

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
DEFAULT SERVICE SUPPLY
FOR THE 12-MONTH PERIODS ENDED
JANUARY 31, 2020, JANUARY 31, 2019,
AND
JANUARY 31, 2018**

**Pennsylvania Public Utility Commission
Bureau of Audits
November 10, 2021**

Docket No. D-2020-3021684

DUQUESNE LIGHT COMPANY

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DUQUESNE LIGHT COMPANY

Background

Formed in 1912, Duquesne Light Company (Duquesne or company) is a wholly-owned subsidiary of Duquesne Light Holdings, Inc. As an electric distribution company, Duquesne provides electric distribution, transmission, and provider of last resort services to roughly 600,000 customers in the City of Pittsburgh and portions of Allegheny and Beaver counties in western Pennsylvania. Duquesne operates and maintains approximately 7,000 miles of distribution lines, 700 miles of transmission lines, and 173 substations as part of its distribution network.

According to Duquesne's annual reports filed with the Pennsylvania Public Utility Commission (PUC or Commission) for the years 2019, 2018, and 2017, Duquesne's total electric distribution revenues were \$963,057,922; \$937,475,157 and \$911,244,807; respectively.

Duquesne filed for another general rate increase on March 28, 2018 at Docket No. R-2018-3000124 that was settled and provided for an increase in revenues of \$92.7 million.

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 VII and POLR Plan VIII.

Duquesne recovers Default Service Supply (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.



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
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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 12-month periods ended January 31, 2020, January 31, 2019, and January 31, 2018.

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 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, 2020, January 31, 2019, and January 31, 2018, 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 Monaghan

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
November 10, 2021

DUQUESNE LIGHT COMPANY

Default Service Supply¹ (DSS) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2020²

<u>Rate Class</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
Residential & Lighting	\$ 158,706,486	\$ 158,457,172	\$ (249,314)
Small Commercial & Industrial	24,753,366	24,854,995	101,629
Medium Commercial & Industrial	<u>26,314,610</u>	<u>26,154,769</u>	<u>(159,841)</u>
Total	<u>\$ 209,774,462</u>	<u>\$ 209,466,936</u>	<u>\$ (307,526)</u>

¹ As reported to the Commission on February 28, 2020 at Docket No. M-2020-3018953.

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

DUQUESNE LIGHT COMPANY

Default Service Supply³ (DSS) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2019⁴

<u>Rate Class</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
Residential & Lighting	\$ 169,465,013	\$ 168,169,541	\$ (1,295,472)
Small Commercial & Industrial	22,799,527	22,609,239	(190,288)
Medium Commercial & Industrial	<u>37,509,335</u>	<u>37,235,472</u>	<u>(273,863)</u>
Total	<u>\$ 229,773,875</u>	<u>\$ 228,014,252</u>	<u>\$ (1,759,623)</u>

³ As reported to the Commission on March 1, 2019 at Docket No. M-2019-3008231.

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

DUQUESNE LIGHT COMPANY

Default Service Supply⁵ (DSS) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2018⁶

<u>Rate Class</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
Residential & Lighting	\$ 150,198,276	\$ 149,677,483	\$ (520,793)
Small Commercial & Industrial	18,616,333	18,714,590	98,257
Medium Commercial & Industrial	<u>36,369,002</u>	<u>36,190,914</u>	<u>(178,088)</u>
Total	<u>\$ 205,183,611</u>	<u>\$ 204,582,987</u>	<u>\$ (600,624)</u>

⁵ As reported to the Commission on March 1, 2018 at Docket No. M-2018-3000146.

⁶ Notes to the Financial Statements are an integral part of this report.

DUQUESNE LIGHT COMPANY

Notes to the Financial Statements

1 - Statements

The Default Service Supply (DSS) (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 February 28, 2020, March 1, 2019, and March 1, 2018. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2020-3018953, M-2019-3008231, and M-2018-3000146.

2 - DSS Revenue

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

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 Audit Finding

Finding – Duquesne overstated Residential & Lighting DSS revenue by \$155,168 for the period April 2015 through January 2016.

Recommendation:

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

Disposition:

Duquesne recouped \$155,168 from its Residential & Lighting customers through the E-Factor in the DSS rate effective December 1, 2020, at Docket No. M-2020-3022235. In addition, Duquesne implemented a more substantive review of the DSS regulatory filings and regulatory asset and liability account balances to prevent and detect errors in the future.

DUQUESNE LIGHT COMPANY

Current Audit Finding

Finding – Duquesne under collected administrative expenses by \$21,513.

Duquesne is permitted to recover administrative expenses associated with its POLR Plan VIII. Duquesne includes administrative expenses from two vendors in its DSS rate calculations.

Duquesne allocated the administrative expenses from one vendor by number of requests for proposal across the Residential & Lighting, Small Commercial & Industrial, and Medium Commercial & Industrial rate classes. For the period June 1, 2017 to January 31, 2020, Duquesne understated expense from this vendor by \$11,505. As each rate class had the same number of requests for proposal, the amount undercollected should be allocated by rate class as follows: Residential & Lighting \$3,835; Small Commercial & Industrial \$3,835; Medium Commercial & Industrial \$3,835⁷.

Duquesne allocated the administrative expenses from the other vendor evenly to the Residential & Lighting, Small Commercial & Industrial, and Medium & Industrial rate classes. For the period June 1, 2017 through January 31, 2020, Duquesne understated administrative expenses from this vendor by \$10,008. The amount under collected should be allocated to the three rate classes as follows: Residential & Lighting \$3,336; Small Commercial & Industrial \$3,336; and Medium Commercial & Industrial \$3,336⁸.

The total understatement per rate class is \$7,171.⁹

Recommendation:

We recommend that Duquesne make an adjustment to recoup \$7,171 through each E-Factor applicable to the Residential & Lighting, Small Commercial & Industrial, and Medium Commercial & Industrial rate classes in its next DSS rate filing. In addition, we recommend Duquesne establish controls to ensure this type of error does not occur in the future.

Acknowledgement

We wish to express our appreciation to the officers and staff of Duquesne Light Company for their cooperation and assistance. Aaron Neely and Rhonda Koller conducted the audit.

⁷ \$11,505 = \$3,835 + \$3,835 + \$3,835

⁸ \$10,008 = \$3,336 + \$3,336 + \$3,336

⁹ \$7,171 = \$3,835 + \$3,336