

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
UNIVERSAL SERVICE CHARGE
FOR THE 12-MONTH PERIODS ENDED
OCTOBER 31, 2019, OCTOBER 31, 2018, AND OCTOBER 31, 2017**

**Pennsylvania Public Utility Commission
Bureau of Audits
May 31, 2022**

Docket No. D-2020-3021687

DUQUESNE LIGHT COMPANY

Table of Contents

	<u>Page</u>
BACKGROUND	1
FINANCIAL REVIEW	
Independent Auditor's Report	2
Universal Service Charge Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2019	4
Universal Service Charge Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2018	5
Universal Service Charge Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2017	6
Notes to the Financial Statements	7
Disposition of Prior Audit Finding	8
Current Audit Findings	9
ACKNOWLEDGEMENT	11

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. 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 817 square miles, including the city of Pittsburgh and portions of Allegheny and Beaver counties in western Pennsylvania. 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 revenues were \$963,057,922; \$937,475,157; and \$911,244,807; respectively.

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).



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 Universal Service Charge Over/Under Collections for the 12-month periods ended October 31, 2019, October 31, 2018, and October 31, 2017.

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, 2019, October 31, 2018, and October 31, 2017, in conformity with the 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 Duquesne Light Company's revenue and expenses.

Kelly A. Monaghan, CPA

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
May 31, 2022

DUQUESNE LIGHT COMPANY

Universal Service Charge¹ (USC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2019²

<u>Month</u>	<u>USC Revenue</u> (1)	<u>USC Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
November 2018	\$ 2,266,148	\$ 2,689,482	\$ (423,334)
December	2,586,215	2,474,534	111,681
January 2019	3,162,118	2,589,533	572,585
February	2,300,192	2,287,438	12,754
March	2,528,868	2,708,826	(179,958)
April	2,130,665	2,938,959	(808,294)
May	2,101,197	2,860,947	(759,749)
June	2,609,637	2,733,554	(123,917)
July	4,200,284	2,805,333	1,394,951
August	3,342,694	2,722,152	620,542
September	2,861,322	2,737,915	123,407
October	2,136,587	2,930,346	(793,759)
Total	<u>\$ 32,225,926</u>	<u>\$ 32,479,019</u>	<u>\$ (253,092)</u>

¹ As reported to the Commission at Docket No. M-2019-3014704. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Universal Service Charge³ (USC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2018⁴

<u>Month</u>	<u>USC Revenue</u> (1)	<u>USC Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) - (2)
November 2017	\$ 1,840,818	\$ 1,862,860	\$ (22,043)
December	2,334,413	1,680,489	653,924
January 2018	2,818,396	1,691,805	1,126,590
February	2,276,448	1,883,087	393,361
March	2,354,077	1,862,579	491,498
April	1,929,549	2,659,162	(729,613)
May	2,366,080	3,082,994	(716,914)
June	2,670,164	2,449,917	220,247
July	3,816,670	2,586,218	1,230,452
August	3,229,146	2,887,567	341,579
September	2,725,560	2,481,371	244,190
October	2,242,880	3,125,602	(882,722)
Total	<u>\$ 30,604,200</u>	<u>\$ 28,253,651</u>	<u>\$ 2,350,549</u>

³ As reported to the Commission at Docket No. M-2018-3006253. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Universal Service Charge⁵ (USC) Over/(Under) Collections (Section 1307(e)) for the 12 months ended October 31, 2017⁶

<u>Month</u>	<u>USC Revenue</u> (1)	<u>USC Expenses</u> (2)	<u>Over/(Under) Collections</u> (3) = (1) – (2)
November 2016	\$ 1,427,273	\$ 1,764,518	\$ (337,245)
December	1,861,525	2,006,218	(144,693)
January 2017	2,086,894	2,023,012	63,882
February	1,700,278	2,144,393	(444,115)
March	1,872,273	3,805,783	(1,933,510)
April	1,423,755	3,642,022	(2,218,267)
May	1,654,867	633,528	1,021,339
June	2,149,242	2,171,391	(22,150)
July	2,829,064	2,178,249	650,815
August	2,322,812	2,098,862	223,950
September	1,893,309	1,766,545	126,764
October	1,689,816	2,078,508	(388,692)
Total	<u>\$ 22,911,108</u>	<u>\$ 26,313,030</u>	<u>\$ (3,401,922)</u>

⁵ As reported to the Commission at Docket No. M-2017-2636059. 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 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 27, 2019, November 30, 2018, and November 30, 2017. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2019-3014704, M-2018-3006253, and M-2017-2636059.

2 - USC Revenue

USC Revenue is derived from application of the USC rate 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, but are not limited to, preparation of the needs assessment, universal service plan development, impact evaluations and educational materials. Universal service programs include the Customer Assistance Program (CAP) which includes CAP discounts and pre-program arrearage forgiveness, Smart Comfort Program (aka Low-Income Usage Reduction Program or LIURP), 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 rates; and,
- Variations between actual USC Expenses and the estimates used to determine the USC rates.

DUQUESNE LIGHT COMPANY

Disposition of Prior Audit Finding

Our previous audit of Duquesne's USC for the 12-month periods ended October 31, 2016 and October 31, 2015, at Docket No. D-2018-3003729, disclosed the following finding:

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

Recommendation:

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

Disposition:

Duquesne refunded the \$133,672 plus applicable interest through the USC rate effective January 1, 2021 at Docket No. M-2020-3023092.

DUQUESNE LIGHT COMPANY

Current Audit Findings

Finding No. 1 – Duquesne improperly reported and duplicated an expense adjustment in 2017 and as a result overcharged ratepayers by \$136,204.

The auditors noted higher than usual Customer Assistance Program (CAP) Revenue Deficiency expenses in March and April 2017 reported on the rate adjustment filing effective January 1, 2018¹, and lower than usual expenses in May 2017. CAP Revenue Deficiency is the difference between what a CAP customer would be billed under full residential rates versus the discounted rates at which they are billed. This difference is a recoverable expense through the Universal Service Charge (USC).

March 2017's CAP Revenue Deficiency expense was higher due to a CAP recertification adjustment of \$1,602,397 necessary to make whole approximately 5,700 CAP customers who did not receive the full amount of CAP discounts to which they were entitled in 2016. The CAP discounts were not processed due to an error in the previous FOCUS billing system that went live in November 2014 and failed to notify CAP customers to recertify their CAP-eligible status in 2015.

As a result, beginning in January 2016, some CAP customers were deprived of a portion of their discounts. The accrued financial impact varied by customer according to their prior date of recertification. With the help of an IT consultant, Duquesne calculated corrective bill adjustments by individual CAP customer and issued adjustments to these customers in the January through March 2017 billings. Duquesne then included the cumulative adjustment of \$1,602,397 as a CAP Revenue Deficiency expense for March 2017 in its USC reconciliation. Because the error which necessitated the adjustment occurred before the reconciliation period in which it was reported, it should have been a prior period adjustment to the E-factor and footnoted for clarity.

Subsequently, the adjustment was inadvertently duplicated in the general ledger account #4491500 *Customer Assistance – Retail Revenue Reduction* in April and reversed in May. The duplicate and reversing entries were reported in the filing where interest was added. If the company had not included the prior period adjustment in current period activity and had not made the subsequent erroneous duplication and correction, total expenses for March and April 2017 would have been lower by \$1,602,397 and May's total would have been higher by the same amount. The misstatement of expenses on the filing caused interest to be overstated by \$136,204² for the November 2016 through October 2017 reconciliation period.

¹ Docket No. M-2017-2636972, Exhibit 1, p. 4.

² Difference between original and adjusted interest for March, April, and May 2017: [(\$154,681) – (\$26,489)] + [(\$166,370) – (\$46,190)] + [\$71,494 – (\$40,674)] = (\$136,204).

DUQUESNE LIGHT COMPANY

Current Audit Findings (continued)

Recommendation:

We recommend that Duquesne makes an adjustment to refund \$136,204 plus interest at the applicable rate through the E-factor in its next USC rate filing. In addition, we recommend that Duquesne develop controls and procedures to ensure proper and accurate reporting of CAP billings and prior period adjustments.

DUQUESNE LIGHT COMPANY

Current Audit Findings (continued)

Finding No. 2 – Duquesne understated expenses in April 2017.

While testing expense support and Customer Assistance Program (CAP) Revenue Deficiency expenses in April 2017, the auditors noted a discrepancy between Duquesne's recorded CAP Revenue Deficiency expenses and the reported expenses in the amount of \$10,150¹. This amount was equal to a line item included in the expense support labeled "CAP Write-Off Billing Deficiency – Final Bill" in April 2017.

The "Final Bill" represents any final bill adjustment for a CAP customer leaving the program for any reason, and the amount for the month should be included in the reported CAP Revenue Deficiency total for accurate recovery of expenses. Final bill adjustments for CAP customers leaving the program include a final billing deficiency adjustment equal to the difference between the residential budget and the CAP billed budget amount (with the CAP discount applied), a positive or negative adjustment for the difference between the budget amount and the customer's actual usage, and the unamortized portion of the customer's pre-program arrearage amount.

In April 2017, final bill amounts from 348 separate billing ID numbers totaling \$10,150 were not properly recorded to account 4491500 *Customer Assistance – Retail Revenue Reduction* and were omitted from the CAP Revenue Deficiency total on the reconciliation filing as a result. April 2017 was the first month that the final bill amount was a separate line item on the CAP report, so the change in reporting caused it to be missed when preparing the journal entry for the month.

Upon further inquiry and investigation by audit staff, it was determined that this particular adjustment was never recovered through subsequent rates, so it is an understatement of expenses, which Duquesne is entitled to recover. There were no other known final bill amounts unrecovered during the audit period.

Recommendation:

We recommend that Duquesne makes an adjustment to recover \$10,150 through the E-factor in its next USC rate filing. In addition, we recommend that Duquesne develop controls and procedures to ensure proper and accurate reporting of CAP expenses.

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 Derek Vandevort, assisted by Dawn Anderson.

¹ Recorded CAP Revenue Deficiency of \$1,461,497 minus reported CAP Write-Off Billing Deficiency of \$1,451,347 = \$10,150 understatement of expenses.