

DUQUESNE LIGHT COMPANY



**REPORT ON THE STATEMENTS OF
FIXED RETAIL ADMINISTRATIVE CHARGE
FOR THE 12-MONTH PERIODS ENDED
JANUARY 31, 2022, JANUARY 31, 2021, JANUARY 31, 2020,
JANUARY 31, 2019 AND JANUARY 31, 2018**

**Pennsylvania Public Utility Commission
Bureau of Audits
October 4, 2023**

Docket No. D-2022-3032921

DUQUESNE LIGHT COMPANY

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DUQUESNE LIGHT COMPANY

Background

Duquesne Light Company (Duquesne or company) is headquartered in Pittsburgh, Pennsylvania. As an electric distribution company, Duquesne provides electric distribution, transmission, and provider of last resort (POLR) services to approximately 600,000 customers in 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 2021, 2020, 2019, 2018, and 2017, Duquesne's total electric revenues from customers were \$932,322,906; \$889,568,203; \$884,591,525; \$861,049,612; and \$819,957,785; respectively.

On November 8, 2016, at Docket No. P-2016-2543140, Duquesne was approved to establish a Fixed Retail Administrative (FRA) surcharge for recovery of administrative charges associated with providing hourly price service. The FRA surcharge applies to the Medium Customer Class and the Large Commercial & Industrial Customer Class.



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 Fixed Retail Administrative Charge Over/Under Collections for the 12-month periods ended January 31, 2022, January 31, 2021, 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 Fixed Retail Administrative Charge Statements, referred to above, present fairly, in all material respects, the Fixed Retail Administrative Charge revenue and expenses of the Duquesne Light Company as of January 31, 2022, January 31, 2021, 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, CPA

Kelly A. Monaghan, CPA, CGFM, CFE, CISA
Director
Bureau of Audits
Harrisburg, PA
October 4, 2023

DUQUESNE LIGHT COMPANY

Fixed Retail Administrative Charge¹ (FRA) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2022²

<u>Month</u>	<u>FRA Revenue</u> (1)	<u>FRA Expense</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2021	\$ 80,859	\$ 72,590	\$ (8,269)
March	14,909	149,322	134,413
April	122,616	64,021	(58,595)
May	85,454	70,594	(14,860)
June	77,031	94,427	17,396
July	109,725	81,141	(28,584)
August	96,197	90,508	(5,689)
September	113,374	101,505	(11,869)
October	43,846	90,036	46,189
November	113,364	76,243	(37,121)
December	70,422	82,230	11,808
January 2022	95,959	92,056	(3,902)
Total	\$ 1,023,756	\$ 1,064,674	\$ 40,917

¹ As reported to the Commission at Docket No. M-2022-3031162. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Fixed Retail Administrative Charge³ (FRA) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2021⁴

<u>Month</u>	<u>FRA Revenue</u> (1)	<u>FRA Expense</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2020	\$ 46,915	\$ 37,657	\$ (9,258)
March	44,087	71,380	27,294
April	39,179	35,309	(3,870)
May	45,331	38,773	(6,558)
June	52,439	85,905	33,466
July	123,419	81,326	(42,093)
August	85,111	79,346	(5,765)
September	86,684	81,083	(5,601)
October	81,977	79,877	(2,100)
November	54,320	56,198	1,879
December	72,071	67,686	(4,384)
January 2021	<u>88,985</u>	<u>100,031</u>	<u>11,047</u>
Total	<u>\$ 820,517</u>	<u>\$ 814,573</u>	<u>\$ (5,944)</u>

³ As reported to the Commission at Docket No. M-2021-3024303. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Fixed Retail Administrative Charge⁵ (FRA) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2020⁶

<u>Month</u>	<u>FRA Revenue</u> (1)	<u>FRA Expense</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2019	\$ 25,112	\$ 19,905	\$ (5,208)
March	27,330	20,549	(6,781)
April	17,872	50,112	32,240
May	22,711	19,541	(3,170)
June	19,939	33,871	13,932
July	51,439	37,861	(13,578)
August	41,092	35,314	(5,778)
September	34,856	33,126	(1,729)
October	31,928	40,033	8,105
November	36,212	37,000	788
December	40,247	31,006	(9,241)
January 2020	<u>52,310</u>	<u>39,840</u>	<u>(12,470)</u>
Total	<u>\$ 401,046</u>	<u>\$ 398,158</u>	<u>\$ (2,889)</u>

⁵ As reported to the Commission at Docket No. M-2020-3018954. Arithmetic differences are due to rounding.

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

DUQUESNE LIGHT COMPANY

Fixed Retail Administrative Charge⁷ (FRA) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2019⁸

<u>Month</u>	<u>FRA Revenue</u> (1)	<u>FRA Expense</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2018	\$ 21,447	\$ 23,343	\$ 1,896
March	26,550	23,956	(2,594)
April	21,522	54,236	32,715
May	24,631	23,904	(727)
June	20,372	18,833	(1,538)
July	18,913	19,564	651
August	23,655	19,379	(4,276)
September	18,080	17,464	(616)
October	18,074	17,029	(1,045)
November	20,511	18,489	(2,022)
December	19,483	20,031	548
January 2019	<u>25,377</u>	<u>23,990</u>	<u>(1,386)</u>
Total	<u>\$ 258,614</u>	<u>\$ 280,220</u>	<u>\$ 21,605</u>

⁷ As reported to the Commission at Docket No. M-2019-3008228. Arithmetic differences are due to rounding.

⁸ Notes to the Financial Statements are an integral part of this report.

DUQUESNE LIGHT COMPANY

Fixed Retail Administrative Charge⁹ (FRA) (Over)/Under Collections (Section 1307(e)) for the 12 months ended January 31, 2018¹⁰

<u>Month</u>	<u>FRA Revenue</u> (1)	<u>FRA Expense</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2017	\$ 0	\$ 0	\$ 0
March	0	0	0
April	0	32,308	32,308
May	0	0	0
June	25,489	25,967	478
July	30,289	28,373	(1,916)
August	27,640	26,545	(1,095)
September	23,682	24,009	327
October	24,237	24,235	(2)
November	23,397	23,505	108
December	25,010	24,976	(35)
January 2018	<u>28,190</u>	<u>27,047</u>	<u>(1,143)</u>
Total	<u>\$ 207,933</u>	<u>\$ 236,965</u>	<u>\$ 29,031</u>

⁹ As reported to the Commission at Docket No. M-2018-3000148. Arithmetic differences are due to rounding.

¹⁰ Notes to the Financial Statements are an integral part of this report.

DUQUESNE LIGHT COMPANY

Notes to the Financial Statements

1 – Statements

The Fixed Retail Administrative Charge (Over)/Under Collections presented in this report are condensed from the officially filed statements. The audit was conducted on Duquesne Light Company'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, 2022, March 1, 2021, February 28, 2020, March 4, 2019, and March 1, 2018. The statements are available on the PUC's website (<http://www.puc.pa.gov>) at Docket Nos. M-2022-3031162, M-2021-3024303, M-2020-3018954, M-2019-3008228, and M-2018-3000148.

2 – FRA Revenue

FRA Revenue is calculated by multiplying the sales volumes billed by the FRA rate, excluding the E-factor and Gross Receipts Tax.

3 – FRA Expense

The FRA expense is the sum of administrative charges from the suppliers providing hourly price service plus the company's cost to obtain supply and administer this service.

4 – (Over)/Under Collections

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

- Variations between the actual volumes billed to customers and the estimates used to determine the FRA rate; and,
- Variations between the actual FRA Expenses and the projected estimates used to determine the FRA rate.

DUQUESNE LIGHT COMPANY

Current Audit Findings

Finding No. 1 — Duquesne understated FRA revenue by \$21,096.

Duquesne used its MMB report to record the FRA sales volumes from June 2017 through December 2019. Starting in December 2019, the company switched to a new accounting system called the Power BI TREV to record FRA sales volumes. In February 2022, Duquesne discovered errors in the TREV accounting system reports arising from a technical configuration issue. In addition, there were instances of non-provider of last resort (POLR), or shopping customer's, usage erroneously included as POLR activity. The errors occurred from January 2021 through January 2022. The TREV reporting issue or non-POLR usage issue did not affect customer billing or the accounting for revenue. Instead, it affected the FRA sales volumes that were reported on the 1307(e) reconciliation statement.

Because FRA sales volumes are used to calculate FRA revenues on the 1307(e) reconciliation statement, this resulted in FRA revenues being understated by \$20,303 from January 2021 through January 2022. This also understated E-factor revenue by \$793.

Recommendations:

We recommend that Duquesne make an adjustment to refund \$21,096 plus applicable interest to its customers through the E-Factor in its next FRA rate filing. We further recommend that Duquesne design and implement internal controls to prevent, detect and correct similar errors in the future, including IT controls around data migration policies and procedures.

Finding No. 2 — Duquesne overstated FRA expenses by \$1,403.

From June 2017 through January 2018, the company did not have an established methodology to report invoiced FRA supply expense. Beginning in February 2018, the company established a methodology for reconciliation. Because the company was using inconsistent reporting procedures and there were no reconciliations, the company failed to recognize a variance. This resulted in Duquesne overstating FRA expenses by \$776. during the period June 2017 through January 2018. In addition, during January 2021, the company overstated FRA administrative costs by \$627 due to a misallocation.

Recommendations:

We recommend that Duquesne make an adjustment to refund \$1,403 plus applicable interest to its customers through the E-Factor in its next FRA rate filing. We further recommend that Duquesne design and implement internal controls to prevent, detect and correct similar errors in the future.

DUQUESNE LIGHT COMPANY

Current Audit Findings (continued)

Finding No. 3 — Duquesne did not consistently bill FRA customers the correct metered kWh usage volumes.

Metered kilowatt-hour (kWh) usage is derived from scalar readings from the meter. Scalar measurements are taken at a point in time. To derive consumption, the beginning of the month measurement is subtracted from the end of the month measurement and multiplied by its meter multiplier.

Interval measurements are supplied in hourly segments and are used to bill all hourly pricing service (HPS) customers. The billed kWh shown on the FRA charge line item reflects the aggregated collected hourly segments for the billing month.

Duquesne may estimate an hourly interval measurement that could result in a mismatch between the scalar reading and the interval reading. The company employs a preventative control report within the Meter Data Management (MDM) system to identify scalar/interval usage mismatches in HPS customer accounts. The personnel reviewing these accounts erroneously approved usage on numerous occasions for said mismatches without correcting the estimated interval meter readings.

As a result of the PUC auditor's inquiry, Duquesne reviewed all HPS customer bills issued during the audit period and discovered that 416 bills, representing 198 customer accounts, were erroneously issued with the scalar/interval mismatches. There were instances where scalar consumption exceeded interval consumption totaling \$16,138.10 and other instances where interval consumption exceeded scalar consumption by (\$9,527.28) for a net difference of \$6,610.32.

Recommendation:

We recommend that Duquesne correct the FRA customer billings, as well as design and implement internal controls to prevent, detect and correct similar errors in the future.

Acknowledgment

We wish to express our appreciation to the officers and staff of the Duquesne Light Company for their cooperation and assistance. The audit was conducted by Ron L. Moose, assisted by Steve Vozsnyak.