

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
DEFAULT SERVICE SUPPLY
FOR THE TWELVE MONTHS ENDED JANUARY 31, 2017
AND THE TEN MONTHS ENDED JANUARY 31, 2016**

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

Docket No. D-2018-3003726

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 that 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.

Duquesne is also under the jurisdiction of rate regulatory requirements of the Federal Energy Regulatory Commission (FERC). Duquesne customers can choose to receive electric energy from an alternative electric generation supplier (EGS) or may be served through the provisions of Duquesne's provider of last resort (POLR) plans. Our audit included POLR Plan VI and POLR Plan VII.

Duquesne recovers DSS expenditures through application of its Tariff Rider No. 8. This rider consists of four applicable rate schedules that include residential, small commercial and industrial with monthly metered demand less than 25 kW, medium commercial and industrial with monthly metered demand greater than 25 kW, and street lighting.



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 Default Service Supply (Over)/Under Collections for the twelve months ended January 31, 2017 and the ten months ended January 31, 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

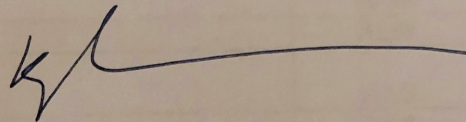
Our responsibility is to express an opinion on these statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether 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 Default Service Supply Statements, referred to above, present fairly, in all material respects, the Default Service Supply revenue and expenses of Duquesne Light Company as of January 31, 2017 and January 31, 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 Statement¹ of Default Service Supply (DSS) (Over)/Under Collections (Section 1307(e)) for the twelve months ended January 31, 2017²

Rate Class	DSS Revenue	DSS Expenses	(Over)/Under Collections
	(1)	(2)	(3) = (2) - (1)
Residential & Lighting	\$ 156,107,623	\$ 157,563,475	\$ 1,455,853
Small Commercial & Industrial	19,191,817	19,025,664	(166,153)
Medium Commercial & Industrial	32,175,882	31,967,061	(208,822)
Total	\$ 207,475,322	\$ 208,556,201	\$ 1,080,878

¹ As reported to the Commission on March 1, 2017 at Docket No. M-2017-2591153. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Condensed Statement³ of Default Service Supply (DSS) (Over)/Under Collections (Section 1307(e)) for the ten months ended January 31, 2016⁴

Rate Class	DSS Revenue	DSS Expenses	(Over)/Under Collections
	(1)	(2)	(3) = (2) - (1)
Residential & Lighting	\$ 137,849,550	\$ 137,748,985	\$ (100,565)
Small Commercial & Industrial	18,448,006	18,496,067	48,061
Medium Commercial & Industrial	32,069,566	32,628,807	559,240
Total	\$ 188,367,122	\$ 188,873,859	\$ 506,737

³ As reported to the Commission on March 1, 2016 at Docket No. M-2016-2531659. 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 Default Service Supply (Over)/Under Collections presented in this report were condensed from the officially filed statements. The audit was conducted on Duquesne officially filed 1307(e) statements submitted to the PUC in accordance with Section 1307(e)(1) of the Public Utility Code on March 1, 2017 and March 1, 2016. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2017-2591153 and M-2016-2531659.

2 - DSS Revenue

DSS Revenue is derived from application of the DSS rate to all kilowatt-hours supplied to customers taking default service under Rider No. 8 of the company's tariff and excludes the E-Factor portion and Gross Receipts Tax.

3 - DSS Expenses

DSS Expenses are the total actual direct and indirect costs incurred by the company to acquire supply on behalf of default service supply customers in accordance with its procurement process.

4 - (Over)/Under Collections

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

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

DUQUESNE LIGHT COMPANY

Disposition of Prior Findings

Our previous audit of Duquesne's DSS for the twelve months ended March 31, 2015, eleven months ended March 31, 2014 and the twelve months ended April 30, 2013, at Docket No. D-2015-2495282, disclosed the following findings:

Finding No. 1 – Duquesne understated expenses for R&L DSS customers by \$350,809.

Recommendation:

We recommended that Duquesne recoup \$350,809 through an adjustment to the E-Factor of its next R&L DSS filing.

Disposition:

Duquesne recouped the \$350,809 in its R&L DSS rates effective June 1, 2017 at Docket No. P-2016-2543140.

Finding No. 2 – DSS expenses for June 2012 were overstated by \$51,468.

Recommendation:

We recommended that Duquesne refund \$51,468 plus interest at the applicable rate, through an adjustment to the E-Factor of its next SC&I DSS filing.

Disposition:

Duquesne refunded \$51,468 plus the applicable interest in its SC&I DSS rates effective June 1, 2017 at Docket No. P-2016-2543140.

Finding No. 3 – Residential DSS expenses were overstated by \$20,345.

Recommendation:

We recommended that Duquesne refund \$20,345 plus interest at the applicable rate, through an adjustment to the E-Factor of its next R&L DSS filing.

Disposition:

Duquesne refunded \$20,345 plus the applicable interest in its R&L DSS rates effective June 1, 2017 at Docket No. P-2016-2543140.

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Finding No. 4 – Duquesne misstated its E-Factor revenue for the six months ended March 2014 by \$10,748 for neglecting to include gross receipts tax.

Recommendation:

We recommended that Duquesne:

- refund \$2,466 through an adjustment to the E-Factor of its next R&L DSS filing.
- recover \$4,039 through an adjustment to the E-Factor of its next SC&I DSS filing.
- refund \$12,929 through an adjustment to the E-Factor of its next MC&I DSS filing.

Disposition:

Duquesne made the applicable adjustments to refund the appropriate DSS rate classes in its DSS rates effective June 1, 2017 at Docket No. P-2016-2543140.

CURRENT AUDIT FINDING

Finding - Duquesne overstated Residential and Lighting DSS revenue by \$155,168 for the period April 2015 to January 2016.

Duquesne's residential and lighting customers are in the same rate class for DSS rate calculation purposes. When calculating revenue for the period April 2015 through January 2016, Duquesne made several errors. An incorrect rate was used to calculate the DSS residential revenue, resulting in revenue being understated by \$280,310. In addition, Duquesne double counted street light revenue which caused an overstatement of \$435,478. This resulted in a combined \$155,168 overstatement of residential and lighting DSS revenue.

Recommendation:

We recommend that Duquesne recoup \$155,168 from the residential and lighting rate class through the E-Factor in its next DSS rate filing. In addition, we recommend Duquesne implement internal controls and review procedures to prevent and detect such errors in the future.

Auditor's Note:

The company agreed with the finding and accepted the recommendation.

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.