

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
BUREAU OF AUDITS**



**REPORT ON DUQUESNE LIGHT COMPANY**

**STATEMENTS OF  
DEFAULT SERVICE SUPPLY  
FEBRUARY 1, 2020 — JANUARY 31, 2023**

**SEPTEMBER 26, 2024  
DOCKET NO. D-2024-3045525**

**PA PUC BUREAU OF AUDITS  
DOCKET NO. D-2024-3045525**

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**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 2022, 2021, and 2020, Duquesne's total electric revenues from customers were \$1,086,574,415; \$932,322,906; and \$889,568,203; respectively.



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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, 2023, January 31, 2022, and January 31, 2021.

### **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 the Duquesne Light Company as of January 31, 2023, January 31, 2022, and January 31, 2021, 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 Duquesne Light Company's revenue and expenses.

*Kelly Monaghan, CPA*

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Director  
Bureau of Audits  
Harrisburg, PA  
September 26, 2024

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**Default Service Supply<sup>1</sup> (DSS)  
(Over)/Under Collections (Section 1307(e))  
for the 12 months ended January 31, 2023<sup>2</sup>**

<u>Month</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2022	\$ 20,105,578	\$ 19,739,587	\$ (365,991)
March	18,467,086	17,533,175	(933,911)
April	15,743,400	16,112,517	369,116
May	16,919,471	17,611,631	692,159
June	24,510,706	25,796,232	1,285,526
July	33,460,081	30,943,066	(2,517,016)
August	28,895,366	28,353,058	(542,307)
September	22,496,514	23,075,197	578,683
October	21,447,889	19,645,496	(1,802,392)
November	21,814,905	21,893,147	78,242
December	31,532,677	36,403,839	4,871,162
January 2023	37,323,475	33,315,128	(4,008,346)
Total	<u>\$ 292,717,148</u>	<u>\$ 290,422,073</u>	<u>\$ (2,295,074)</u>

<sup>1</sup> As reported to the Commission at Docket No. M-2023-3038587. Arithmetic differences are due to rounding.

<sup>2</sup> Notes to the Financial Statements are an integral part of this report.

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**Default Service Supply<sup>3</sup> (DSS)  
(Over)/Under Collections (Section 1307(e))  
for the 12 months ended January 31, 2022<sup>4</sup>**

<u>Month</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) – (1)
February 2021	\$ 16,126,820	\$ 16,005,553	\$ (121,267)
March	13,773,816	13,574,416	(199,400)
April	12,274,307	12,397,020	122,714
May	13,839,579	13,813,753	(25,825)
June	17,541,864	19,857,730	2,315,867
July	23,972,021	22,003,360	(1,968,662)
August	23,756,749	22,868,259	(888,490)
September	16,032,154	15,996,792	(35,362)
October	15,624,870	14,191,300	(1,433,570)
November	15,334,727	15,449,109	114,382
December	18,505,631	20,317,709	1,812,078
January 2022	25,076,203	24,157,606	(918,597)
<b>Total</b>	<u><u>\$ 211,858,742</u></u>	<u><u>\$ 210,632,608</u></u>	<u><u>\$ (1,226,133)</u></u>

<sup>3</sup> As reported to the Commission at Docket No. M-2022-3031160. Arithmetic differences are due to rounding.

<sup>4</sup> Notes to the Financial Statements are an integral part of this report.

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**Default Service Supply<sup>5</sup> (DSS)  
(Over)/Under Collections (Section 1307(e))  
for the 12 months ended January 31, 2021<sup>6</sup>**

<u>Month</u>	<u>DSS Revenue</u> (1)	<u>DSS Expenses</u> (2)	<u>(Over)/Under Collections</u> (3) = (2) - (1)
February 2020	\$ 15,386,069	\$ 15,609,922	\$ 223,853
March	14,392,306	13,870,428	(521,879)
April	12,569,630	12,803,555	233,926
May	14,094,958	14,210,009	115,051
June	17,353,968	16,658,128	(695,840)
July	23,421,814	23,844,937	423,123
August	20,209,059	20,208,433	(626)
September	14,137,320	14,109,992	(27,328)
October	12,028,624	11,985,404	(43,220)
November	12,742,751	12,864,751	122,001
December	17,342,380	17,078,563	(263,817)
January 2021	16,704,029	17,426,126	722,096
Total	<u>\$ 190,382,907</u>	<u>\$ 190,670,247</u>	<u>\$ 287,340</u>

<sup>5</sup> As reported to the Commission at Docket No. M-2021-3024302. Arithmetic differences are due to rounding.

<sup>6</sup> Notes to the Financial Statements are an integral part of this report.

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**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 March 1, 2023, February 28, 2022, and March 1, 2021. The statements are available on the PUC’s website (<http://www.puc.pa.gov>) at Docket Nos. M-2023-3038587, M-2022-3031160, and M-2021-3024302.

**2 – DSS Revenue**

DSS Revenue is derived by multiplying the sales volumes billed during the month by the applicable DSS rate, excluding E-Factor, to all kilowatt-hour (kWh) of energy supplied to customers who receive default service from Duquesne.

**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 the 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.

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**Disposition of Prior Audit Finding**

Our previous audit of Duquesne's Default Service Supply for the 12-month periods ended January 31, 2020, January 31, 2019 and January 31, 2018, at Docket No. D-2020-3021684 disclosed the following finding:

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

**Recommendation:**

We recommended 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 recommended Duquesne establish controls to ensure this type of error does not occur in the future.

**Disposition:**

Duquesne recouped \$7,171 from each of the above-mentioned rate classes through an adjustment to the E-Factor of the DSS rates effective June 1, 2022 at Docket No. M-2022-3031708. Regarding additional controls, the company stated that the Procurement and Settlement group now works more closely with the Rates group. A Supply and Load Analyst provides expenses to the Rates group quarterly, or before any rate changes, for additional review. We will review this control in our next DSS audit.

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**Current Audit Findings**

**Finding No. 1 – Duquesne improperly calculated capacity adjustments.**

As part of energy procurement, Duquesne issued requests for proposal (RFPs), and suppliers bid to satisfy the energy needs for each of Duquesne's rate classes: Residential & Lighting, Small Commercial & Industrial (C&I), and Medium C&I. Winning suppliers provide energy corresponding to the number of supply tranches won in the competitive auctions for a certain contracted period. These tranches, as well as the number of days in the contracted period, were used in calculating capacity adjustments as part of the supply expense process of Duquesne's Default Service Plan IX that became effective June 1, 2021. Capacity charges were paid by electricity suppliers to ensure a sufficient supply of energy is available to meet demand on the power grid during peak hours of electrical consumption, and capacity adjustments are meant to account for differences between estimated capacity charge rates and the actual charges that result from resource commitment auctions of PJM.

Audit testing revealed a formula error within the company's capacity adjustment calculation spreadsheets, relating to the number of days in the calculation period, for June 2022 through January 2023. Duquesne overstated the supply expense for four suppliers of the Residential & Lighting rate class by a total of \$30,257 and for the Small C&I rate class, the supply expense was overstated for two suppliers by a total of \$3,775. In that same timeframe, due to a formula error on the capacity adjustment calculation spreadsheets and relating to the number of tranches, Duquesne miscalculated by \$169,666 the amount owed to a Residential & Lighting supplier. Duquesne has provided proof of payment for the \$169,666 paid to this Residential & Lighting supplier. Therefore, this expense can be recovered through the DSS.

**Recommendation:**

We recommend that Duquesne make the following adjustments to the E-Factor in its next DSS rate calculations:

- Recover \$169,666 from its Residential & Lighting customers.
- Refund \$30,257 plus applicable interest to its Residential & Lighting customers.
- Refund \$3,775 plus applicable interest to its Small C&I DSS customers.

We further recommend Duquesne institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors related to capacity adjustments.

**Auditor's Note:**

Duquesne intends to include an adjustment to the E-Factor of the June 2025 rate calculation that will correct the errors for the period February 2023 through February 2024. This will be reviewed in our next DSS audit.

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**Current Audit Findings (continued)**

**Finding No. 2 – The company inappropriately recovered prior-period adjustments related to an undisclosed settlement agreement through current expenses.**

An electric generation supplier (EGS) alleged that in 2019, Duquesne misreported data to PJM, which caused the EGS to be overcharged generation-related costs by \$352,375; consequently, other EGS companies serving load for Duquesne's customers were undercharged by the same amount. Because both Duquesne and the EGS wanted to avoid the additional expense and uncertainty of litigation, they agreed to a settlement. Duquesne denied any liability to the EGS, and through PJM's bilateral settlement process, the company agreed to pay the EGS the amount of damages alleged related to overcharged generation expenses. This settlement agreement was not disclosed to the Commission.

A transaction related to the settlement agreement in the amount of \$352,375 appeared on the March 2021 invoice from PJM included in the combined supply invoice expense of \$13,440,609 for the month. Of this settlement, Duquesne allocated \$105,711 to its default service customers, \$195,511 to other EGS companies, and \$51,153 to its Large C&I customers. Of these amounts, only \$105,711 was a recoverable expense through the DSS. Duquesne recovered \$76,158 through the Residential & Lighting rate class, \$15,913 from the Small C&I rate class, and \$13,640 from the Medium C&I rate class.

Duquesne included the recoverable expenses allocated from the settlement as current period DSS expenses. Because the settlement was an adjustment for prior period activity, it should have been recovered through the E-Factor without interest rather than through current expenses. As a result, Duquesne improperly recovered \$3,435<sup>7</sup> in interest.

**Recommendation:**

We recommend that Duquesne refund \$3,435 to its customers through an adjustment to the E-Factor in its next DSS filing. Secondly, we recommend that settlement adjustments be footnoted to ensure regulatory transparency. Lastly, we recommend that the company institute appropriately designed and effectively functioning controls to prevent, detect, and correct errors related to reporting of data to PJM.

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<sup>7</sup> \$2,475 in Residential & Lighting, \$517 in Small C&I, and \$443 in Medium C&I.

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**Current Audit Findings (continued)**

**Finding No. 3 – Duquesne undercollected net metering expenses by \$8,470.**

Beginning on June 1, 2021, under Default Service Plan IX, Duquesne was permitted to recover cash out payments to net metering customers. Net metering is compensation to customer generators (i.e., customers with solar panels) who generate more electricity than they consume. Duquesne pays these customers for the excess electricity generated. Duquesne recovers the payouts to the net metering customers as expenses through its Default Service Supply surcharge for each rate group.

In May and June of 2022, Duquesne understated reported net metering expenses by a total of \$8,470 by omitting payouts to the General Service Small rate class, which is another rate class embedded within the Small Commercial & Industrial (C&I) rate class.

**Recommendation:**

We recommend that Duquesne recovers \$8,470 from its Small C&I rate class through an adjustment to the E-Factor in its next DSS filing.

**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 Steven Vozsnyak, Tanya Wasasiri, and Dawn Anderson.