used in this proceeding for depreciable accounts?

A. All depreciable accounts utilize the methods and procedures based on the straight line remaining life method, using remaining lives consistent with the average service life procedure for plant installed prior to 1983 and remaining lives consistent with the equal life group procedure for plant installed in 1983 and in later years.

Q. Please describe briefly the straight line remaining life method of depreciation that you used for depreciable property.

A. The straight line remaining life method of depreciation allocates the original cost less accumulated depreciation in equal amounts to each year of remaining service life.

Q. Please describe briefly the average service life procedure that you used in conjunction with the straight line remaining life method for plant installed prior to 1983.

A. In the average service life procedure, the remaining life annual accrual for each vintage is determined by dividing future book accruals (original cost less book reserve) by the average remaining life of the vintage. The average remaining life is a directly weighted average derived from the estimated survivor curve.

Q. Please describe briefly the equal life group procedure that you used in conjunction with the straight line remaining life method for plant installed in 1983 and in later years.

A. In the equal life group procedure, the remaining life annual accrual for each vintage is determined by dividing future book accruals (original cost less book reserve) by the composite remaining life for the surviving original cost of that

vintage. The composite remaining life for the vintage is derived by weighting the individual equal life group remaining lives.

In the equal life group procedure, the property group is subdivided according to service life. That is, each equal life group includes that portion of the property which experiences the life of that specific group. The relative size of each equal life group is determined from the property's life dispersion curve.

Q. Is the Company's claim for accrued depreciation in the current proceeding made on the same basis as has been used for many years?

A. Yes. The current claim for accrued depreciation is the book reserve brought forward from the book reserve utilized by the company in its last base rate proceeding.

Q. How was the book reserve used in the calculation of annual depreciation?

A. The book reserve by account was allocated to vintages to determine original cost less accrued depreciation by vintage. The total annual accrual is the sum of the results of dividing the original costs less accrued depreciation by the vintage composite remaining lives.

Q. How was the book reserve at March 31, 2014 and April 30, 2015 estimated?

A. The book reserve at March 31, 2014 and April 30, 2015 by account, was projected by adding estimated accruals, salvage and the amortization of net salvage, and subtracting estimated retirements and cost of removal from the book reserve at March 31, 2013. Annual accruals were calculated based on an average yearly or monthly plant balance. For most accounts, salvage and cost of removal were estimated by (1) expressing actual salvage and cost of removal as a percent of retirements by account, for the most recent five-year period, and

(2) applying those percents to the projected retirements by account. For the purpose of calculating the annual accruals, the projected book reserve by account was allocated to vintages based on calculated accrued depreciation at March 31, 2014 and April 30, 2015.

Q. Has a service life study of the Company's electric utility property been performed?

A. Yes. A service life study has been performed through 2009. The service life study is the basis for the service lives I used to calculate annual accruals.

Q. Briefly outline the procedure used in performing the service life study.

A. The service life study consisted of assembling and compiling historical data from the records related to the electric utility plant of the Company; statistically analyzing such data to obtain historical trends of survivor characteristics; obtaining supplementary information from management and operating personnel concerning Company practices and plans as they relate to plant operations; and interpreting the above data to form judgments of service life characteristics.

Iowa type survivor curves were used to describe the estimated survivor characteristics of the mass property groups. Individual service lives were used for major individual units of plant, such as large service centers, substation structures, and office buildings within Accounts 352, 361 and 390.1. The life span concept was recognized by coordinating the lives of associated plant installed in subsequent years with the probable retirement date defined by the life estimated for the major unit.

Q. What statistical data were employed in the historical analyses performed for the purpose of estimating service life characteristics?

A. The data consisted of the entries made to record retirements and other transactions related to the electric plant through 2009. These entries were classified by depreciable group, type of transaction, the year in which the transaction took place, and the year in which the plant was installed. Types of transactions included in the data were plant additions, retirements, transfers, and balances. In the presentation of service life statistics, only the significant exposure points that were utilized in determining survivor curves were plotted. This process is utilized to show my judgment in service life determinations.

Q. What was the source of these data?

A. They were assembled from Company records related to its utility plant in service.

Q. Were the methods used in the service life study the same as those used in other depreciation studies for electric utility plant presented before this Commission?

A. Yes. The methods are the same ones that have been presented previously for Duquesne Light Company and for other electric companies before the Pennsylvania Public Utility Commission and that have been accepted by the Commission in its past orders concerning electric utilities.

Q. What approach did you use to estimate the lives of significant structures such as substation buildings, office buildings and service centers?

A. I used the life span technique to estimate the lives of significant structures. In this technique, the survivor characteristics of the structures are described by the

use of interim survivor curves and estimated probable retirement dates. The interim survivor curve describes the rate of retirement related to the replacement of elements of the structure such as plumbing, heating, doors, windows, roofs, etc. that occur during the life of the facility. The probable retirement date provides the rate of final retirement for each year of installation for the structure by truncating the interim survivor curve for each installation year at its attained age at the date of probable retirement. The use of interim survivor curves truncated at the date of probable retirement provides a consistent method for estimating the lives of the several years of installation inasmuch as concurrent retirement of all years of installation will occur when the structure is retired.

Q. Has your firm used this approach in other proceedings before this Commission?

A. Yes, we have used the life span technique on many occasions before the Pennsylvania Public Utility Commission.

Q. What are the bases for the probable retirement years that you have estimated for each structure?

A. The bases for the estimates of probable retirement years are life spans for each structure that are based on judgment and incorporate consideration of the age, use, size, nature of construction, management outlook and typical life spans experienced and used by other electric utilities for similar structures. Most of the life spans result in probable retirement years that are many years in the future. As a result, the retirement of these structures is not yet subject to specific management plans. Such plans would be premature. At the appropriate time, analysis of the economics of rehabilitation and continued use

or retirement of the structure will be performed and the results incorporated in the estimation of the structure's life span.

Q. Are the factors considered in your estimates of service life presented in Exhibit JJS2?

A. Yes. A discussion of the factors considered in the estimation of service lives is presented by account on pages II-3 through II-27 of Exhibit JJS2.

Q. Please outline the contents of Exhibit JJS2.

A. Exhibit JJS2 is presented in three parts. Part I, Executive Summary, sets forth the scope and basis of study. Part II, Methods Used in Study, includes the estimation of survivor curves, and the calculation of annual depreciation and amortization.

Part III, Results of Study, presents a description of the results, summaries of the depreciation calculations, graphs and tables which relate to the service life study, and the detailed depreciation calculations.

Table 1, pages III-4 through III-6, presents the estimated survivor curve, the original cost at March 31, 2014, and the book reserve and calculated annual depreciation for each account or subaccount. Table 2, page III-7, presents the bringforward to March 31, 2014, of the book depreciation reserve as of March 31, 2013. Table 3 on page III-8 sets forth the calculation of the annual accruals used in the bringforward. Table 4, page III-9, presents the experienced and estimated net salvage during the five-year period, 2009 through 2013.

The section beginning on page III-10 presents the results of the retirement rate analyses prepared as the historical bases for the service life

estimates. The section beginning on page III-128 presents the depreciation calculations related to original cost. The tabulations on pages III-134 through III-212 present the calculation of annual depreciation by vintage by account for each depreciable group of utility plant.

Q. Please use an example to illustrate the manner in which the study is presented in Exhibit JJS2.

A. I will use Account 365.01, Overhead Conductors and Devices, as my example; inasmuch as it is one of the larger depreciable groups and represents 12 percent of the original cost of depreciable utility plant as of March 31, 2014.

The retirement rate method was used to analyze the survivor characteristics of this group. The life table for the 1964-2009 experience band is presented on pages III-72 through III-77 of Exhibit JJS2. The life table, or original survivor curve, is plotted along with the estimated smooth survivor curve, the 48-R1, on page III-71.

The calculation at March 31, 2014, is presented on pages III-170 and III-171 of Exhibit JJS2 and is based in part on the bringforward of the book reserve. The tabulation in Exhibit JJS2 sets forth the installation year, the original cost, calculated accrued depreciation, allocated book reserve, future accruals, remaining life and annual accrual. The totals are brought forward to the table on page III-4 in Exhibit JJS2.

Q. Please outline the contents in Exhibit JJS3.

A. Exhibit JJS3 includes a description of the results, summaries of the depreciation calculations, and the detailed depreciation calculations as of April 30, 2015. The descriptions and explanations presented in Exhibit JJS2 are also applicable

to the depreciation calculations presented in Exhibit JJS3. The graphs and tables related to service lives presented in Exhibit JJS2 also support the service life estimates used in Exhibit JJS3, inasmuch as the estimates are the same for both test years. The summary tables and detailed depreciation calculations as of April 30, 2015, are organized and presented in the same manner as those as of March 31, 2014.

Q. Please outline the contents of Exhibit JJS1.

A. Exhibit JJS1 includes a description of the results, summaries of the depreciation calculations, and the detailed depreciation calculations as of March 31, 2013. The descriptions and explanations presented in Exhibit JJS2 are also applicable to the depreciation calculations presented in Exhibit JJS1. The graphs and tables related to service lives presented in Exhibit JJS2 also support the service life estimates used in Exhibit JJS1, inasmuch as the estimates are the same for both test years. The summary tables and detailed depreciation calculations as of March 31, 2013, are organized and presented in the same manner as those as of March 31, 2014.

Q. Do you believe Exhibit JJS2 reflects the appropriate survivor curves for Duquesne Light Company to be adopted in this proceeding?

A. Yes, I do. The methods and procedures utilized in the development of survivor curves are consistent with past practices for Duquesne Light Company and Pennsylvania ratemaking regulations. The service life study was completed as of December 31, 2009.

Q. Do you believe that the annual depreciation rates and the related depreciation expense claims should be adopted in this proceeding?

A. Yes, I do. The depreciation rates and expense claims are based on appropriate survivor curves and the depreciation procedures are the same as those approved in past filings before this Commission. The only change in approach is the recovery period for the reserve variance adjustment in this proceeding for certain general plant accounts. For these accounts, incorporating the remaining life adjustment in the rate would distort the depreciation expense for subsequent additions. The use of a reserve adjustment amount over the next five years allows for the appropriate accrual rate to be booked for these assets going forward.

Q. Does this complete your testimony at this time?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company
Statement No. 7

Direct Testimony of Matthew L. Simpson

Dated: August 2, 2013

DIRECT TESTIMONY OF MATTHEW L. SIMPSON

Q. Please state your full name, business affiliation and business address.

A. My name is Matthew L. Simpson. I am the Senior Tax Manager of Duquesne Light Company ("Duquesne Light" or "Company"). The Company's business address is 411 Seventh Avenue, Pittsburgh PA 15219.

Q. How long have you worked at Duquesne Light?

A. I have been with Duquesne Light since May 2011.

Q. What are your current responsibilities?

A. In general, I oversee and manage the overall tax function for DQE Holdings, LLC ("DQE") and its subsidiaries, including Duquesne Light Holdings, Inc. ("DLH") and its wholly owned subsidiary, Duquesne Light. I am responsible for ensuring the accuracy and completeness of the Company's income tax provision for its financial statements and regulatory filings. I am also responsible for all tax compliance filings with the various taxing authorities as well as managing audit examinations.

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

A. I am a Certified Public Accountant and an active member of both the American Institute of Certified Public Accountants and Pennsylvania Institute of Certified Public Accountants. Prior to joining Duquesne Light, I held the position of Tax

Director at dck worldwide holdings, Inc. and Dick Corporation with headquarters in Pittsburgh, PA. Prior to this role, I was a Tax Manager in the Pittsburgh office of Deloitte & Touche LLP, a public accounting firm where I managed compliance and advisory services for clients in various industries, including the energy, construction and manufacturing sectors. Before Deloitte, I held various audit and tax positions with two other national accounting firms located in Pittsburgh, PA. I hold a Bachelor of Science Degree in Accounting from Penn State University as well as a Master of Science Degree in Taxation that I received from Robert Morris University in Pittsburgh.

Q. Have you previously testified before this or any other regulatory agency?

A. I have previously provided written testimony to the Federal Energy Regulatory Commission, Docket No. ER13-1220-000, related to a Monthly Deferred Tax Adjustment charge.

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

A. The purpose of my testimony is to describe and explain Duquesne Light's tax expense and related tax information.

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

A. Yes, I am. I am co-sponsoring Duquesne Light's Income Statement as it relates to taxes and the Balance Sheet as it relates to deferred and prepaid taxes. The

specific schedule references are DLC Exhibit 2 (Fully Projected Future), Exhibit 3 (Future) and Exhibit 4 (Historic), Schedules B-1, B-2, B-5, C-6, D-16 and D-18. I am sponsoring all the Data Filing Requirements and Schedules concerning Taxes. Please see Exhibit MLS-1 to my testimony for the listing of data filing requirements that I am sponsoring. My name is at the top of each data filing requirement that I sponsor.

Q. Please explain how these exhibits were prepared?

A. All were prepared either by me or under my direction or supervision. They were prepared in accordance with Commission requirements and Internal Revenue Service procedures and guidance.

Q. Does the Company utilize accelerated tax depreciation?

A. Yes, the Company uses accelerated depreciation. From 1971 to 1980 the Company elected to calculate tax depreciation under the provisions of the Class Life Asset Depreciation Range ("ADR") as provided by the Revenue Act of 1971. From 1981 to 1986 the Company elected to calculate tax depreciation under the Accelerated Cost Recovery System ("ACRS") as provided by the Economic Recovery Tax Act of 1981. From 1987 to the present the Company has elected to calculate tax depreciation under the provisions of the Modified Accelerated Cost Recovery System ("MACRS") as originally provided by the Tax Reform Act of 1986 and as modified in subsequent Acts.

Q. Please comment on the Deferred Income Taxes of accelerated depreciation presented in your tax expense.

A. In this rate case, Duquesne Light is reflecting deferred income taxes resulting from the adherence to IRS normalization rules and use of accelerated federal tax depreciation associated with Post -1969 Public Utility Property under the following depreciation methods: General Depreciation Rules (pre-1971) , Class Life ADR(1971-1980), ACRS(1981-1986), MACRS(1987-Present).

Duquesne Light's continued entitlement to the use of accelerated depreciation provision on Post -1969 Public Utility Property for federal income tax purposes is dependent upon the use of a normalization method of accounting for the resulting deferred income tax activity in determining cost of service (and total accumulated deferred tax balance used in rate base) for rate making.

The Company computes the deferred income taxes used in the cost of service calculation based on the applicable Internal Revenue Service ("IRS") normalization regulations which are primarily based on the original in-service date of the underlying asset. Duquesne Light follows guidance within former IRC Section 167(1) and IRC Section 168(i)(9) in which depreciation timing differences of federal accelerated tax depreciation in excess of the straight line depreciation using the method for calculating the ratemaking depreciation is tax effected at the current federal tax rate. When the underlying depreciation timing differences reverse – any excess portion of the reserve for deferred income taxes

is reversed ratably utilizing an ARAM Rate (Average Rate Assumption Method – TRA 1986 Section 203(e)).

Absent normalization accounting for ratemaking purposes, Duquesne Light would be required to use a straight-line method with book lives in determining its depreciation allowance for federal income tax purposes. In accordance with Commission policy, deferred income taxes related to pre-1970 Public Utility Property and state income taxes are not included in the income tax provisions for this filing.

Q. Could you explain Duquesne Light's income tax expense for the historic test year?

A. For the historic tax year the Company has used its March 31, 2013 financial statement tax provision information to calculate its current and deferred income tax expense. The tax expense calculations were made in accordance with federal and state laws, using a federal tax rate of 35% and a Pennsylvania tax rate of 9.99%.

Q. Could you explain Duquesne Light's tax expense for the fully projected future test year and future test year?

A. The proposed income tax recovery is reflected on Schedule D-18 within DLC Exhibit 2 (Fully Projected Future) and DLC Exhibit 3 (Future). The Company used the budgeted income and expenses for the fully projected future test year and

future test year to calculate the current federal and state income tax expense. These exhibits also show a calculation of federal deferred income tax expense.

Q. Could you explain how you have accounted for deferred taxes in this filing?

A. Federal accumulated deferred income taxes ("ADIT") related to plant in service are recorded in account 282 and have been deducted from rate base. Consistent with prior rate case filings, it is appropriate to reduce these amounts by the ADIT related to the prepayments on income taxes related to contributions-in-aid of construction. Consistent with my understanding of Commission practices, there is no ADIT balance related to state income taxes on property because the tax benefits of accelerated depreciation are flowed through to customers in the ratemaking process. This reflects the flow-through treatment for those accelerated depreciation amounts adopted by the Commission.

Q Are there any investment tax credits the Company has reflected in the income tax calculations for this rate filing?

A. No. All investment tax credits were fully amortized in 2010.

Q. Has Duquesne Light implemented an accounting method for tax repairs?

A. Yes. In 2011, the IRS has issued revenue procedure 2011-43 which provided a safe harbor method of accounting for determining whether expenditures to maintain, replace, or improve electric transmission and distribution property were deductible as repairs or whether they must be capitalized as improvements under

Internal Revenue Code Sec. 263(a). Following the safe harbor guidance of Rev. Proc. 2011-43, Duquesne Light filed an automatic accounting method change to adopt the safe harbor method of accounting for tax repairs and reflected a cumulative IRC Section 481(a) "catch up adjustment" of $140.3 million in its 2011 income tax return. As a result of the tax repairs accounting method change, Duquesne Light reported a taxable loss in 2011.

Q. How did Duquesne Light reflect the income tax benefit of the tax repairs accounting method change in its deferred taxes for ratemaking purposes?

A. In accordance with Paragraph 50 of the 2010 Joint Petition for Settlement at Docket No/R-2010-2179522, the Company recorded the IRC Section 481(a) "catch up" adjustment as a reduction to its income tax liability and an offsetting credit to account 282 on its regulated books of account. The recording of this adjustment increased ADIT and results in a reduction to the Company's rate base in this proceeding.

Q. How has Duquesne Light provided for tax repairs in the historic, future and fully projected future test years?

A. The 2010 Joint Petition for Settlement also stipulated that the ongoing current deduction would be reflected in the same manner as the "catch up" adjustment. Applying the same percentage of tax repairs to total capital additions obtained from the tax repairs accounting method change calculations, an estimate of the current tax repairs deduction was computed based on this historical percentage

applied to the capital additions for each test year. Federal deferred income taxes were computed on the annual tax repair deduction; resulting in an increase to account 282 – Accumulated Deferred Income Taxes (ADIT) and reducing the Company's rate base. The state income tax benefit of the tax repairs deduction related to distribution property is being flowed through to the ratepayers.

Q. Are there other items treated as flow-through in the rate-making process used to determine income tax expense?

A. Yes. Based on prior Commission orders, the income tax and thus rate-reducing benefits of the following items have been flowed through to current ratepayers: (1) the state tax effect of timing differences related to book versus state tax method and life depreciation differences on all vintaged property; (2) the federal tax effect of the cumulative timing differences related to book versus federal tax method and life depreciation differences on pre-1971 vintaged property before the adoption of Class Life Asset Depreciation Range ("CLADR"); (3) the federal tax effect of the cumulative timing differences related to the book versus federal tax life on vintage property during tax years 1971 through 1980, prior to adoption of the Accelerated Cost Recovery System ("ACRS") / Modified Accelerated Cost Recovery System ("MACRS"); (4) the federal and state income tax effects associated with basis differences between ratemaking balances and the income tax basis of plant, excluding the federal tax effects of the tax repairs method; and (5) the federal and state tax effects of timing differences related to the book versus tax treatment of cost of removal and salvage.

Q. Would you explain the treatment of cost of removal in the income tax calculation?

A. In determining the pro forma operating expenses for the cost of service, the customer is charged with removal costs of retired plant through the net negative salvage adjustment. The customer is also entitled to receive the benefit of any reduction of income taxes which results from including this adjustment in the pro forma income tax calculation. Thus, the current tax deduction for cost of removal, net of salvage, has been reflected as a flow-through benefit to the rate payers in each of the test years.

Q. How does Duquesne Light file its federal tax returns?

A. Duquesne Light is part of a consolidated federal income tax filing with its parent Duquesne Light Holdings, Inc. ("DLH") and DLH's parent, DQE Holdings LLC ("DQE").

Q. Are you aware of the Pennsylvania Public Utility Commission's ("Commission") procedure to reflect a share of the losses by entities included in a consolidated income tax return?

A. Yes, I am.

Q. Have some of the companies that join in a consolidated return with Duquesne Light experienced such losses?

A. Yes. Duquesne Light and other affiliated companies that have joined in filing a consolidated return have experienced such losses.

Q. Please describe your calculation of the Duquesne Light and affiliated companies income or loss.

A. The starting point for computing the taxable income or loss of Duquesne Light and affiliated companies was the actual income or loss contributed to the consolidated income tax return for each of the last three years. The losses of DQE in 2009 have been adjusted to eliminate the interest deduction on the promissory notes due to a significant modification that will result in the promissory notes being treated as a "disqualified debt instruments" under Section 163(l) of the Internal Revenue Code of 1986, thus causing the interest expense incurred to be nondeductible for U.S. income tax purposes for Tax Years after 2009. The losses of DLH have been adjusted downward each year to reflect capital structure changes at Duquesne Light. Specifically, the issuance of intercompany notes from Duquesne Light to DLH in the future and fully projected test years will create interest income to DLH that will offset a substantial portion of the DLH loss. Additional adjustments were made to reflect tax adjustments from the results of the most recent IRS examination. Also, the tax effects of Provider of Last Resort, hedge breakage fees, and results of affiliate companies that are no longer in business have been eliminated (normalized) in the calculations.

Q. Was a Consolidated Tax Adjustment included in the income tax expense claim?

A. A consolidated tax adjustment was not included in this case because Duquesne Light was a loss company on average for the three year period. The Company's tax loss is the result of implementing the tax repairs accounting method, as well as 50-100% bonus depreciation allowed under federal tax law. As a result of these deductions, Duquesne Light is a loss company and it is therefore not appropriate to apply a consolidated tax adjustment in this case. Nevertheless, I have attached details of the income and losses of affiliated companies for the three year period. See Exhibit MLS-2.

Q. Are there other reasons why a consolidated tax adjustment is not appropriate?

A. Yes. A significant amount of tax loss generated by DQE is the result of tax deductions generated by the debt issued to finance the acquisition of the DLH group. The cost of this debt is not reflected in Duquesne Light's rates and the debt does not finance rate base. Therefore, it is not appropriate to provide the tax deductions associated with acquisition financing to the ratepayers.

Q. Are there any new adjustments impacting deferred taxes in rate base?

A. Yes. Included in the deferred income taxes for the fully projected future test year is an adjustment for 263A mixed service costs ("MSC"). These MSC are general and administrative costs that are indirectly allocable to activities related to self-

constructed assets and inventory and must be partially capitalized under IRC Section 263A rather than deducted for tax purposes. The MSC allocation and capitalization amounts differ for book and tax purposes, resulting in the acceleration of tax deductions. The Company is proposing to normalize these accelerated deductions which result in book vs. tax basis differences on self constructed assets. This is similar to the book vs. tax basis difference for the tax repairs deduction for which normalization treatment was permitted under the Company's 2010 Joint Petition for Settlement. The estimated "catch up" adjustment for the MSC accounting method change under the guidance of Internal Revenue Service Industry Director's Directive (IDD) 5 has been reflected as an increase to ADIT and a reduction to rate base for the fully projected future test year.

Q. How has the Duquesne Light provided for accumulated deferred income taxes related to the pension rate base adjustment?

A. During Duquesne Light's 2010 rate case, the Commission adopted a settlement provision in which the Company would be allowed to include a rate base adjustment for the portion of the 50% of actual pension contributions that is treated as capitalized in the ratemaking process over the amount that is actually capitalized to plant accounts under the SFAS 87 capitalized pension (hereafter referred to as "Excess Pension Capitalized") from 2007 forward, net of related accumulated deferred income taxes. At the time of the settlement, the Company did not capitalize any amount (on its accounting or tax records) for the Excess

Pension Capitalized, but deducted it as an expense for tax calculation purposes. The Settlement provision would have provided for a reduction to the Excess Pension Capitalized rate base adjustment equal to the tax rate times the expense deduction. Subsequent to the Settlement Agreement, Duquesne Light reached a final agreement with the Internal Revenue Service regarding its audit of tax years 2008 to 2010. Part of the IRS agreement provided that the Company would not be allowed to expense for tax purposes the Excess Pension Capitalized amounts, but would be required to add those amounts to tax basis for plant and recover those amounts through tax depreciation over the tax lives of the various assets. Based on this IRS requirement, from 2008 forward, the Company has reflected the Excess Pension Capitalized amounts as part of its tax plant and has included all tax depreciation and related ADIT in account 282. The effect is that the offset for tax depreciation deductions on the increase in tax plant is already reflected in the Account 282 ADIT deducted from rate base in the Company's test years. The fact that the Commission is allowing the Company to reflect the Excess Pension Capitalized in rate base does not change (increase or decrease) the tax position required by the IRS and reflected on the Company's books and tax records. No separate ADIT adjustment is necessary as the deferred tax impacts of the Excess Pension Capitalized are already included in the Company's 282 Account and reflected in rate base.

Q. Please explain the PA Capital Stock Tax adjustment.

A. The capital stock tax is computed based on the Company's year-end taxable value. This value is then multiplied by the PA capital stock tax rate. Over the past few years, the capital stock rate has been phasing out. Although this tax rate was scheduled to phase out after 2013, recent PA legislation has extended the capital stock tax for several more years. The computation of the capital stock tax expense starts with the most recent taxable value as reported on the December 31, 2011 PA tax return. The tax rate of 0.67 mills (.00067) and 0.45 mills (.00045) was applied to the latest taxable value to compute the 2014 and 2015 capital stock tax. These results were prorated to arrive at the PA capital stock tax expense forecasted in the fully projected future test year. If the tax is phased out after the fully projected future test year, the rate change will be reflected in the State Tax Adjustment Surcharge between rate cases.

Q. Explain the PA gross receipts tax and property tax adjustments.

A. The PA utility gross receipts tax ("UGRT") is levied at the rate of 59 mills (5.9%) on the Company's taxable gross receipts. This UGRT rate is consistently applied throughout the test years. The public utility realty tax ("PURTA") and locally assessed real estate property taxes were based upon most recent assessments.

Q Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT MLS-1

PAGE 1 of 1

Item #	Subject Matter
DFR II-D-14	Debt Interest for Income Tax Calculation
DFR II-D-15	Schedule of Taxes Other than Income
DFR II-D-16	Schedule of Current and Deferred Tax Expense
DFR II-D-17	Schedule of Income Tax Refunds
DFR II-D-18	Prepaid and Deferred Income Tax Charges
DFR II-D-19	Federal Corporate Graduated Income Tax Rates
DFR II-D-20	Cost of Removal
DFR II-D-21	Income Tax Gain/Loss Carryovers
DFR II-D-22	Elim of Tax Savings by Payment of Interest on CWIP
DFR II-D-23	Consol. Tax Return Election - §1552
DFR II-D-24	Deferred Taxes Related to Depreciation
DFR II-D-25	Deferred Investment Tax Credits

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. R-2013-2372129

Duquesne Light Company

DLC Statement No. 8

DIRECT TESTIMONY OF MICHELE R. SANDOE

Dated: August 2, 2013

Q. Please state your full name and business address.

A. Michele R. Sandoe, 411 Seventh Avenue MD 8-6, Pittsburgh PA 15219.

Q. What is your position at Duquesne Light Company ("Duquesne Light" or "Company")?

A. I am the Vice President of Customer Care.

Q. How long have you worked at Duquesne Light?

A. I began my employment with Duquesne Light on December 30, 1996.

Q. What are your current responsibilities?

A. My overall responsibilities are to develop and establish policies, plans, programs, strategies and tactics for providing customer service to the Company's 588,000 customers. As Vice President of Customer Care, I am responsible for the relationships with residential, commercial and industrial customers as well as the direction of revenue management or the "meter to cash" process. Customer programs such as Universal Services, Energy Efficiency and Demand Response are also included as part of my Customer Care responsibilities.

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

A. I have included that information as DLC Exhibit MRS - 1 to my testimony.

Q. What is the purpose of your direct testimony?

A. The purpose of my testimony is to explain the following:

- the benefits of the Company's FOCUS Project; and
- the Company's customer satisfaction and service efforts.

FOCUS PROJECT

Q. Please explain the Company's FOCUS Project.

A. The FOCUS (For Our CUStomers) project encompasses significant upgrades to the company's existing IT system architecture in order to provide the back-office foundation necessary to successfully deploy, among other things, Smart Meters in accordance with ACT 129 and Pennsylvania Public Utility Commission ("Commission") requirements. Under the FOCUS project, the Company is replacing its Customer Information System ("CIS") and Customer Automated Collection System ("CACS") 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").

Duquesne Light's current CIS must be replaced in order to meet ACT 129 and Commission Smart Meter Implementation Order requirements. Enhancements such as time-of-use ("TOU") rates; real-time price ("RTP") programs; remote disconnect and reconnect; direct access to price and consumption information; and the automatic control of customer's electric consumption cannot be supported by Duquesne Light's existing CIS. Furthermore, Duquesne Light's existing back-office IT architecture is not designed for the proliferation of data inherent in providing hourly or even more granular interval

usage information to all of our customers on a daily basis. Therefore, in conjunction with replacing our CIS with the CC&B system, Duquesne Light must implement an MDM system as well as integrate this new system with the replacement CIS.

Q. Can you please explain the other major components of the FOCUS project?

A. Yes. The IVR system is an interactive telephone system that not only routes calls to the appropriate department and customer service representatives but allows customers to self service certain transactions. The Company's existing IVR system will not work with the new CC&B system. Therefore, the Company must implement a new IVR system to work with the new CC&B system. 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. 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. Finally, SOA is an underlying software system that allows all of the FOCUS systems to work together.

Q. What are some of the benefits of the FOCUS project?

A. As I explain above, there are substantial benefits of the FOCUS project including, allowing the Company to provide TOU and RTP rates, allowing remote disconnect and

reconnect meter functions, providing the IT support necessary to provide customers with direct access to price and consumption information and supporting the automatic control of customers' electricity consumption.

Q. Will the FOCUS Project enhance and promote customer choice and better interactions with EGSs.

A. Yes. The FOCUS project will provide a platform for the Company to better respond to the changing needs of the supply community. For example, FOCUS will allow the Company to more easily implement CAP Portability, accelerated switching, seamless moves and instant connects. FOCUS will also allow the Company to be both "Bill Ready" and "Rate Ready" with respect to supplier billing. Bill Ready means that when an EDC prepares a consolidated bill with both EDC and EGS charges, the EGS provides the EDC with the overall EGS bill amount to include on the consolidated bill. Rate Ready means that when an EDC prepares a consolidated bill with EGS charges, the EGS provides its rates to the EDC and the EDC calculates the EGS' charges to include on the consolidated bill.

Q. Are there other benefits of the FOCUS Project?

A. The FOCUS Project has many additional benefits to customers and the Company. I will highlight some of them below:

- Customers will be able to schedule appointments for selected service requests. For example, when an applicant or customer wants to start or stop service and his/her meter is located inside the home or if the customer wishes to be present, the customer

will now be able to schedule an appointment with the Company for the day, within a four hour schedule window, that best meets the need of the customer's schedule.

- All customers who have multiple accounts with the Company will be able to receive a summary bill that will list all of their accounts in one bill

- Commercial and Industrial customers will be able to view their bills on-line via the Company's website and alerts can be sent to the customer to inform them that their bill has been posted on our website.

- Customers who receive assistance from LIHEAP or the Dollar Energy Funds will receive bills that show how these funds were applied to their accounts. In addition, customers who participate in the Company's Customer Assistance Program ("CAP") will receive bills that include an energy usage graph as well as an integrated bill when the customer chooses an alternate supplier. Finally, CAP benefits will be portable when the customer chooses to take service from an electric generation supplier.

- Payment arrangement amounts will be provided on the bill so customers will no longer have to call for the amount needed to stay on their payment arrangement. For customers who have established a payment agreement but have failed to maintain the arrangements on a monthly basis, the agreed upon amount will now show on the monthly bills as a reminder of the amount required to "catch up" and become current on the payment arrangement. The customer will no longer need to call the Company to verify the amount due.

Q. Are there benefits to FOCUS that impact the Company?

A. Yes. The FOCUS Project will also benefit the Company in the way it goes about its day-to-day activities. Most of these enhancements relate to the back-office and how work is done. For example, the new systems will feature easier navigation of all customer information. Customer Service Representatives will be able to enter up to 10 different phone numbers for customers, multiple contact names, account and credit information will be available in one system and field activities will be completed in real time.

Q. Will the FOCUS Project replace old and outdated IT infrastructure.

A. Yes. The existing systems are over 20 years old and run on an antiquated mainframe platform that has limited capacity. These capacity constraints negatively impact both on-line and batch performance resulting in substantial risk to the continuity of business processes. The new systems run on a modern Linux platform and are scalable to unlimited capacity which virtually eliminates the performance risks mentioned previously. In addition, the existing systems utilize point to point interfaces that are difficult to maintain and significantly elongates the delivery of responses to new regulatory requirements or business enhancements. The new systems employ a Service Oriented Architecture (SOA) which provides an integration environment that is easier to maintain and expedites the delivery of new functionality by leveraging reusable components. Finally, the new IVR platform is an integrated component within the Company's Genesis Call Center system rather than a separate component. This seamless integration provides a more robust and stable environment for routing customer calls more expeditiously.

Q. Finally, does FOCUS set the foundation for future systems developments.

A. Yes. The FOCUS project provides a technology foundation that positions the Company for changes occurring in the utility industry related to Advanced Metering Infrastructure (AMI), Distributed Generation, Mobile Applications and Dynamic Rate Structures. The existing systems are unique to Duquesne Light which creates tremendous challenges in meeting the functionality demands of a changing utility industry. The new systems will help the Company meet the functionality demands of a changing utility industry which will benefit our customers.

CUSTOMER SERVICE

Q. Please explain the metrics that measure the Company's customer service performance.

A. The Company benchmarks its customer service performance based upon the metrics that were provided in the Epsom Investment/GIC Infra Holdings Purchase Commiments at Case No A-2010-2213369. The following chart provides the customer service metrics that began in 2012 and the Company's performance regarding the same.

Customer Service		
Target	Metric	Result
The percent calls answered within 30 seconds.	77% (for 2012)	77%
The average busy out rate.	0.3%	0%
The average call abandonment rate.	4%	3%
Percent of residential bills not rendered once every billing cycle.	0.01%	0.00%

As shown in the chart, the Company met or exceeded all of these metrics for 2012[1].

Q. Are there any other metrics the Company uses to measure customer service.

A. The Company also measures itself against the metrics contained in Title 52, Chapter 54.153(b).

Q. How has the Company performed with respect to those metrics.

A. The Company continues to perform strongly as measured against these metrics. Please see DLC Exhibit MRS-2 for a summary of the Company's performance for 2012.

[1] The Company had similar metrics under that certain settlement with respect to the acquisition of the Company's parent company by the Macquarie Consortium in Docket No. A-110150F0035. The Company met all of its customer service metrics in 2007, 2008 and 2009.

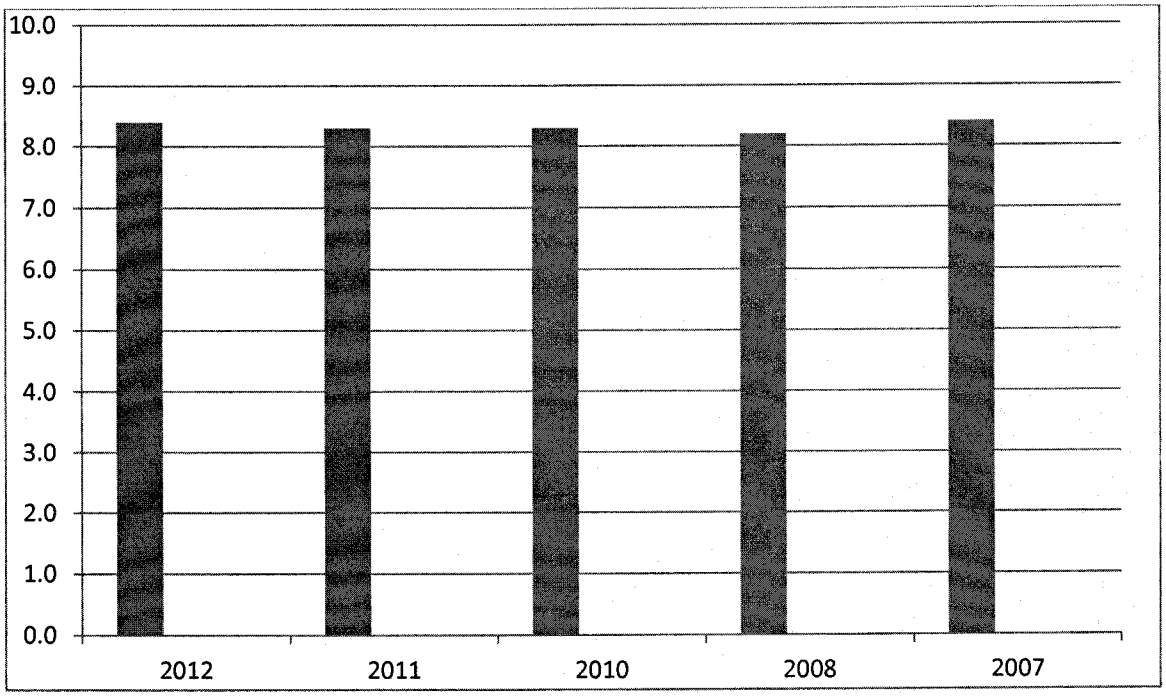
Q. Has the Company also undertaken customer satisfaction surveys to determine customer satisfaction with the Company's service?

A. Yes. The Company utilizes Market Strategy International (MSI) to perform customer surveys that includes overall customer satisfaction.

Q. Please summarize the results of these studies.

A. Since 2007, the Company has had strong results in overall customer satisfaction for each year the Company has participated in MSI's survey. Duquesne Light consistently ranks in the top decile in overall customer satisfaction when compared to more than 100 other utility companies in their survey. The Company was 10th among 100 benchmarked utilities in 2012 in terms of customer satisfaction. In addition, Duquesne Light was second among 17 utilities in the peer group comparison that included other Pennsylvania utilities such as PECO, Penelec, PPL and West Penn. In the mid-year 2013 polling, Duquesne Light has continued its strong performance by being in the first quartile on 29 of 33 measures, including being 3rd out of 99 utility companies on overall satisfaction. The following is a breakdown of the customer satisfaction information that the Company received from 2007 to 2012 on a scale from 1 to 10:

Year End Overall Customer Satisfaction Mean Score[2]



Q. Does this conclude your direct testimony at this time?

A. Yes, it does.

[2] DLC did not participate in the Survey in 2009.

Michele R. Sandoe, Vice President – Customer Care

Ms. Sandoe's oversees the development and implementation of policies, plans, programs, strategies and tactics for providing customer care to the Company's 585,000 customers. She manages the relationships with commercial, industrial and residential customers and directs revenue management or 'meter to cash' process. Ms. Sandoe provides oversight and approval of all development and business improvement strategies for areas of control, projects that are critical to organizational objectives and the energy efficiency and demand response programs ensuring compliance with PaPUC decisions and energy reduction commitments. After joining the Company in 1996, Ms. Sandoe progressed through increasingly responsible assignments, including Director Revenue Cycle Services. Previously, Ms. Sandoe held various analytical positions within Mellon Bank and the University of Pittsburgh. Ms. Sandoe holds a master's degree from the University of Michigan and a bachelor's degree from the University of Pittsburgh, and her directorships include Rebuilding Together Pittsburgh.

Duquesne Light Company
Quality of Service Report
Data Analysis and Comparison
For the Twelve Months Ended December 31, 2012

54.153(b)(1) Telephone Access

(i) Percent of calls answered within 30 seconds.

Duquesne Light improved its performance for this metric; achieving a 77% service level in 2012. The Company attributes the 1% improvement to increased staffing levels and an aggressive hiring and training schedule.

(ii) Average busy-out rate.

Duquesne Light continues to deliver exceptional performance for this metric achieving a 0% busy out rate for the fourth consecutive year.

(ii) Call abandonment rate.

Duquesne Light maintained a 3% abandonment rate for the fourth consecutive year.

54.153(b)(2) Billing

(i) Number and percent of residential bills not rendered.

Duquesne Light continues to issue all residential bills at the required frequency.

(ii) Number and percent of small business bills not rendered.

Duquesne Light continues to issue all small business bills at the required frequency

54.153(b)(3) Meter Reading

(i) Number and percent of residential meters for which the Company failed to obtain a reading in the past six months in accordance with § 56.12(4)(ii).

Duquesne Light continues to achieve exceptional performance for this metric.

(ii) Number and percent of residential meters for which the Company failed to obtain a reading in the past twelve months in accordance with § 56.12(4)(iii).

Duquesne Light continues to maintain its performance rate of 100% in this metric once again, having no unread meters in this category.

(iii) Number and percent of residential remote meters for which the Company failed to obtain an actual reading under the time frame in § 56.12(5)(i).

Duquesne Light continues to maintain its performance rate of 100% in this metric once again, having no unread meters in this category.

54.153(b)(4) Response to Disputes

Despite an increase in high bill calls attributed to one of the hottest summers on record, Duquesne Light improved performance, averaging only 1 exception per month.