

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
UNIVERSAL SERVICE CHARGE
FOR THE TWELVE-MONTH PERIODS ENDED
OCTOBER 31, 2016 AND OCTOBER 31, 2015**

**Pennsylvania Public Utility Commission
Bureau of Audits
February 4, 2020**

Docket No. D-2018-3003729

DUQUESNE LIGHT COMPANY

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DUQUESNE LIGHT COMPANY

Background

Duquesne Light Company (Duquesne or company) was formed in 1912 and is a wholly-owned subsidiary of Duquesne Light Holdings, Inc. Duquesne transmits and distributes electricity to retail customers within the Commonwealth of Pennsylvania and is therefore a public utility within the meaning of Section 102 of the Public Utility Code, 66 Pa. C.S. § 102, subject to the regulatory jurisdiction of the Pennsylvania Public Utility Commission (PUC or Commission).

As an electric distribution company, Duquesne provides electric distribution, transmission, and provider of last resort services to roughly 600,000 customers in a certified service territory spanning approximately 817 square miles, including the City of Pittsburgh and portions of Allegheny and Beaver counties in western Pennsylvania. Duquesne operates and maintains approximately 5,900 miles of overhead lines, 1,400 miles of underground lines, and 182 substations as part of its distribution network.

According to Duquesne's annual reports filed with the Commission, for the years 2016 and 2015, Duquesne's total electric distribution revenues were \$827,773,898 and \$829,478,922; respectively.

Duquesne filed its first Universal Service and Energy Conservation Plan (Plan) with the Commission on February 25, 2010 at Docket No. M-2010-2161220 for the years 2011 through 2013. The Plan was approved on November 19, 2010. The Commission granted approval on February 24, 2011 at Docket No. R-2010-2179522 for Duquesne to initiate a surcharge known as Rider No. 5 Universal Service Charge (USC) for recovery of the direct and external administrative costs incurred by the company to provide universal service programs to customers. The surcharge became effective April 11, 2011 and is applied to all kilowatt hours billed to residential customers receiving distribution service except for customers enrolled in the Customer Assistance Program (CAP).

Duquesne filed its subsequent Plan for the period 2014-2016 with the Commission at Docket No. M-2013-2350946 and it was approved under a Tentative Order on December 19, 2013. At Public Meeting held March 6, 2014, Duquesne was ordered to file a Revised 2014-2016 Plan consistent with the Commission's Final Order.



PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

Independent Auditor's Report to the Pennsylvania Public Utility Commission

Report on the Financial Statements

We have audited Duquesne Light Company's Statements of Universal Service Charge Over/Under Collections for the twelve-month periods ended October 31, 2016 and October 31, 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

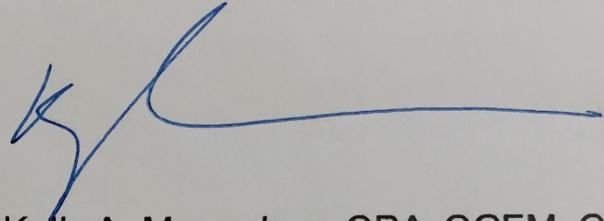
Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether these statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of these statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of these statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of these statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Universal Service Charge Statements, referred to above, present fairly, in all material respects, the Universal Service Charge revenue and expenses of Duquesne Light Company as of October 31, 2016 and October 31, 2015, in conformity with accounting principles generally accepted in the United States of America and the requirements of the Pennsylvania Public Utility Commission.

Report on Other Legal and Regulatory Requirements

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Pennsylvania Public Utility Commission and are not intended to be a complete presentation of the Duquesne Light Company's revenue and expenses.



Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
February 4, 2020

DUQUESNE LIGHT COMPANY

Condensed Statement of Universal Service Charge¹ (USC) Over/(Under) Collections (Section 1307(e)) for the twelve months ended October 31, 2016²

<u>Month</u>	<u>USC Revenue</u> (1)	<u>USC Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
November 2015	\$ 1,640,232	\$ 2,891,950	\$ (1,251,718)
December	1,974,513	2,117,826	(143,313)
January 2016	1,897,529	2,023,503	(125,973)
February	1,587,350	2,117,179	(529,830)
March	1,363,843	2,405,376	(1,041,532)
April	1,297,877	2,155,578	(857,701)
May	1,269,914	2,007,259	(737,345)
June	1,696,942	1,791,578	(94,636)
July	2,670,124	1,849,963	820,161
August	2,649,936	3,647,867	(997,931)
September	1,794,519	1,467,797	326,722
October	<u>1,306,767</u>	<u>1,641,779</u>	<u>(335,012)</u>
Total	<u>\$ 21,149,545</u>	<u>\$ 26,117,653</u>	<u>\$ (4,968,108)</u>

¹ As reported to the Commission at Docket No. M-2016-2577768. Arithmetic differences are due to rounding.

² Notes to the Financial Statements are an integral part of this report.

DUQUESNE LIGHT COMPANY

Condensed Statement of Universal Service Charge³ (USC) Over/(Under) Collections (Section 1307(e)) for the twelve months ended October 31, 2015⁴

<u>Month</u>	<u>USC Revenue</u> (1)	<u>USC Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
November 2014	\$ (893,404)	\$ 7,155,376	\$ (8,048,780)
December	(964,244)	1,381,647	(2,345,892)
January 2015	2,393,672	1,536,332	857,340
February	2,294,521	1,198,231	1,096,290
March	2,077,446	1,235,187	842,259
April	1,516,241	1,425,482	90,758
May	2,013,357	1,206,657	806,699
June	2,267,128	1,693,683	573,445
July	2,835,844	1,685,668	1,150,176
August	2,580,259	1,820,156	760,102
September	2,239,335	2,356,141	(116,806)
October	<u>1,613,976</u>	<u>2,009,734</u>	<u>(395,758)</u>
Total	<u>\$ 19,974,130</u>	<u>\$ 24,704,295</u>	<u>\$ (4,730,166)</u>

³ As reported to the Commission at Docket No. M-2015-2515617. Arithmetic differences are due to rounding.

⁴ Notes to the Financial Statements are an integral part of this report

DUQUESNE LIGHT COMPANY

Notes to The Financial Statements

1 - Condensed Statements

The Statements of Universal Service Charge Over/(Under) Collections presented in this report are condensed from the officially filed statements. The audit was conducted on Duquesne's officially filed 1307(e) statements submitted to the PUC in accordance with Section 1307(e)(1) of the Public Utility Code on November 30, 2016 and November 25, 2015. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2016-2577768 and M-2015-2515617.

2 - USC Revenue

USC Revenue is derived from application of the USC to the applicable billing unit and excludes the E-Factor portion and Gross Receipts Tax. The applicable billing unit is each kilowatt-hour (kWh) delivered to customers who take service under the residential retail rate schedules except for those customers enrolled in CAP.

3 - USC Expenses

USC Expenses are the direct and external administrative costs incurred by the company to provide universal service programs to customers. Such expenses include preparation of the needs assessment, universal service plan development, impact evaluations and educational materials. Universal service programs include the CAP, Smart Comfort Program (aka Low-Income Usage Reduction Program or LIHURP), Customer Assistance and Referral Evaluation Services (CARES), Hardship Fund, and any other replacement or Commission-mandated universal service program or low-income program.

4 - Over/(Under) Collections

The Over/(Under) Collection is the difference between the USC Revenue and USC Expenses. The resulting amount represents the portion of USC Revenue refundable to or USC Expenses recoverable from customers through subsequent USC rates. Differences arise for two primary reasons:

- Variations between the actual volumes billed to customers and the estimates used to determine the USC; and,
- Variations between actual USC Expenses and the estimates used to determine the USC rates.

DUQUESNE LIGHT COMPANY

Disposition of Prior Findings

Our previous audit of Duquesne's USC for the twelve-month periods ended October 31, 2014 and October 31, 2013, at Docket No. D-2015-2495284, disclosed the following findings:

Finding No. 1 - USC Expenses were overstated by \$39,606 in August 2013.

Recommendation:

We recommended that Duquesne refund \$39,606 plus interest at the applicable rate through an adjustment to the E-Factor of its next USC filing.

Disposition:

Duquesne refunded the \$39,606 plus appropriate interest in the USC rate effective January 1, 2017 at Docket No. M-2016-2577960.

Finding No. 2 - Duquesne understated its USC Revenue by a net \$38,062 in August 2013.

Recommendation:

We recommended that Duquesne refund \$38,062 through an adjustment to the E-Factor of its next USC filing.

Disposition:

Duquesne refunded \$38,062 in its USC rate effective January 1, 2017 at Docket No. M-2016-2577960.

Finding No. 3 - Duquesne miscalculated the CAP Discount credit by \$20,555 for the twelve-month period ended October 2013.

Recommendation:

We recommended that Duquesne recoup \$20,555 through an adjustment to the E-Factor of its next USC filing.

Disposition:

Duquesne recouped \$20,555 in its USC rate effective January 1, 2017 at Docket No. M-2016-2577960.

DUQUESNE LIGHT COMPANY

Current Audit Finding

Finding - Duquesne overstated USC expenses by \$133,672 for November 2014.

Duquesne overstated the CAP Deficiency expense by \$133,672 for November 2014. Duquesne switched to a new billing system in November 2014. The overstatement occurred due to a mathematical error when combining the CAP Deficiency expenses from the old billing system with the CAP Deficiency expenses from the new billing system.

Recommendation:

We recommend that Duquesne refund \$133,672 plus applicable interest through an adjustment to the E-Factor in its next USC rate filing.

Auditor's Note:

The company agreed with the finding and accepted the recommendation.

Acknowledgement

We wish to express our appreciation to the officers and staff at Duquesne for their cooperation and assistance. The audit was conducted by Ron Moose, assisted by Rhonda Koller and Derek Vandevort.