

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
TRANSMISSION SERVICE CHARGE
FOR THE 12-MONTH PERIODS ENDED
FEBRUARY 29, 2020,
FEBRUARY 28, 2019,
AND FEBRUARY 28, 2018**

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

Docket No. D-2020-3021686

DUQUESNE LIGHT COMPANY

Table of Contents

	<u>Page</u>
BACKGROUND	1
FINANCIAL REVIEW	
Independent Auditor's Report	2
Transmission Service Charge (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 29, 2020	4
Transmission Service Charge (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 28, 2019	5
Transmission Service Charge (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 28, 2018	6
Notes to the Financial Statements	7
Disposition of Prior Audit Finding	8
ACKNOWLEDGEMENT	8

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 a 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.

In the order entered on December 1, 2006, at Docket No. R-00061346, the PUC approved Duquesne's request to establish a Transmission Service Charge (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).



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET
HARRISBURG, PENNSYLVANIA 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 12-month periods ended February 29, 2020, February 28, 2019, and February 28, 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 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 29, 2020, February 28, 2019, and February 28, 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

Transmission Service Charge¹ (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 29, 2020²

<u>Month</u>	<u>TSC Revenue</u> (1)	<u>TSC Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - 1
March 2019	\$ 4,897,730	\$ 5,304,686	\$ 406,956
April	4,094,650	5,170,726	1,076,076
May	4,375,194	5,350,716	975,521
June	4,633,860	4,847,011	213,152
July	7,627,861	5,019,063	(2,608,798)
August	6,015,965	5,018,659	(997,306)
September	5,347,386	4,873,007	(474,379)
October	4,242,405	5,140,041	897,636
November	4,429,934	4,999,063	569,130
December	4,915,596	5,150,581	234,985
January 2020	5,346,331	4,877,768	(468,562)
February	4,573,342	4,569,551	(3,791)
Total	<u>\$ 60,500,255</u>	<u>\$ 60,320,874</u>	<u>\$ (179,381)</u>

¹ As reported to the Commission on April 22, 2020 at Docket No. M-2020-3019366. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Transmission Service Charge³ (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 28, 2019⁴

<u>Month</u>	<u>TSC Revenue</u> (1)	<u>TSC Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - 1
March 2018	\$ 4,612,698	\$ 4,630,589	\$ 17,890
April	3,812,262	4,420,623	608,360
May	4,784,677	4,617,680	(166,997)
June	5,424,662	4,922,122	(502,540)
July	7,600,033	4,946,681	(2,653,351)
August	6,626,398	4,956,466	(1,669,932)
September	5,647,872	4,833,359	(814,514)
October	5,471,651	5,039,000	(432,651)
November	4,222,457	4,864,408	641,951
December	5,215,979	5,034,933	(181,047)
January 2019	5,565,941	5,209,746	(356,194)
February	4,651,701	4,757,620	105,920
Total	<u>\$ 63,636,331</u>	<u>\$ 58,233,225</u>	<u>\$ (5,403,106)</u>

³ As reported to the Commission on March 29, 2019 at Docket No. M-2019-3008880. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Transmission Service Charge⁵ (TSC) (Over)/Under Collections (Section 1307(e)) for the 12 months ended February 28, 2018⁶

<u>Month</u>	<u>TSC Revenue</u> (1)	<u>TSC Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - 1
March 2017	\$ 4,819,517	\$ 4,910,951	\$ 91,434
April	3,821,450	4,789,011	967,561
May	4,367,531	4,960,835	593,304
June	5,220,697	4,559,068	(661,629)
July	6,093,306	4,725,380	(1,367,925)
August	5,318,821	4,535,253	(783,568)
September	4,555,924	4,663,717	107,793
October	4,319,725	4,802,670	482,945
November	4,285,960	4,669,559	383,599
December	5,079,610	4,810,772	(268,837)
January 2018	5,299,158	4,627,607	(671,552)
February	4,109,900	4,219,790	109,890
Total	<u>\$ 57,291,598</u>	<u>\$ 56,274,612</u>	<u>\$ (1,016,985)</u>

⁵ As reported to the Commission on April 6, 2018 at Docket No. M-2018-3000810. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Notes to the Financial Statements

1 - 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 April 22, 2020, March 29, 2019, and April 6, 2018. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2020-3019366, M-2019-3008880, and M-2018-3000810.

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 and Gross Receipts Tax, to all 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 Audit Finding

Our previous audit of Duquesne Light Company at Docket No. D-2018-3003725 for the 12-month periods ended February 28, 2017 and February 28, 2016, disclosed the following finding:

Finding – Duquesne improperly allocated March 2016 transmission expenses.

Recommendation:

We recommended Duquesne make the following adjustments through the applicable E-factor in its next TSC rate filing:

<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>

The adjustments to refund \$112,847 and \$199,300 should include interest at the applicable rate. We further recommended Duquesne implement internal controls and review procedures to prevent and detect such errors in the future.

Disposition:

Duquesne made the recommended adjustments to refund or recoup from the rate classes as specified above through the E-Factor in its TSC rates effective June 1, 2020 at Docket No. M-2020-3019669. In addition, Duquesne implemented a more substantive review of the TSC regulatory filings and regulatory asset and liability accounts to prevent and detect errors in the future.

ACKNOWLEDGEMENT

We wish to express our appreciation to the officers and staff of Duquesne Light Company for their cooperation and assistance. The audit was conducted by Aaron Neely with assistance by Derek Vandevort.