

# **DUQUESNE LIGHT COMPANY**



**REPORT ON THE STATEMENTS OF  
TRANSMISSION SERVICE CHARGE  
FOR THE TWELVE-MONTH PERIODS ENDED  
FEBRUARY 28, 2017 AND FEBRUARY 29, 2016**

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

**Docket No. D-2018-3003725**

# 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 2017 and 2016, Duquesne's total electric distribution revenues were \$819,957,785 and \$827,773,898; respectively.

In its Order, entered on December 1, 2006, at Docket No. R-00061346, the PUC approved Duquesne's request to establish a TSC Rider. The TSC Rider permits Duquesne to recover from its default service customers, all transmission service-related charges incurred on behalf of those customers, under provisions of the PJM Open Access Transmission Tariff (OATT) approved or accepted by the Federal Energy Regulatory Commission (FERC).



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 Transmission Service Charge (Over)/Under Collections for the twelve-month periods ended February 28, 2017 and February 29, 2016.

### **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**

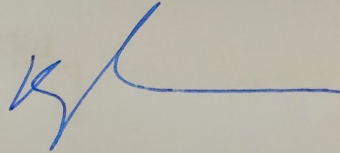
Our responsibility is to express an opinion on these statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 Transmission Service Charge Statements, referred to above, present fairly, in all material respects, the Transmission Service Charge revenue and expenses of Duquesne Light Company as of February 28, 2017 and February 29, 2016, 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 Transmission Service Charge<sup>1</sup> (TSC) (Over)/Under Collections (Section 1307(e)) for the twelve months ended February 28, 2017<sup>2</sup>

<u>Month</u>	<u>TSC Revenue</u> (1)	<u>TSC Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
March 2016	\$ 3,002,132	\$ 3,989,715	\$ 987,583
April	2,935,427	3,891,415	955,988
May	2,867,253	3,999,810	1,132,557
June	5,503,127	4,866,872	(636,255)
July	7,074,502	5,091,090	(1,983,413)
August	7,484,927	5,068,435	(2,416,491)
September	5,430,983	4,941,598	(489,385)
October	4,143,619	5,125,006	981,388
November	4,375,027	4,990,082	615,055
December	5,448,636	5,147,876	(300,759)
January 2017	5,057,415	4,907,904	(149,511)
February	4,336,718	4,484,456	147,739
Total	<u>\$ 57,659,766</u>	<u>\$ 56,504,261</u>	<u>\$ (1,155,505)</u>

<sup>1</sup> As reported to the Commission on March 30, 2017 at Docket No. M-2017-2596827. Arithmetic differences are due to rounding.

<sup>2</sup> Notes to the Financial Statements are an integral part of this report.

# DUQUESNE LIGHT COMPANY

## Condensed Statement<sup>3</sup> of Transmission Service Charge (TSC) (Over)/Under Collections (Section 1307(e)) for the twelve months ended February 29, 2016<sup>4</sup>

<u>Month</u>	<u>TSC Revenue</u> (1)	<u>TSC Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
March 2015	\$ 3,549,086	\$ 3,477,336	\$ (71,750)
April	2,798,151	3,385,732	587,581
May	3,605,355	3,488,198	(117,157)
June	3,630,597	3,383,045	(247,552)
July	4,533,086	3,596,084	(937,002)
August	4,097,035	3,611,739	(485,295)
September	3,809,904	3,559,287	(250,617)
October	2,936,076	3,720,241	784,165
November	2,846,762	3,629,944	783,182
December	3,349,704	3,746,352	396,649
January 2016	3,832,405	4,002,993	170,588
February	<u>3,389,329</u>	<u>3,771,207</u>	<u>381,877</u>
Total	<u>\$ 42,377,488</u>	<u>\$ 43,372,159</u>	<u>\$ 994,670</u>

<sup>3</sup> As reported to the Commission on March 30, 2016 at Docket No. M-2016-2537249. Arithmetic differences are due to rounding.

<sup>4</sup> 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 Transmission 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 May 30, 2017 and May 30, 2016. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2017-2596827 and M-2016-2537249.

### **2 - TSC Revenue**

TSC Revenue is derived by multiplying the sales volumes billed during the month by the applicable TSC rate, excluding the E-Factor portion and Gross Receipts Tax, to each kilowatt-hour (kWh) of energy or kilowatt (kW) of demand supplied to customers who receive default service from Duquesne.

### **3 - TSC Expenses**

TSC Expenses are the applicable charges incurred by Duquesne to acquire transmission service on behalf of default service customers under the PJM Open Access Transmission Tariff (OATT) as approved by the FERC.

### **4 - (Over)/Under Collections**

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

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

# DUQUESNE LIGHT COMPANY

## Disposition of Prior Findings

Our previous audit of Duquesne's TSC, for the twelve-month periods ended February 28, 2015, February 28, 2014, and February 28, 2013 at Docket No. D-2015-2495281, disclosed the following findings:

**Finding No. 1 – Transmission Service Expenses related to Medium Commercial & Industrial Customers were overstated by \$3,566,552 and Residential & Lighting Customers were understated by the same amount.**

### **Recommendation:**

We recommended that Duquesne make an adjustment to the E-Factor of its next TSC rate filing for \$3,566,552 to increase expenses for R&L customers and to decrease expenses by the same amount for MC&I, plus interest at the applicable rate.

### **Disposition:**

Duquesne made the necessary adjustments with applicable interest in its TSC rate effective June 1, 2016 at Docket No. M-2016-2542924.

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**Finding No. 2 – Duquesne understated its TSC E-Factor revenue for the twelve months ended February 28, 2014.**

### **Recommendation:**

We recommended that Duquesne recover \$2,441 through an adjustment to the E-Factor of its next TSC rate filing.

### **Disposition:**

Duquesne made the necessary adjustment with applicable interest in its TSC rate effective June 1, 2017 at Docket No. M-2017-2601607.

# DUQUESNE LIGHT COMPANY

## Current Audit Finding

### **Finding – Duquesne improperly allocated March 2016 transmission expenses.**

Duquesne allocates transmission expenses to its customer rate classes based on their load contribution for the previous calendar year. The coincident peak loads (1CP) including default service (POLR) 1CP loads are the basis for the expense allocations.

PUC auditors reviewed the allocation of NITS<sup>5</sup>, RMR<sup>6</sup> and deferred tax expense allocations and noted several significant expense variances in March 2016 for all rate classes within the small and medium commercial and industrial (C&I) rate groups, all of which use POLR 1CP loads as the units. For NITS, the expense allocation testing consisted of multiplying the filed loads for each rate class by the applicable NITS rate to calculate the allocated NITS expense for each rate class. This was compared to the NITS expense per the filing. Because the NITS rate was verifiable using Duquesne's FERC Formula filing and PJM's NITS Charge Summary, and the filed expenses for each rate group came directly from PJM invoices, the auditor inferred that the variances were caused by incorrect units. Duquesne confirmed that it had "inadvertently transposed" the filed units for two rate classes: The GMH<25kW rate class was allocated a POLR load of 67.2 MW when it should have been 3.8 MW, and the GMH>25kW rate class was allocated with a POLR load of 136.6 MW when it should have been 12.9 MW. These errors affected the allocation of expenses for all small and medium C&I rate classes.

The adjustment to correct the allocation of March 2016 expenses increases the expenses for some rate classes and decreases the expenses for other rate classes. The adjustments are summarized below as either a (refund) to customers or a recovery from customers:

<u>Rate Class</u>	<u>(Refund)/Recovery</u>
GS	\$ 20,156
GM<25kW	92,691
GMH<25kW	(112,847)
GM>25kW	199,300
GMH>25kW	<u>(199,300)</u>
Net	<u>\$ 0</u>

### **Recommendation:**

We recommend Duquesne make the abovementioned adjustments through the applicable E-factor in its next TSC rate filing. The adjustments to refund \$112,847 and \$199,300 should include interest at the applicable rate. We further recommend Duquesne implement internal controls and review procedures to prevent and detect such errors in the future.

<sup>5</sup> Network Integration Transmission Service

<sup>6</sup> Reliability Must Run

# **DUQUESNE LIGHT COMPANY**

## **Acknowledgement**

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