April 1, 2013

VIA ELECTRONIC FILING

Hon. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Duquesne Light Company, Docket No. ER13-1220-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“FPA”)\(^1\) and Part 35 of the regulations of the Federal Energy Regulatory Commission (“Commission” or “FERC”),\(^2\) Duquesne Light Company (“Duquesne”) submits for filing a new Attachment H-17C to the PJM Interconnection, L.L.C. (“PJM”) Open Access Transmission Tariff (“Tariff”).\(^3\) The proposed new Attachment H-17C implements a fixed “Monthly Deferred Tax Adjustment Charge” to permit Duquesne to recover a deferred income tax liability that currently is unfunded as a result of Duquesne’s change in transmission ratemaking methodology for recovery of certain income taxes from flow-through to full normalization.\(^4\) Duquesne requests an effective date of June 1, 2013 for the proposed tariff changes. This filing does not change Duquesne’s formula rate in Attachment H-17A to the PJM Tariff as previously accepted by the Commission.

I. INTRODUCTION AND SUMMARY

Duquesne’s formula rate to recover its costs of providing transmission service under the PJM Tariff became effective on December 1, 2006 and follows the rules and policies of the


\(^{3}\) Pursuant to Order No. 714, this filing is submitted by PJM Interconnection, L.L.C. on behalf of Duquesne as part of an XML filing package that conforms with the Commission’s regulations. PJM has agreed to make all filings on behalf of the PJM Transmission Owners in order to retain administrative control over the PJM Tariff. Thus, Duquesne has requested PJM submit this new Attachment H-17C in the eTariff system as part of PJM’s electronic Intra PJM Tariff.

Commission, including rules and policies that require full tax normalization. However, prior to implementation of its formula rate, Duquesne served retail customers under bundled rates regulated by the Pennsylvania Public Utility Commission (“PA PUC”) that provided for recovery of almost all of Duquesne’s transmission cost of service. The PA PUC required that its state income tax and certain federal income tax savings resulting from temporary differences between the amount of taxes computed for ratemaking purposes and taxes on the amount of actual current federal income liability which are accumulated at deferred income tax liabilities be reflected in Duquesne’s bundled retail rates in accordance with the so-called “flow-through” method (the “PA PUC Flow-Through Requirement”), under which these savings would flow through to current retail ratepayers with the full understanding, and expectation, that ratepayers would be responsible for funding the higher future taxes that would result when these temporary timing differences reversed. As a result of moving from the flow-through method under its bundled retail rates in accordance with the PA PUC Flow-Through Requirement to full tax normalization under its formula rate in accordance with the Commission’s tax normalization policies, there is a difference between Duquesne’s deferred tax account and its future tax liability, which, in accordance with the Commission’s regulations, Duquesne has duly recorded in its Account 182.3 (Other Regulatory Assets) since 1993.

Since Order No. 144, the Commission has recognized both that the switch from the flow-through method to full normalization creates timing differences that may result in deferred tax reserves which are “deficient from that required to provide for the associated future tax liabilities as they arise” and that it is appropriate for “companies to make some provision in their deferred taxes for the tax effects of timing difference transactions that had previously been flowed through.” That is, in the transition from the flow-through method to normalization, “utilities were entitled to recover an additional income tax allowance to ‘make up’ for the prior use of flow-through.” While Order No. 144 did not specify a methodology to make such a provision in a utility’s deferred taxes, the Commission has since relied heavily on the so-called “South Georgia Method.”

---


6 See Prepared Direct Testimony of Matthew L. Simpson, attached hereto as Exhibit DLC-100 (“Simpson Testimony”).

7 Order No. 144 at ¶ 31,559.


This filing seeks to recover the difference between Duquesne’s deferred tax account and its future tax liability through a proposed Monthly Deferred Tax Adjustment Charge determined in accordance with the South Georgia Method. The unfunded tax liability calculated in the accordance with the South Georgia Method is described in the attached testimony and exhibits of Matthew L. Simpson. The attached testimony of William V. Pfrommer then explains how that unfunded tax liability will be recovered through the Monthly Deferred Tax Adjustment Charge. Duquesne proposes to recover its future unfunded tax liability over the remaining life of the assets in place at the time it implemented its formula rate, which will result in a monthly fixed recovery charge of $203,339 or $66.58 per MW of demand at current demand levels. The charge will be recovered from Duquesne’s network service customers who serve Duquesne’s former bundled retail rate customers who currently take retail distribution service from Duquesne. These are the same customers who received the benefits of the flow-through tax savings under the PA PUC Flow-Through Requirement. None of Duquesne’s former wholesale customers will be subject to the Monthly Deferred Tax Adjustment Charge.

The proposed Monthly Deferred Tax Adjustment Charge is a just and reasonable and not unduly discriminatory or preferential measure to make Duquesne whole for income taxes it will have to pay, but which will not be recovered from ratepayers under the Commission’s tax normalization policies. Duquesne requests that the Commission approve the Monthly Deferred Tax Adjustment Charge to become effective June 1, 2013 to coincide with the PJM rate year.

II. BACKGROUND

Duquesne is a public utility company organized under the laws of the Commonwealth of Pennsylvania. It is a wholly owned subsidiary of Duquesne Light Holdings, Inc. Duquesne owns transmission and distribution facilities located within PJM and currently serves approximately 589,000 customers in southwestern Pennsylvania (including in the city of Pittsburgh), a territory of approximately 817 square miles. Duquesne also is the default supplier for retail customers within its service territory under Pennsylvania’s Electricity Generation Customer Choice and Competition Act. Until 1997, almost all of Duquesne’s transmission revenue requirement was collected through bundled retail rates. In accordance with the long standing PA PUC Flow-Through Requirement, which sets retail rates based on the “actual taxes paid” doctrine, Duquesne was required to use the flow-through method to determine its recoverable income taxes for ratemaking purposes, thereby passing on to retail ratepayers the tax savings resulting from certain timing differences under federal and state tax laws. As a result,

uncontested settlement establishing transmission formula rate, which included South Georgia Method adjustment to account for tax benefits that previously flowed through to retail customers).
Duquesne’s allowable income tax expense, which was flowed through to retail customers, was reduced to reflect the benefits of various tax timing differences with the understanding that once these timing differences reversed the resultant higher income tax expense would be recovered from ratepayers.\textsuperscript{14}

In 1996, the Commonwealth of Pennsylvania undertook electricity retail restructuring in an effort to promote retail competition for generation supply.\textsuperscript{15} Under Pennsylvania’s retail restructuring program, transmission and distribution delivery services were unbundled from retail generation service and made available on a non-discriminatory basis to retail customers. Duquesne remained responsible for distribution, while either competitive retail suppliers (Electric Generation Suppliers or “EGSs”) or the default provider of last resort retail electric generation supplier (“POLR”), Duquesne, became responsible for arranging for Network Integration Transmission Service used in serving Duquesne’s retail distribution customers. Consistent with the PA PUC Flow-Through Requirement discussed above, Duquesne’s cost-of-service rates for unbundled transmission and distribution services for its retail customers relied upon the flow-through method for the treatment of certain tax savings resulting from tax timing differences.\textsuperscript{16}

In April 1996, the Commission issued Order No. 888, which required transmission owners to provide transmission service on open, non-discriminatory terms and to unbundle wholesale transmission from generation.\textsuperscript{17} On July 9, 1996, Duquesne filed an Open Access Transmission Tariff (“OATT”) in compliance with Order No. 888’s open access rules.\textsuperscript{18} On July 31, 1997, the Commission set for hearing and settlement judge procedures the rates for transmission and ancillary services contained in Duquesne’s OATT.\textsuperscript{19} By letter order dated February 11, 1998, the Commission approved a “black box” settlement establishing a stated

\begin{itemize}
  \item Testimony of Morgan K. O’Brien at page 8, lines 8-15 (Aug. 1, 1997) (explaining that the PA PUC required Duquesne to flow through on a current basis to its customers certain state and federal tax benefits).
  \item Simpson Testimony at 4.
  \item Simpson Testimony at 4.
  \item Duquesne Light Co., Docket Nos. OA96-56-000 et al., Compliance Transmission Tariff (filed July 9, 1996).
  \item \textit{Allegheny Power System, Inc., et al.}, 80 FERC ¶ 61,143 at Attachment C (1997).
\end{itemize}
annual transmission service rate and revenue requirement in Duquesne’s OATT. The settlement did not address the calculation or treatment of deferred tax liabilities or benefits, which Duquesne continued to accrue as a regulatory asset based on the flow-through method. Accordingly, Duquesne continued to calculate its recoverable income tax expense in accordance with the PA PUC Flow-Through Requirement and record deferred taxes as a regulatory asset.

On January 1, 2005, Duquesne’s transmission facilities were integrated into PJM. Duquesne’s transmission system consists of 69 kV, 138 kV, and 345 kV facilities that form a large loop around the city of Pittsburgh and its suburbs. Duquesne’s transmission facilities constitute the Duquesne Zone in PJM, with a separate revenue requirement for transactions sinking into that zone.

On September 29, 2006, Duquesne submitted its proposed formula rate to establish the transmission revenue requirement for Duquesne’s transmission facilities under the PJM Tariff. On February 6, 2007, the Commission accepted the formula rate to become effective December 1, 2006, subject to refund, and established hearing and settlement judge proceedings. On May 9, 2008, the Commission issued an order approving an uncontested settlement agreement establishing Duquesne’s formula rate. When Duquesne implemented its formula rate, it changed its transmission ratemaking methodology for recovery of income taxes, including tax savings that had previously been flowed through to ratepayers under the PA PUC Flow-Through Requirement, to full normalization of all tax timing differences. However, as described in detail below, the deferred tax liability that accrued as a result of flow-through ratemaking under the PA PUC Flow-Through Requirement prior to the implementation of Duquesne’s formula rate will not be recovered through the formula rate’s full normalization ratemaking.

---

21 See Pfommer Testimony at 4.
23 Duquesne Light Company, Formula Rate Filing, Docket No. ER06-1549-000 (filed Sept. 29, 2006) (“Formula Rate Filing”). At the same time Duquesne submitted a petition for declaratory order seeking a determination that it was eligible to recover certain transmission rate incentives under Order No. 679 in connection with a proposed transmission project in southwestern Pennsylvania. See Petition for Declaratory Order of Duquesne Light Company to Confirm Incentive Rate Treatment for High Voltage Transmission Project, Docket No. EL06-109-000 (filed Sept. 29, 2006) (“Incentive Rate Petition”).
24 Duquesne Light Company, 118 FERC ¶ 61,087 (2007). This order also granted the Incentive Rate Petition subject to a later compliance filing.
25 Duquesne Light Company, 123 FERC ¶ 61,139 (2008). This order also accepted the compliance filing made in response to the order granting the Incentive Rate Petition.
26 Pfommer Testimony at 5. See also Formula Rate; 18 C.F.R. § 35.24.
III. DUQUESNE HAS PROPERLY ACCOUNTED FOR THE DEFERRED TAX LIABILITY.

A. Duquesne Has Accounted For The Deferred Tax Liability Consistent With The Rules And Regulations Of The Commission And The Internal Revenue Service.

Through 1992, Duquesne recorded deferred income taxes in accordance with Accounting Principles Board Opinion No. 11 ("APB 11"), "Accounting for Income Taxes."\(^{27}\) APB 11 used the deferral method, which placed emphasis on the income statement in that it was mostly concerned with the matching of revenues and expenses for the years in which those expenses and revenues were realized.\(^{28}\) Accordingly, during this period when Duquesne followed APB 11, it did not record deferred income tax expense applicable to revenue items that received flow-through treatment in ratemaking.\(^{29}\)

In January 1993, Duquesne adopted the Financial Accounting Standards Board’s ("FASB") Statement of Accounting Standards No. 109 ("SFAS 109").\(^{30}\) SFAS 109 required a change from the deferred method to the asset and liability method of accounting for income taxes.\(^{31}\) Under the asset and liability method, deferred income tax assets and liabilities are recognized to reflect the tax consequences of temporary differences in the timing of recovery.\(^{32}\) SFAS 109 stated that regulated enterprises, such as Duquesne, that meet the criteria for application of FASB Statement No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation," are not exempt from the requirements of SFAS 109.\(^{33}\) SFAS 71 indicated that, if, as a result of an action by a regulator, it is probable that the future increase or decrease in taxes payable will be recovered from or returned to customers through future rates, an asset or liability shall be recognized for that probable increase or reduction in future revenue and that asset or liability also shall be a temporary difference for which a deferred tax asset or liability shall be recognized.\(^{34}\)

In compliance with SFAS 109, in January 1993, Duquesne determined the tax benefits associated with production, distribution, and transmission assets that previously flowed through to customers and recorded an increase in its deferred tax liability in Account 283 (Accumulated

\(^{27}\) Simpson Testimony at 4-5.


\(^{29}\) Simpson Testimony at 5.

\(^{30}\) *Id.* at 5.

\(^{31}\) *Id.*

\(^{32}\) *Id.*

\(^{33}\) SFAS 109 at 29.

\(^{34}\) *Id.; see also* Simpson Testimony at 5-6.
Deferred Income Taxes-Other) to reflect that amount. Duquesne also recorded an increase in its regulatory assets in Accounts 186 (Miscellaneous Deferred Debits) and 101 (Electric Plant in Service) of the same amount to recognize the probable recovery of the future increased taxes recoverable through the ratemaking process, based on the PA PUC Flow-Through Requirement and to reverse the “net of tax” accounting in plant assets no longer permitted under SFAS 109.

In March 1993, the Commission issued Order No. 552, Revisions to Uniform System of Accounts to Account for Allowances Under the Clean Air Act Amendments of 1990, which addressed accounting and reporting requirements for regulatory assets. Specifically, Order No. 552 created Account 182.3 to include costs incurred and charged to expense, which have been, or are soon expected to be, authorized for recovery through rates, and which are not specifically provided for in other accounts. In accordance with Order No. 552, effective December 1993, Duquesne moved the balance of regulatory assets from Account 186 to Account 182.3, Other Regulatory Assets, including the deferred tax liability that had accrued under the PA PUC Flow-Through Requirement and moved applicable deferred income taxes from Account 283 to Account 282 ( Accumulated Deferred Income Taxes-Other Property).

After Duquesne moved the balance of regulatory assets to Account 182.3, the annual changes in transmission-related deferred tax liability resulting from the PA PUC Flow-Through Requirement, plus a tax gross-up to yield the total revenue that will be required when the timing differences reverse, were recorded in Account 182.3. However, amounts recorded in Account 182.3 and reported in the FERC Form No. 1 are aggregated to include regulatory assets related to distribution, transmission, and general and intangible plant (“G&I”). In order to determine the precise amount of unfunded transmission-related tax liability recorded in Account 182.3 as of the time Duquesne switched to full normalization under its formula rate on December 1, 2006,

35 Simpson Testimony at 5-6.

36 Id.


38 Order No. 552, 58 Fed. Reg. at 18,000.

39 Simpson Testimony at 6, 9. As described by Mr. Simpson, Duquesne’s unfunded future tax liability is comprised of: (1) the state tax effect of timing differences related to book versus state tax method and life depreciation differences on all vintaged property; (2) the federal tax effect of the cumulative timing differences related to book versus federal tax method and life depreciation differences on pre-1971 vintage property before the adoption of the Class Life Asset Depreciation Range (“CLADR”); (3) the federal tax effect of the cumulative timing differences related to the book versus federal tax life on vintage property during tax years 1971 through 1980, prior to the adoption of Accelerated Cost Recovery System (“ACRS”)/Modified Accelerated Cost Recovery System (“MACRS”); (4) the federal and state income tax effects associated with basis differences between ratemaking balances and the income tax basis of plant; and (5) the federal and state tax effects of timing differences related to the book versus tax treatment of cost of removal and salvage. Id. at 7-8.

40 Id. at 6-7.
Duquesne computed its unfunded transmission-related tax liability using the *South Georgia Method*.  

**B. Duquesne Has Properly Accounted For The Deferred Tax Liability To Be Recovered From Ratepayers Consistent With The South Georgia Method.**

Duquesne’s *South Georgia* Method computation and derivation of its unfunded transmission-related tax liability that resulted from the transition from flow-through to full normalization (“Transmission Regulatory Asset To Be Recovered”) are presented in Exhibit Nos. DLC-101 through DLC-105 to Mr. Simpson’s testimony. The *South Georgia* Method computation performed by Duquesne consists of the following three basic steps that are explained in detail below and in Mr. Simpson’s testimony:

Step One: Determine the tax impact of the difference between book and tax basis calculated using full normalization as of the date of conversion to the normalization under the formula rate (“Total Future Deferred Tax Liabilities”).  

Step Two: Determine the deferred taxes recorded in Account 282 under the PA PUC Flow-Through Order in place just prior to the conversion to full normalization under the formula rate (“Deferred Taxes Recorded Under Flow-Through”).  

Step Three: Subtract the Deferred Taxes Recorded Under Flow-Through from the Total Future Deferred Tax Liabilities to determine the deferred tax difference between normalization and flow-through, and add a tax component to account for the fact that the additional revenue required to recover the additional tax expense will be taxed as income (“Taxes Recoverable Through Future Rates”).  

These three steps are presented in Exhibit No. DLC-101 to Mr. Simpson’s testimony for all of Duquesne’s functions. Line 23, column b, of Exhibit No. DLC-101 is the total Regulatory Asset in Account 182.3, “Taxes Recoverable Through Future Rates” and corresponds with Duquesne’s 2006 FERC Form No. 1 at page 232, line 1, column f attributable to transmission and G&I (as reconciled by Duquesne’s 2007 FERC Form No. 1). As Mr. Simpson explains,

---

41 *Id.* at 11. Because financial information was not available as of December 1, 2006, Mr. Simpson conservatively used financial information that existed as of December 31, 2006 to compute the unfunded transmission-related tax liability recorded in Account 182.3. *See id.* at 14.  

42 *Id.* at 12. Step One is shown on Lines 1 through 18 of Exhibit No. DLC-101.  


44 Simpson Testimony at 13. Step Three is shown on Lines 20 through 23 of Exhibit No. DLC-101.  

the assignment to transmission and G&I was done using detailed information reported by Duquesne’s tax depreciation and deferred tax software, PowerTax.\(^{46}\)

PowerTax is a widely used and trusted tax software system that Duquesne uses to compute, record, and track the tax treatment of its plant assets and related deferred taxes.\(^{47}\) All of the amounts derived from PowerTax that are used in the South Georgia Method computation are based on amounts recorded by Duquesne pursuant to the Commission’s Uniform System of Accounts (“USoA”).\(^{48}\)

The results of the South Georgia Method computation on Line 23, columns d and f of Exhibit No. DLC-101 show that the transmission component of Taxes Recoverable Through Future Rates and the G&I component of Taxes Recoverable Through Future Rates are $74,914,640 and $10,247,479, respectively.\(^{49}\) Because only a portion of G&I plant is attributable to Duquesne’s FPA jurisdictional transmission business, on Line 4 of Exhibit No. DLC-103, Mr. Simpson functionalizes a portion of the G&I component of Taxes Recoverable Through Future Rates to transmission using a wages and salary allocator.\(^{50}\) On Line 5 of Exhibit No. DLC-103, the transmission component of Taxes Recoverable Through Future Rates is combined with the functionalized G&I component to determine the Transmission Regulatory Asset To Be Recovered.\(^{51}\)

The inputs used for Duquesne’s South Georgia Method computation are the same inputs utilized by Duquesne in its calculation of its regulatory asset “Taxes Recoverable Through Future Rates” and reported in Duquesne’s 2006 FERC Form No. 1 at page 232, line 1, column f (as reconciled by Duquesne’s 2007 FERC Form No. 1 and explained in Exhibit No. DLC-105), which are based on amounts that were recorded pursuant to the USoA.\(^{52}\) These inputs were used to calculate year-end deferred tax amounts that were reported by Duquesne in its 2006 FERC Form No. 1 (as reconciled by its 2007 FERC Form No. 1) and the accumulated deferred income...

\(^{46}\) Id. at 13-14.


\(^{48}\) Simpson Testimony at 13-14.

\(^{49}\) Id. at 18-19.

\(^{50}\) Id. at 19.

\(^{51}\) Id.

\(^{52}\) Id. at 14-15, 17.
taxes used in Duquesne’s formula rate implemented in December 2006. This data is based on company records that are maintained pursuant to the USoA and reported by Duquesne’s tax depreciation and deferred tax software, PowerTax.

Duquesne relied upon 2006 data because its formula rate was implemented in 2006. Also, Duquesne’s accounting for timing differences continued to reflect the application of the PA PUC Flow-Through Requirement throughout 2006, even though Duquesne’s conversion to a full normalization ratemaking methodology became effective on December 1, 2006 with the implementation of its formula rate.

The use of the 2006 data also is consistent with the method used to allocate a portion of the G&I cost component to transmission as shown in Exhibit No. DLC-103. As Mr. Simpson explains, to allocate the appropriate amount of the G&I cost component to transmission, he used the wages and salaries allocator from the formula rate 2006 FERC Form No. 1 data.

The calculation of Step One of the South Georgia Method computation is shown on Lines 1 through 18 of Exhibit No. DLC-101. As explained above and in Mr. Simpson’s testimony, the book balance and reserve amounts shown on Lines 4, 5, 11, and 12 of Exhibit No. DLC-101, as well as the tax balance and reserve amounts shown on Lines 1, 2, 8, and 9 are reported by PowerTax. After determining the federal and state basis differences on Lines 1 through 14, the differences are multiplied by the currently effective federal and state tax rate to determine the

---

53 Id. at 14-15.
54 Simpson Testimony at 14-15.
55 Id. at 15.
56 Id. Although full normalization of income taxes is reflected in Duquesne’s formula rate template, Duquesne did not make a corresponding change in its accounting when the formula rate became effective. Id. at 8. In 2011, Duquesne identified the mismatch between its accounting and ratemaking methodologies, which led to the identification of Duquesne’s unfunded deferred tax liability that it is seeking to recover in this filing. See id. at 8-9. In 2011, Duquesne made the appropriate adjustments to its accounting practices and deferred tax expense recorded in its accounts to reflect normalization. Id. at 9-10. These changes are described in the Simpson Testimony and were reflected in Duquesne’s 2011 FERC Form No. 1. Simpson Testimony at 9-10. No changes to the formula rate were necessary, and the accounting changes have an extremely small effect on the transmission rates computed under Duquesne’s formula rate for the 2008 through 2011 rate years. Id. at 10-11; see also Pfrommer Testimony at 10. As part of its 2013 formula rate update, Duquesne will address the impact of the accounting changes on the formula rate data inputs from these years and refund any overcharges as appropriate. Pfrommer Testimony at 10.
57 Simpson Testimony at 14.
58 Id. at 15.
59 Id. at 16.
60 Id.
amount of future federal and state tax liability, respectively.\textsuperscript{61} The combined future federal and state tax liability, with an adjustment for the deductibility of state taxes from federal taxable income, represents Total Future Deferred Tax Liabilities on Line 18.\textsuperscript{62}

Step Two of the \textit{South Georgia} Method computation, the Deferred Taxes Recorded Under Flow-Through, is shown on Line 19 of Exhibit No. DLC-101.\textsuperscript{63} The inputs to Deferred Taxes Recorded Under Flow-Through from Account 282, Accumulated Deferred Income Taxes—Other Property, are taken from Duquesne’s tax depreciation and deferred tax software, PowerTax.\textsuperscript{64} The Deferred Taxes Recorded Under Flow-Through related to transmission and G&I consist of ACRS and MACRS method and life differences and net basis adjustments.\textsuperscript{65} These amounts are shown in Exhibit No. DLC-102.

The results of Step Three of the \textit{South Georgia} Method computation are shown on Lines 20 through 23 of Exhibit No. DLC-101.\textsuperscript{66} Line 20 shows the difference between the Total Future Deferred Tax Liabilities calculated in Step One and the Deferred Taxes Recorded Under Flow-Through calculated in Step Two.\textsuperscript{67} Line 22 shows the Tax Gross-up or “tax-on-tax” amount that must be added because, upon recovery of the regulatory asset, the amount becomes taxable income.\textsuperscript{68} As Mr. Simpson explains, the Tax Gross-up was calculated using currently effective tax rates.\textsuperscript{69} Finally, Line 23 shows the Taxes Recoverable Through Future Rates.\textsuperscript{70}

Only the transmission component and a functionalized G&I component of Taxes Recoverable Through Future Rates in Exhibit No. DLC-101 contribute to the Transmission Regulatory Asset To Be Recovered under the proposed Monthly Deferred Tax Adjustment Charge.\textsuperscript{71} Accordingly, a further calculation, as shown in Exhibit No. DLC-103, is required to

\textsuperscript{61} \textit{Id.}
\textsuperscript{62} \textit{Id.} at 16-17.
\textsuperscript{63} Simpson Testimony at 17.
\textsuperscript{64} \textit{Id.}
\textsuperscript{65} \textit{Id.}
\textsuperscript{66} \textit{Id.}
\textsuperscript{67} \textit{Id.} at 17-18.
\textsuperscript{68} \textit{Id.} at 18.
\textsuperscript{69} Simpson Testimony at 18. The use of currently effective tax rates, rather than rates in effect when the unfunded tax liability was accumulated, to calculate the tax-on-tax is appropriate because the additional taxable income that will be realized will be taxed at the rate in effect at the time. \textit{Id.} This also would have been the case had Duquesne continued under the PA PUC Flow-Through Requirement as the timing differences reversed. \textit{Id.} At the same time, because future tax rates are unknown, the currently effective tax rates are the only reasonable proxy for effective tax rates in the future. \textit{Id.}
\textsuperscript{70} \textit{Id.}
\textsuperscript{71} \textit{Id.} at 18-19.
determine the functionalized G&I component. The functionalized G&I component then is added to the transmission component to determine the Transmission Regulatory Asset To Be Recovered of $75,642,289. This amount was recorded in Account 182.3 and represents the tax benefit flowed through to customers that would have been recovered through transmission rates in later years, if Duquesne continued to use flow-through ratemaking under the PA PUC Flow-Through Requirement. However, as a result of the conversion to full normalization ratemaking in the formula rate template implemented in 2006, this Transmission Regulatory Asset To Be Recovered is an unfunded deferred tax liability that, absent an order from the Commission approving the Monthly Deferred Tax Adjustment Charge proposed herein, will remain unrecovered.

Consistent with the South Georgia Method, once the Transmission Regulatory Asset To Be Recovered is determined, it is amortized over a fixed period equivalent to the remaining useful life of the assets which generated the tax timing differences.

Although Duquesne’s unfunded tax liability was calculated using transmission, as well as an allocated share of G&I, Duquesne is proposing to use only the longer-lived transmission assets to determine the amortization period. As Mr. Simpson explains, the amortization period was calculated by dividing the net transmission plant in service at the time Duquesne’s transmission formula rate was implemented in 2006 by Duquesne’s 2006 transmission depreciation expense. The result was rounded up to 31 years. As shown in Exhibit No. DLC-104, this yielded an annual recovery of $2,440,074 (“Annual Amortized Regulatory Asset To Be Recovered”) and a monthly charge of $203,339 (“Monthly Amortized Regulatory Asset To Be Recovered”). The Monthly Amortized Regulatory Asset To Be Recovered will be allocated to each network service customer serving Duquesne’s retail distribution customers pursuant to the proposed Attachment H-17C, described below in Section IV.

---

72 See Simpson Testimony at 19.
73 Id.
74 Id.
75 Pfrommer Testimony at 5-6.
76 Simpson Testimony at 19-20.
77 Id. at 20.
78 Id. at 20.
79 Id.
80 Id.; see also Exhibit No. DLC-104.
81 Pfrommer Testimony at 6-7.
IV. DESCRIPTION OF THE PROPOSED ATTACHMENT H-17C OF THE PJM TARIFF

Duquesne is proposing a new Attachment H-17C of the PJM Tariff to provide for its Monthly Deferred Tax Adjustment Charge. Attachment H-17C is not part of, and the Monthly Deferred Tax Adjustment Charge is not included in, Duquesne’s formula rate in Attachment H-17A as the Monthly Deferred Tax Adjustment Charge is intended to recover costs not included in the formula rate. The proposed charge by its terms is limited to network service customers that serve one or more customers taking distribution service from Duquesne. As described earlier, although Pennsylvania has implemented retail electric competition, under its PA PUC tariff, Duquesne remains responsible for providing distribution service to all retail customers in its service area. EGSs and Duquesne, in its role as a POLR, will be subject to the charge. Wholesale customers, who, as discussed below, were not beneficiaries of the flow-through of tax benefits under the PA PUC Flow-Through Requirement, are not covered by the charge.

The Monthly Deferred Tax Adjustment Charge is a fixed monthly demand charge. In accordance with the proposed Attachment H-17C, the Monthly Deferred Tax Adjustment Charge is determined by allocating the Monthly Amortized Regulatory Asset To Be Recovered among customers in the same manner as monthly network service charges are allocated under Section 34.1 of the PJM Tariff, with the exception that the Monthly Amortized Regulatory Asset To Be Recovered is allocated only among network service customers serving Duquesne’s distribution customers rather than all customers in the Duquesne Zone. The Monthly Deferred Tax Adjustment Charge is determined by multiplying the Monthly Amortized Regulatory Asset To Be Recovered by the applicable individual network service customer’s annual peak load (net of behind the meter generation) divided by the coincident peak load of all network service customers servicing Duquesne’s distribution customers. Because the shares and peak load are adjusted annually, neither load growth nor decline will affect Duquesne’s recovery of its unfunded tax liability, and it will recover only the stated Annual Amortized Regulatory Asset To Be Recovered each year.

82 Id.
83 Id.
84 Id.
85 Id. at 7-8.
86 Id. at 6.
87 Pfrommer Testimony at 8.
88 Id.
89 Id.
V. RECOVERY OF DUQUESNE’S DEFERRED TAX LIABILITY THROUGH THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE CALCULATED USING THE SOUTH GEORGIA METHOD IS JUST AND REASONABLE AND CONSISTENT WITH COMMISSION PRECEDENT.

The $75.6 million, as described above and in Mr. Simpson’s testimony, was properly recorded and represents a valid deferred cost created due to the timing differences in the recognition of income as a result of the switch from the flow-through method under the PA PUC Flow-Through Requirement to full normalization in accordance with the Commission’s regulations. This $75.6 million is a valid regulatory asset,\(^90\) and its recovery is just and reasonable and consistent with Commission precedent.


Duquesne is entitled to fully recover the costs it prudently incurs in providing transmission service, including income taxes.\(^91\) These income tax-related costs include deferred tax liabilities that would otherwise be unfunded as a result of Duquesne’s change in transmission ratemaking methodology for recovery of certain income taxes from flow-through under the PA PUC Flow-Through Requirement to full normalization as required by the Commission.

As discussed above, the PA PUC’s ratemaking policy required flow through treatment of tax savings resulting from timing differences to reflect actual taxes paid. Until December 1, 2006, Duquesne’s electric transmission ratemaking was based upon the flow-through method for treatment of certain income taxes, resulting in lower tax expense that would have otherwise been included under a full normalization ratemaking methodology with the expectation that offsetting higher tax expenses would be recovered in later periods.\(^92\) Duquesne’s implementation of its formula rate in 2006 resulted in a conversion of its transmission ratemaking to full normalization.\(^93\) Under fully normalized ratemaking, the deferred tax liability, which accrued as a result of the PA PUC Flow-Through Requirement, is unfunded because the offsetting higher

---

\(^90\) The USoA defines “regulatory assets” as assets “that result from rate actions of regulatory agencies” and “arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable . . . that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services.” 18 C.F.R. pt. 101, Definition No. 31.

\(^91\) Pub. Sys. v. FERC, 709 F.2d 73, 75 (D.C. Cir. 1983) (“The rates [of public utilities under the FPA] are based on cost of service, which comprises ‘all expenses incurred, including income taxes, plus a reasonable return on capital.’” (citing Pub. Serv. Co. v. FERC, 653 F.2d 681, 683 (D.C. Cir. 1981))).

\(^92\) Simpson Testimony at 4; see also Pfrommer Testimony at 3-5.

\(^93\) Pfrommer Testimony at 5.
tax expenses in later periods will not be flowed through.\textsuperscript{94} Therefore, without an adjustment, the
reversal of the timing differences will result in Duquesne’s network service rates under-
recovering its incurred income tax expense.\textsuperscript{95} Duquesne’s transmission formula rate does not
provide a mechanism to make the necessary adjustment to allow it to address the shortfall in
revenue required to fund its deferred tax liabilities that are otherwise unrecovered as a result of
the switch from flow-through treatment to full normalization.\textsuperscript{96} Therefore, Duquesne proposes to
include a Monthly Deferred Tax Adjustment Charge in the proposed Attachment H-17C of the
PJM Tariff calculated using the \textit{South Georgia} Method.\textsuperscript{97}

The Monthly Deferred Tax Adjustment Charge adjustment only applies to network
customers serving retail distribution customers of Duquesne, because these retail customers
already received the benefits of the PA PUC Flow-Through Requirement and would have been
responsible for the future higher income tax expense once the timing differences associated with
those transmission facilities reversed.\textsuperscript{98} Duquesne has no reasoned basis for concluding that any
customers other than retail customers benefitted from tax benefits flowed through pursuant to the
PA PUC Flow-Through Requirement in the past, and even if they did (and there is no reasoned
basis to believe they did), the revenues from these customers represent a small fraction of
Duquesne’s total revenues and would result in a \textit{de minimis} change for the charges assessed to
network service customers under the Monthly Deferred Tax Adjustment Charge.\textsuperscript{99}

**B. Duquesne’s Recovery Of Its Deferred Tax Liability Through The Monthly Deferred Tax Adjustment Charged Calculated Using The \textit{South Georgia} Method Is Consistent With Commission Precedent.**

As discussed above, since Order No. 144, the Commission has recognized both that the
switch from the flow-through method to full normalization creates timing differences that may
result in deferred tax liabilities that should be recoverable through some sort of “make up”
adjustment.\textsuperscript{100} As also discussed above, since Order No. 144, the Commission has relied heavily
on the \textit{South Georgia} Method has a means to provide for such a make-up adjustment.\textsuperscript{101}

\begin{flushleft}
\textsuperscript{94} Id. at 5-6.
\textsuperscript{95} Id. at 6.
\textsuperscript{96} Id.
\textsuperscript{97} Id.
\textsuperscript{98} Id. at 7.
\textsuperscript{99} See Pfommer Testimony at 7-8.
\textsuperscript{100} See supra note 7. See also \textit{Town of Norwood v. FERC}, 53 F.3d 377, 381 (D.C. Cir. 1995) (noting
that the court has upheld the Order No. 144 make-up provision “against charges of retroactive
ratemaking on the grounds that ‘past’ costs collected during the transition were costs that the
utility had always planned to charge to future ratepayers”); \textit{Pub. Sys. v. FERC}, 709 F.2d at 84-85
(affirming Commission decision to allow companies to use a make-up provision to recover past
timing difference transactions that were given flow-through treatment).
\textsuperscript{101} See supra note 9.
\end{flushleft}
The South Georgia Method adjustment that Duquesne proposes to use to recover its unfunded deferred tax liability is consistent with the Commission’s decision in Order No. 144 to permit make-up adjustments provisions to account for the tax benefits which previously were flowed through to retail customers. Duquesne seeks to recover no more than it would have recovered had it continued to use the flow-through ratemaking methodology. As explained in Section III above and in Mr. Simpson’s testimony, Duquesne continuously has recorded the Transmission Regulatory Asset To Be Recovered pursuant to the USoA and, if Duquesne continued to use the flow-through ratemaking methodology, this amount would have been recovered as the tax benefits were exhausted and the resultant higher income taxes were flowed through to ratepayers. However, as a result of Duquesne’s switch from flow-through to normalization, this will not occur, and Duquesne will pay more in income tax than it recovers from ratepayers. Accordingly, the South Georgia Method adjustment that Duquesne proposes is necessary to account for the timing differences between flow-through and normalization, and is consistent with precedent permitting make-up adjustments. Duquesne’s proposed South Georgia Method adjustment also is consistent with other transmission rates that the Commission has approved for other public utilities that faced similar transitions from state flow-through ratemaking to full normalization under the Commission’s policies.

VI. CONTENTS OF FILING

In addition to this transmittal letter, the filing consists of the following materials:

Attachment A: Proposed Attachment H-17C of the PJM Tariff (Redlined format);

Attachment B: Proposed Attachment H-17C of the PJM Tariff (Non-redlined format);

Attachment C: Prepared Direct Testimony of Matthew L. Simpson (Exhibit Nos. DLC-100 through DLC-105); and

Attachment D: Prepared Direct Testimony of William V. Pfrommer (Exhibit DLC-200).

VII. REQUEST FOR WAIVERS

Duquesne requests waiver of the following sections of the Commission’s regulations: Section 35.13(d)(1)-(2), Section 35.13(d)(5), and Section 35.13(h). Detailed statements on Duquesne’s costs of service are unnecessary because the proposed charge is based on costs reflected in Duquesne’s FERC Form No. 1, and detailed evidence regarding the calculation of the cost to be recovered and the proposed charge is submitted with this transmittal letter. To the extent any additional waivers are necessary to accept this filing, Duquesne respectfully requests such waivers.

---

102 18 C.F.R. § 35.13(d)(1)-(2) (requiring submission of Period I and Period II data for Statements AA through BL).

103 18 C.F.R. § 35.13(d)(5) (requiring the submission of workpapers related to Period I and Period II data).

104 18 C.F.R. § 35.13(h) (requiring cost of service statements).
In accordance with Section 35.13(b) of the Commission’s regulations, Duquesne represents that: (1) no additional agreement, by contract or otherwise, is required for the filing of this rate; and (2) there are no expenses or costs included in this filing that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices, within the meaning of Section 35.13(b)(7) of the Commission’s regulations.

VIII. REQUESTED EFFECTIVE DATE

Duquesne requests that the revised PJM Tariff sheets be made effective June 1, 2013 without modification, suspension or a hearing. The June 1, 2013 effective date will coincide with the PJM rate year and will ensure that the Monthly Deferred Tax Adjustment Charge will begin to be applied to EGSs and Duquesne in its role as a POLR on the same effective date (and thus in a competitively neutral manner).

IX. PERSONS ON WHOM THIS FILING IS BEING SERVED

PJM has served a copy of this filing on all PJM Members and on all state utility regulatory commissions in the PJM Region by posting this filing electronically. In accordance with the Commission’s regulations, PJM will post a copy of this filing to the FERC filings section of its internet site, located at the following link: http://www.pjm.com/documents/ferc-manuals/ferc-filings.aspx with a specific link to the newly-filed document, and will send an e-mail on the same date as this filing to all PJM Members and all state utility regulatory commissions in the PJM Region alerting them that this filing has been made by PJM and is available by following such link. PJM also serves the parties listed on the Commission’s official service list for this docket. If the document is not immediately available by using the referenced link, the document will be available through the referenced link within 24 hours of the filing. Also, a copy of this filing will be available on the Commission’s eLibrary website located at the following link: http://www.ferc.gov/docs-filing/elibrary.asp in accordance with the Commission’s regulations and Order No. 714.

105 18 C.F.R. § 35.13(b).
106 See 18 C.F.R. § 35.13(b)(7).
107 See Pfrommer Testimony at 10-11.
108 See 18 C.F.R. §§ 35.2(e) and 385.2010(f)(3).
109 PJM already maintains, updates and regularly uses e-mail lists for all PJM Members and affected state commissions.
X. COMMUNICATIONS

Please direct all communications and service relating to this filing to the following individuals:

Krysia Kubiak  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219  
Tel: 412-393-6505  
kkubiak@duqlight.com

Michael J. Gergen  
David E. Pettit  
Latham & Watkins LLP  
555 Eleventh Street, NW, Suite 1000  
Washington, DC 20004  
Tel: 202-637-2200  
michael.gergen@lw.com  
david.pettit@lw.com

XI. CONCLUSION

For the reasons discussed above, Duquesne respectfully requests that the Commission accept for filing the proposed Attachment H-17C of the PJM Tariff to be effective June 1, 2013 without condition, modification, or a hearing.

Respectfully submitted,

/s/ Michael J. Gergen

Krysia Kubiak  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219

Michael J. Gergen  
David E. Pettit  
Latham & Watkins LLP  
555 Eleventh Street, NW, Suite 1000  
Washington, DC 20004

Attorneys for Duquesne Light Company
Attachment A

Revisions to Section(s) of the PJM Open Access Transmission Tariff

(Marked / Redline Format)
Each Network Customer that serves one or more end-use customers taking distribution service from Duquesne Light Company under its applicable retail tariff on file with the Pennsylvania Public Utility Commission (“Duquesne Electric Distribution Customers”) shall pay a Monthly Deferred Tax Adjustment Charge. The Monthly Deferred Tax Adjustment Charge shall be determined as follows:

\[ MDTAC = \$203,339 \times \frac{DCPL}{SDCPL} \]

Where:

- \( MDTAC \) = the Monthly Deferred Tax Adjustment Charge
- \( DCPL \) = the daily load of the Duquesne Electric Distribution Customers served by the Network Customer coincident with the annual peak of the Duquesne Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)
- \( SDCPL \) = the sum of the daily loads of all Duquesne Electric Distribution Customers coincident with the annual peak of the Duquesne Zone (as adjusted pursuant to Section 34.2 the PJM Tariff)
Attachment B

Revisions to Section(s) of the PJM Open Access Transmission Tariff

(Clean Format)
ATTACHMENT H-17C

Monthly Deferred Tax Adjustment Charge

Each Network Customer that serves one or more end-use customers taking distribution service from Duquesne Light Company under its applicable retail tariff on file with the Pennsylvania Public Utility Commission (“Duquesne Electric Distribution Customers”) shall pay a Monthly Deferred Tax Adjustment Charge. The Monthly Deferred Tax Adjustment Charge shall be determined as follows:

$$ MDTAC = \frac{203,339 \times DCPL}{SDCPL} $$

Where:

MDTAC = the Monthly Deferred Tax Adjustment Charge

DCPL = the daily load of the Duquesne Electric Distribution Customers served by the Network Customer coincident with the annual peak of the Duquesne Zone (as adjusted pursuant to Section 34.2 of the PJM Tariff)

SDCPL = the sum of the daily loads of all Duquesne Electric Distribution Customers coincident with the annual peak of the Duquesne Zone (as adjusted pursuant to Section 34.2 the PJM Tariff)
Attachment C

Testimony of Matthew L. Simpson
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Duquesne Light Company Docket No. ER13-___-000

PREPARED DIRECT TESTIMONY

OF

MATTHEW L. SIMPSON
Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
A. My name is Matthew L. Simpson. My business address is 411 7th Avenue, Pittsburgh, PA 15219.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
A. I am employed by Duquesne Light Company ("Duquesne" or the "Company") as its Senior Tax Manager. I have held this position since I joined Duquesne in May 2011.

Q. WHAT ARE YOUR DUTIES AS SENIOR TAX MANAGER?
A. In general, I oversee and manage Duquesne’s Tax Department, which is part of the Company’s Finance organization. I am responsible for ensuring the accuracy and completeness of the Company’s income tax provision for its financial statements and regulatory filings. I am also responsible for all tax compliance filings with the various taxing authorities as well as managing audit examinations.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?
A. I hold a Bachelor of Science Degree in Accounting from Penn State University as well as a Master of Science Degree in Taxation that I received from Robert Morris University in Pittsburgh.
Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I am a Certified Public Accountant and an active member of both the American Institute of Certified Public Accountants and Pennsylvania Institute of Certified Public Accountants. Prior to Duquesne, I held the position of Tax Director at dck worldwide holdings, Inc. and Dick Corporation in Pittsburgh, PA. Prior to this, I was a Tax Manager in the Pittsburgh office of Deloitte & Touche LLP, a public accounting firm where I managed compliance and advisory services for clients in various industries, including the energy, construction and manufacturing sectors. Prior to joining Deloitte, I held various audit and tax positions with two other national accounting firms located in Pittsburgh, PA.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide support for Duquesne’s request to recover a deferred income tax liability that is currently unfunded due to Duquesne’s transition in transmission ratemaking methodology with respect to the recovery of certain income taxes from a flow-through methodology to full normalization methodology pursuant to the Commission’s rules and regulations. I will explain how Duquesne accounted for the deferred tax liability created by the Pennsylvania Public Utility Commission’s (“PA PUC”) requirement that the benefit of certain tax timing differences be flowed through to retail ratepayers. I will then explain, through testimony and supporting exhibits, how Duquesne calculated the amount of the unfunded deferred income tax liabilities that resulted from the switch from income tax flow through to the Commission’s policy of full normalization in establishing public utility rates to be recovered through the proposed
Monthly Deferred Tax Adjustment Charge in the proposed new Attachment H-17C of the PJM Interconnection, L.L.C. Open Access Transmission Tariff (the “PJM Tariff”).

Q. PLEASE DESCRIBE THE DIFFERENCE BETWEEN USING A FLOW-THROUGH METHODOLOGY AND NORMALIZATION WITH RESPECT TO CERTAIN INCOME TAX BENEFITS.

A. By using a flow-through methodology with respect to income taxes, a regulated utility’s actual (current) tax liabilities for a given year are used to establish the amount it may recover in rates for that year. With respect to the tax benefits associated with accelerated depreciation, the use of the flow-through methodology means that the income tax liability recovered in utility rates is initially lowered and then increases in later years. At first, the lower income tax liability reduces the utility’s cost-of-service and lowers its rates. However, when the timing benefit reverses several years later, the utility’s cost-of-service increases and its rates increase as well.

With normalization, a utility calculates taxes for ratemaking purposes as if it were taking depreciation on a straight-line basis even though its actual tax liabilities are calculated using accelerated depreciation. Normalization effectively smooths out the swing in rates that would be associated with accelerated depreciation under a flow-through methodology so that future ratepayers do not bear the cost of the tax benefit that previous ratepayers received. The differences between revenue collected and taxes paid in a given year created by normalization are reflected in a deferred tax reserve that is later drawn upon as the timing benefits of accelerated depreciation reverse in later years. This deferred tax reserve should therefore offset the future tax liability anticipated in connection with the amortization of the remaining useful life of the utility’s plant.
Q. WHEN DID DUQUESNE USE THE FLOW-THROUGH METHOD TO DETERMINE ITS RECOVERABLE INCOME TAXES FOR RATERMAKING PURPOSES?

A. In Pennsylvania, utility rates historically have been set based on the flow through method pursuant to the “actual taxes paid” doctrine except where federal income tax law requires normalization of tax benefits (the “PA PUC Flow-Through Requirement”). In accordance with the PA PUC Flow-Through Requirement, Duquesne flowed through certain income tax benefits associated with accelerated depreciation and other income tax timing differences to the rates of its retail customers. Accordingly, Duquesne’s income tax allowance in its rates was lower than it otherwise would have been under a full normalization ratemaking methodology. Consistent with the flow-through methodology, it was expected and understood that once the timing differences reversed, continued use of the flow-through method would result in a higher income tax expense that would be recovered from ratepayers as the benefits of the timing differences were exhausted. Duquesne continued to use the flow-through method for state and certain federal income taxes for ratemaking purposes until December 1, 2006, the effective date of Duquesne’s transmission formula rate in Attachment H-17A of the PJM Tariff. See Duquesne Light Co., 123 FERC ¶ 61,139 (2008).

Q. HOW DID DUQUESNE RECORD ITS DEFERRED INCOME TAXES THAT RESULTED UNDER THE PA PUC FLOW-THROUGH REQUIREMENT?

A. Prior to 1992, Duquesne recorded deferred income taxes in accordance with Accounting Principles Board Opinion No. 11, Accounting for Income Taxes (“APB 11”). The deferred method used in APB 11 places an emphasis on the income statement and focuses
on the matching of revenues and expenses for the years in which those expenses and
revenues were realized. Following the deferred method’s and APB 11’s emphasis on
matching revenues and expenses, through 1992, Duquesne did not record deferred
income tax expense applicable to revenue items that received flow-through treatment in
ratemaking. This practice continued until Duquesne adopted the Financial Accounting
Standard Board’s Statement of Accounting Standards No. 109, Accounting for Income
Taxes (“SFAS 109”) after it was issued in 1992.

Q. HOW DID DUQUESNE’S ACCOUNTING FOR INCOME TAXES CHANGE
AFTER SFAS 109 WAS ISSUED?

A. Duquesne’s adoption of SFAS 109 in January 1993 required a change from the deferred
method to the asset and liability method of accounting for income taxes. Using the asset
and liability method, deferred income tax assets and liabilities are recognized to reflect
the tax consequences of temporary differences in the timing of recovery. To comply with
SFAS 109, Duquesne determined the tax benefits associated with the production,
distribution and transmission assets that previously flowed through to customers and
recorded an increase in its deferred tax liability in Account 283. Prior to the adoption of
SFAS 109, Duquesne recorded certain costs in electric plant in service net of taxes.
Because SFAS 109 eliminated “net of tax” accounting, the adoption of SFAS 109 also
resulted in an increase in its Electric Plant in Service in Account 101. SFAS 109 stated
that regulated enterprises that meet the criteria for application of Statement of Accounting
Standards No. 71, Accounting for the Effects of Certain Types of Regulation (“SFAS
71”), are not exempt from the requirements of SFAS 109. SFAS 71 indicated that if, as a
result of an action by a regulator, it is probable that the future increase or decrease in
taxes payable will be recovered from or returned to customers through future rates, an asset or liability shall be recognized for that probable future revenue or reduction in future revenue and that asset or liability also shall be a temporary difference for which a deferred tax liability or asset shall be recognized. In accordance with SFAS 71, Duquesne also recorded an asset in Account 186 (Miscellaneous Deferred Debits) to recognize the probable recovery through the ratemaking process of the future increased taxes that Duquesne expected to incur under the PA PUC Flow-Through Requirement. The actual journal entry recorded upon the adoption of SFAS 109 was as follows (in thousands):

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>186</td>
<td>Miscellaneous Deferred Debits</td>
<td>$550,000</td>
<td></td>
</tr>
<tr>
<td>101</td>
<td>Electric Plant in Service</td>
<td>$150,000</td>
<td></td>
</tr>
<tr>
<td>283</td>
<td>Accumulated Deferred Income Taxes-Other</td>
<td></td>
<td>$700,000</td>
</tr>
</tbody>
</table>

The above journal entry included amounts applicable to production and distribution assets, as well as to transmission assets, as of January 1993. In complying with the Commission’s issuance of Order No. 552 and the creation of Account 182.3 (Other Regulatory Assets) in March 1993, effective December 1993, Duquesne moved the balance of regulatory assets in Account 186 to Account 182.3. The balance of regulatory assets moved from Account 186 to Account 182.3 included the deferred tax liability that had accrued under the PA PUC Flow-Through Requirement. The actual journal entry which recorded that transfer was as follows (in thousands):
<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>182.3</td>
<td>Other Regulatory Assets</td>
<td>$792,125</td>
<td></td>
</tr>
<tr>
<td>186</td>
<td>Miscellaneous Deferred Debits</td>
<td></td>
<td>$792,125</td>
</tr>
</tbody>
</table>

Again, the above journal entries aggregate amounts applicable to production, distribution, and transmission assets as of December 1993. Once Duquesne moved the balance of regulatory assets to Account 182.3, the annual changes in transmission-related deferred tax liability resulting from the PA PUC Flow-Through Requirement, plus a tax gross-up, or tax-on-tax, required to yield the total revenue that will be required when the timing differences reverse, were recorded in Account 182.3.

Q. TO WHAT INCOME TAX TIMING DIFFERENCES DID THE PA PUC FLOW-THROUGH REQUIREMENT APPLY?

A. Under the PA PUC Flow-Through Requirement and consistent with regulatory and financial reporting, the income tax and thus rate-reducing benefits of the following items were flowed through to current ratepayers: (1) the state tax effect of timing differences related to book versus state tax method and life depreciation differences on all vintaged property; (2) the federal tax effect of the cumulative timing differences related to book versus federal tax method and life depreciation differences on pre-1971 vintaged property before the adoption of Class Life Asset Depreciation Range (“CLADR”); (3) the federal tax effect of the cumulative timing differences related to the book versus federal tax life on vintage property during tax years 1971 through 1980, prior to adoption of the Accelerated Cost Recovery System (“ACRS”) / Modified Accelerated Cost Recovery
System (“MACRS”); (4) the federal and state income tax effects associated with basis
differences between ratemaking balances and the income tax basis of plant; and (5) the
federal and state tax effects of timing differences related to the book versus tax treatment
of cost of removal and salvage. As a result of flowing through these tax benefits, higher
future income tax allowances would have been necessary to recover Duquesne’s tax
expense in its transmission revenue requirement once benefits of the timing differences
were exhausted. If Duquesne had continued to determine its transmission revenue
requirement in accordance with the PA PUC Flow-Through Requirement, its
transmission revenue requirement would have increased to recover the actual taxes paid.

Q. HOW DID THE IMPLEMENTATION OF DUQUESNE’S TRANSMISSION
FORMULA RATE AFFECT THE ACCOUNTING OF ITS DEFERRED TAX
LIABILITY THAT ACCRUED UNDER THE PA PUC FLOW-THROUGH
REQUIREMENT?

A. As explained in the direct testimony of Mr. Pfrommer, under the formula rate, Duquesne
implemented full normalization as required by the Federal Energy Regulatory
Commission (“FERC” or the “Commission”) to determine its allowable income tax
expense. However, Duquesne did not initially make a corresponding change in its
accounting to reflect this change. Duquesne identified the mismatch between its
accounting and ratemaking methodology in 2011 and made the necessary changes to
correct it. At that time, Duquesne also determined that as a result of the conversion to
full normalization from the flow-through method, it would not recover fully its deferred
tax liability with respect to its transmission assets under its formula rate because its future
rates under full normalization would not recover the higher actual taxes it will pay and which it would have recovered from ratepayers under the flow-through method.

Q. WHAT STEPS DID DUQUESNE TAKE TO CORRECT THE MISMATCH BETWEEN ITS ACCOUNTING AND RATEMAKING METHODOLOGY?

A. Duquesne corrected the mismatch between its accounting and ratemaking methodology in 2011. Duquesne also recorded the following to reflect amounts that should have been recorded as deferred income tax expense on its income statement after the implementation of the formula rate through December 2010 (in thousands):

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>410.1</td>
<td>Provision for Deferred Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>411.1</td>
<td>Provision for Deferred Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>283</td>
<td>Accum. Deferred Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>182.3</td>
<td>Other Regulatory Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>282</td>
<td>Accum. Deferred Income</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Debits/(Credits) in the above journal entry include amounts applicable to transmission-related assets and also aggregate the deferred income tax expenses applicable from 2007 to 2010. The deferred tax expenses applicable to the individual
years were (in thousands): ($1,036) (2007), $655 (2008), $885 (2009) and $366 (2010).

Duquesne also made comparable adjustments within Account 282 (Accumulated Deferred Income Taxes—Other Property) for the years in question to reflect the increase in transmission-related accumulated deferred income tax. The accounting described here was reflected in Duquesne’s 2011 FERC Form No. 1.

Q. DID THE ACCOUNTING CHANGES NECESSARY TO CORRECT THE MISMATCH BETWEEN DUQUESNE’S ACCOUNTING AND RATEMAKING METHODOLOGY AFFECT THE FORMULA RATE’S DETERMINATION OF TRANSMISSION RATES?

A. Yes. However, the effect on Duquesne’s transmission rates is extremely small. The accounting changes affected Account 282 (Accumulated Deferred Income Taxes—Other Property), which is used to determine Duquesne’s Accumulated Deferred Income Taxes (“ADIT”) in Attachment 1 to the formula rate. ADIT then is deducted from Duquesne’s rate base at line 34 of Appendix A to the formula rate template. The correction of the accounting and ratemaking methodology mismatch results in a decrease in the Account 282 ADIT balance for 2007, and an increase in the Account 282 ADIT balances for 2008-2010. If the correct amounts had been recorded in those years, the rates computed under the formula rate for the following years (i.e., the rates taking effect on June 1, 2008 through June 1, 2011) would have been affected because the formula rate template is populated with data from the previous year’s FERC Form No. 1. The decrease in the Account 282 ADIT balance for 2007 would have resulted in slightly higher rates in 2008. If the correct amount in the Account 282 ADIT balances had been recorded in 2008-2010, the rates for 2009-2011 would have been slightly lower. In his direct testimony,
Mr. Pfrommer explains that none of the changes, however, would exceed 0.2% of Duquesne’s current Net Zonal Revenue Requirement and that Duquesne will implement the changes to the data inputs from these years as part of its 2013 formula rate update and refund any overcharges as appropriate.

Q. **HOW DID DUQUESNE DETERMINE THE AMOUNT OF UNFUNDED TRANSMISSION TAX LIABILITY THAT RESULTED FROM THE SWITCH FROM FLOW-THROUGH TO FULL NORMALIZATION?**

A. As described in more detail below, Duquesne continuously recorded in Account 182.3 its deferred tax liability resulting from the PA PUC Flow-Through Requirement, plus a tax gross-up required to yield the total revenue that will be required when the timing differences reverse. However, that is not the only item that has been recorded in Account 182.3. The amount in Account 182.3 reported in FERC Form No. 1 also includes other regulatory assets that are associated with distribution, transmission, and general and intangible plant (“G&I”) and that are unrelated to the transmission-related deferred tax liability resulting from the PA PUC Flow-Through Requirement. Therefore, to determine the precise amount of unfunded transmission-related deferred tax liability recorded in Account 182.3 as of the time Duquesne switched to full normalization upon the implementation of its formula transmission rate on December 1, 2006, Duquesne applied the *South Georgia* Method.

Q. **WHAT IS THE *SOUTH GEORGIA* METHOD?**

A. The *South Georgia* Method is a methodology accepted by the Commission that utilities have used after switching from flow-through to normalization to determine the appropriate “make-up” adjustment to ensure that the future reversal of timing differences
that were created before the conversion to full normalization will not cause an under- or
over-recovery of income tax expenses. In general, the South Georgia Method calculates
the appropriate “make-up” adjustment based on the difference between a utility’s total
future deferred tax liability under normalization as of the date of conversion and the
amount of deferred taxes previously recorded under flow-through. The result of the
calculation is amortized over the remaining life of the relevant assets. In Order No. 144,
in which the Commission adopted full normalization, it highlighted the South Georgia
Method as a mechanism utilities may use to correct for future tax liabilities that are
unfunded because of the switch from flow-through to normalization.

Q. HOW WAS THE SOUTH GEORGIA METHOD USED TO CALCULATE
DUQUESNE’S UNFUNDED TRANSMISSION TAX LIABILITY THAT
RESULTED FROM THE SWITCH FROM FLOW-THROUGH TO FULL
NORMALIZATION?

A. In Exhibit No. DLC-101 attached to my testimony, Duquesne presents the South Georgia
Method computation performed to calculate Duquesne’s unfunded transmission-related
tax liability that resulted from the switch from flow-through to full normalization
(“Transmission Regulatory Asset To Be Recovered”). In general, the South Georgia
Method computation consists of the following three basic steps:

- Step One: Determine the tax impact of the difference between the book and
tax basis calculated using full normalization as of the date of conversion to the
normalization under the formula rate (“Total Future Deferred Tax
Liabilities”);
• Step Two: Determine the deferred taxes recorded in Account 282 under the PA PUC Flow-Through Requirement prior to the conversion to full normalization under the formula rate (“Deferred Taxes Recorded Under Flow-Through”); and

• Step Three: Subtract the Deferred Taxes Recorded Under Flow-Through from the Total Future Deferred Tax Liabilities to determine the deferred tax difference between normalization and flow-through and add a tax-on-tax component to account for the fact that the additional revenue required to recover the additional tax expense will also be taxed as income (“Taxes Recoverable Through Future Rates”).

Exhibit No. DLC-101 presents the three steps of the South Georgia Method computation for all of the functions of Duquesne. Therefore, after the South Georgia Method computation in Exhibit No. DLC-101, the following two additional steps shown in Exhibit No. DLC-103 were performed to isolate the unfunded transmission-related deferred tax liability: (1) functionalize a portion of the G&I component of Taxes Recoverable Through Future Rates to transmission using a wages and salary allocator; and (2) combine the transmission component of Taxes Recoverable Through Future Rates and the functionalized portion of the G&I component of Taxes Recoverable Through Future Rates to determine the Transmission Regulatory Asset To Be Recovered.

Q. HOW DID YOU DETERMINE THE AMOUNTS TO BE ASSIGNED TO EACH OF DUQUESNE’S SEPARATE FUNCTIONS IN EXHIBIT NO. DLC-101?

A. The total amounts in columns a and b are functionally assigned to transmission, G&I and distribution. These functional assignments are based on Duquesne’s records that are
maintained pursuant to the Commission’s Uniform System of Accounts and as reported
by Duquesne’s tax depreciation and deferred tax software, PowerTax. PowerTax is a
widely used and trusted tax software system that Duquesne uses to compute, record, and
track its tax treatment of its plant assets and related deferred taxes and is the Company’s
subledger used to record the deferred tax balances within the Company’s financial
statements and FERC Form No. 1.

Q. WHAT IS THE SOURCE OF THE BOOK AND TAX BASIS BALANCE AND
RESERVE INPUTS THAT ARE USED IN STEP ONE OF THE SOUTH GEORGIA
METHOD COMPUTATION IN EXHIBIT NO. DLC-101?

A. The book basis balance and reserve amounts shown on Lines 4, 5, 11, and 12 of Exhibit
No. DLC-101 were recorded pursuant to the Commission’s Uniform System of Accounts
and reported in the December 2006 FERC Form No. 1. The tax basis balance and reserve
amounts shown on Lines 1, 2, 8, and 9 are based on Duquesne’s company records that are
maintained pursuant to the Commission’s Uniform System of Accounts and reported by
Duquesne’s tax depreciation and deferred tax software, PowerTax. The tax basis
balances reported by PowerTax and reflected on Exhibit No. DLC-101, Line 1, 2, 8 and 9
reflect 2006 amounts reconciled to the Company’s 2006 filed income tax returns. The
book and estimated tax basis balance and reserve amounts were used in the calculation of
Duquesne’s regulatory asset, Taxes Recoverable Through Future Rates, recorded in
Account 182.3. The Taxes Recoverable Through Future Rates regulatory asset appears
on Line 23 of Exhibit No. DLC-101 and corresponds with the Regulatory Asset reported
in Duquesne’s 2006 FERC Form No. 1, page 232, line 1, column f, as reconciled by
Duquesne’s 2007 FERC Form No. 1. Exhibit No. DLC-105 shows in detail the
reconciliation of the 2006 and 2007 FERC Form No. 1 data and that it corresponds with
the Taxes Recoverable Through Future Rates regulatory asset.

Q. WHY DID DUQUESNE RELY ON DATA FROM 2006 IN ITS SOUTH GEORGIA
METHOD COMPUTATION?

A. Duquesne relied upon 2006 data in its South Georgia Method computation because its
formula rate became effective in 2006. Also, as I explained before, Duquesne’s
accounting for timing differences continued to reflect flow-through treatment throughout
2006, even though Duquesne’s conversion to full normalization ratemaking became
effective on December 1, 2006. Thus, the data used to determine the inputs to the South
Georgia Method computation I described above represent the book and tax basis
differences utilized in Duquesne’s December 2006 calculation of Taxes Recoverable
Through Future Rates reported in Duquesne’s 2006 FERC Form No. 1 at page 232, line
1, column f, as reconciled by Duquesne’s 2007 FERC Form No. 1, which were applicable
during the year of the implementation of Duquesne’s formula rate and the conversion to
full normalization. The use of the 2006 data is also consistent with the method used to
allocate a portion of the G&I component of Taxes Recoverable Through Future Rates to
transmission. As shown on Line 3 in Exhibit No. DLC-103, the wages and salaries
allocator from the 2006 FERC Form No. 1 was used to allocate the appropriate amount of
the G&I component to transmission.

Q. WHAT DO THE COLUMNS IN EXHIBIT NO. DLC-101 REPRESENT?

A. Columns a and b represent the totals for each line across all of Duquesne’s functions –
transmission, G&I, and distribution. Columns c and d represent the amounts for each
line that is attributable to transmission plant. Columns e and f represent the amounts for
each line that is attributable to G&I. Columns g and h represent the amounts for each line that is attributable to distribution. None of the distribution amounts are included in the Transmission Regulatory Asset to be Recovered. Thus only columns c through f were included in the calculation of the Transmission Regulatory Asset to be Recovered.

Q. FOR STEP ONE, WHAT DOES EACH LINE IN EXHIBIT NO. DLC-101 REPRESENT?

A. Step One of the *South Georgia* Method, which calculates the Total Future Deferred Tax Liabilities, is shown on Lines 1 through 18 of Exhibit No. DLC-101. As I explained before, the book basis balance and reserve amounts shown on Lines 4, 5, 11, and 12 of Exhibit No. DLC-101 corresponds to transmission and G&I plant balances reported in the 2006 FERC Form No. 1. The tax balance and reserve amounts shown on Lines 1, 2, 8, and 9 represent final 2006 amounts as reported by PowerTax. Lines 1 through 7 represent the calculation of the federal net book and net tax basis difference, and Lines 8 through 14 represent the calculation of the state net book and net tax basis difference. The federal net book and net tax basis difference on Line 7 is then multiplied by the currently effective federal tax rate on Line 15 to determine Future Federal Tax Liability. Similarly, the state net book and net tax basis difference on Line 14 is multiplied by the currently effective state tax rate on Line 16 to determine Future State Tax Liability. The adjustment for the deductibility of state taxes from federal taxable income is represented by the Future Federal Benefit of State on Line 17. Currently effective tax rates were used to calculate future tax liability on Lines 15 through 17 because future rates are unknown at this time, and the currently effective tax rates are the only reasonable proxy.
The sum of Lines 15 through 17 is the Total Future Deferred Tax Liabilities in Line 18. As I explained above, this amount represents the tax impact of the difference between the book and tax basis calculated using full normalization as of the date of conversion to the normalization under the formula rate.

Q. FOR STEP TWO, PLEASE DESCRIBE WHAT EACH LINE IN EXHIBIT NO. DLC-101 REPRESENTS.

A. Step Two of the South Georgia Method, which calculates the Deferred Taxes Recorded Under Flow-Through, is represented by Line 19 (Total Federal & State Deferred Taxes Recorded). As Exhibit No. DLC-101 indicates, the inputs to Deferred Taxes Recorded Under Flow-Through are from Account 282. The transmission and G&I balances recorded in Account 282 inputs to Line 19 are taken from PowerTax. As shown in Exhibit No. DLC-102, the Deferred Taxes Recorded Under Flow-Through related to transmission and G&I consist of ACRS and MACRS federal method and life differences and net basis adjustments. The totals on Line 2, columns a and b on Exhibit No. DLC-102, are the same amounts used on Line 19 of Exhibit No. DLC-101 at columns d and f, respectively.

Q. FOR STEP THREE, PLEASE DESCRIBE WHAT EACH LINE IN EXHIBIT NO. DLC-101 REPRESENTS.

A. Step Three of the South Georgia Method, which calculates the Taxes Recoverable Through Future Rates, is shown on Lines 20 through 23 of Exhibit No. DLC-101. Line 20 shows the difference between the Total Future Deferred Tax Liabilities calculated in Step One and the Deferred Taxes Recorded Under Flow-Through calculated in Step Two. This difference represents the shortfall that results from the conversion from flow-
through to full normalization. To negate that shortfall, Line 21 reverses the sign of the amount in Line 20, yielding the Taxes Recoverable Through Future Rates (Excluding Tax Gross-up). Line 22 shows the Tax Gross-up amount that must be added because as the taxes are recovered in future rates, the amount recovered becomes taxable income. Currently effective tax rates were used to calculate the Tax Gross-up, rather than rates in effect when the unfunded tax liability was accumulated, because the additional taxable income that will be realized will be taxed at the rate in effect at the time. Even if Duquesne had continued to follow the PA PUC Flow-Through Requirement, as the timing differences reversed, the amount recovered through rates would have been taxed at the rate in effect at that time. Because future rates are unknown at this time, the currently effective tax rates are the only reasonable proxy.

Line 23 represents the sum of transmission-related and G&I plant related Taxes Recoverable Through Future Rates including the Tax Gross-up and, thus, the Taxes Recoverable Through Future Rates that are recorded in Account 182.3. However, the G&I balance of Taxes Recoverable Through Future Rates must be allocated to the transmission-related function to determine the Transmission Regulatory Asset To Be Recovered.

Q. **HOW DID YOU ISOLATE THE TRANSMISSION REGULATORY ASSET TO BE RECOVERED THAT IS PART OF TOTAL TAXES RECOVERABLE THROUGH FUTURE RATES?**

A. As I explained above, by functionalizing transmission and G&I based on amounts recorded pursuant to the Uniform System of Accounts and as reported by Duquesne in PowerTax, the transmission component of Taxes Recoverable Through Future Rates and
the G&I component of Taxes Recoverable Through Future Rates were separately
identified. As shown on Line 23, columns d and f of Exhibit No. DLC-101, the
transmission and G&I components are $74,914,640 and $10,247,479, respectively.
However, only a portion of G&I plant is attributable to Duquesne’s FERC-jurisdictional
transmission facilities. Therefore, a portion of the G&I component of Taxes Recoverable
Through Future Rates was allocated to transmission using a wages and salary allocator.
More specifically, in order to be consistent with the use of 2006 data throughout the
South Georgia Method computation, the 7.10076% wages and salaries allocator from the
2006 FERC Form No. 1 was used to functionalize the appropriate amount of the G&I
component to transmission. Duquesne’s formula rate also used the wages and salaries
allocator to allocate G&I plant to transmission. The allocated G&I component of Taxes
Recoverable Through Future Rates is $727,649 and is shown on Line 4 of Exhibit No.
DLC-103.

Finally, the last step to determine the Transmission Regulatory Asset To Be
Recovered involved merely adding the transmission component of Taxes Recoverable
Through Future Rates ($74,914,640 in Line 23, column d of Exhibit No. DLC-101 and
Line 1 of Exhibit No. DLC-103) to the allocated G&I component of Taxes Recoverable
Through Future Rates ($727,649 in Line 4 of Exhibit No. DLC-103) for a total of
$75,642,289 in Line 5 of Exhibit No. DLC-103. This $75.6 million was recorded in
Account 182.3 and represents the tax benefit flowed through to customers that would
have been recovered through transmission rates in later years if Duquesne continued to
follow the PA PUC Flow-Through Requirement.
Q. HOW WILL DUQUESNE CALCULATE THE MONTHLY AMOUNT OF THE AMORTIZATION OF THE TRANSMISSION REGULATORY ASSET TO BE RECOVERED THROUGH THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE IN THE PROPOSED ATTACHMENT H-17C?

A. Consistent with the *South Georgia* Method, Duquesne proposes a Monthly Deferred Tax Adjustment Charge in the proposed Attachment H-17C to recover the amount of the Transmission Regulatory Asset To Be Recovered, $75,642,289, over a fixed period equivalent to the remaining useful life of the assets which generated the tax timing differences. Although the Transmission Regulatory Asset To Be Recovered was generated by tax timing differences for transmission and G&I, Duquesne proposes to use only the longer-lived transmission assets (which generated by far the largest portion of the transmission-related tax timing differences) to determine the amortization period. The amortization period was determined by dividing Duquesne’s net transmission plant at the time its transmission formula rate was implemented in 2006 by Duquesne’s 2006 transmission plant depreciation expense. Both figures were obtained from Duquesne’s FERC Form No. 1 for 2006.

The result of the calculation described above is 30.33 years, which, as shown in Exhibit No. DLC-104, is rounded up to 31 years. Dividing the Transmission Regulatory Asset To Be Recovered by the 31-year amortization period yields an annual recovery amount of $2,440,074 (“Annual Amortized Regulatory Asset To Be Recovered”) and a monthly amount of $203,339 (“Monthly Amortized Regulatory Asset To Be Recovered”) to be recovered through the proposed Monthly Deferred Tax Adjustment Charge as discussed in the direct testimony of Mr. Pfommer.
Q. DOES THIS CONCLUDE YOUR TESTIMONY?
A. Yes.
Duquesne Light Corporation  
Computation of Taxes Recoverable Through Future Rates  
December 31, 2006

STEP ONE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Tax Basis Balance</td>
<td>2,587,097,930</td>
<td>413,992,251</td>
<td>453,268,067</td>
<td>1,719,837,612</td>
</tr>
<tr>
<td>Less: Federal Tax Reserve</td>
<td>(1,754,043,860)</td>
<td></td>
<td>(314,886,741)</td>
<td>(326,567,929)</td>
</tr>
<tr>
<td>Net Federal Tax Basis Balance</td>
<td>833,054,070</td>
<td>99,105,510</td>
<td>126,700,138</td>
<td>(1,112,589,190)</td>
</tr>
<tr>
<td>Book Basis Balance</td>
<td>2,316,785,511</td>
<td>371,959,371</td>
<td>268,000,773</td>
<td>1,676,825,367</td>
</tr>
<tr>
<td>Less: Book Reserve</td>
<td>(752,450,263)</td>
<td>(126,020,495)</td>
<td>(74,880,567)</td>
<td>(551,549,201)</td>
</tr>
<tr>
<td>Net Book Balance</td>
<td>1,564,335,248</td>
<td>245,938,876</td>
<td>193,120,206</td>
<td>1,125,276,166</td>
</tr>
</tbody>
</table>

B. Reconciliation of State Net Book/Net Tax

| State Tax Basis Balance                    | 2,587,097,930             | 413,992,251                      | 453,268,067                             | 1,719,837,259                 |
| Less: State Tax Basis Reserve             | (1,753,230,516)           |                                 | (314,793,139)                          | (326,401,392)               |
| Net State Tax Basis Balance               | 833,867,414               | 99,199,112                      | 126,867,028                            | (1,112,035,985)             |
| Book Basis Balance                         | 2,316,785,511             | 371,959,371                      | 268,000,773                            | 1,676,825,367                |
| Less: Book Basis Reserve                  | (752,450,263)             | (126,020,495)                    | (74,880,567)                           | (551,549,201)               |
| Net Book Balance                           | 1,564,335,248             | 245,938,876                      | 193,120,206                            | 1,125,276,166               |
| State Net Book Basis Less Net Tax Basis   | (730,467,834)             | (146,739,764)                    | (66,253,178)                           | (517,474,892)               |

C. Reconciliation of Prior Flow Through

| Future Federal Tax Liability @ 35%        | (255,948,412)             |                                 | (23,247,024)                          | (181,309,710)               |
| Future State Tax Liability @ 9.99%       | (72,973,737)              | (14,659,302)                     | (6,618,692)                            | (51,695,742)                |
| Future Federal Benefit of State @ 35%    | 25,540,808                |                                 | 2,316,542                             | 18,093,510                  |
| Total Future Deferred Tax Liabilities    | (303,381,341)             | (60,920,225)                     | (27,549,174)                           | (214,911,943)               |

STEP TWO

<table>
<thead>
<tr>
<th>Total Federal &amp; State Deferred Taxes Recorded (Acct 282)</th>
<th>(9,259,503)</th>
<th>(166,962,841)</th>
<th>(17,090,291)</th>
<th>(21,553,732)</th>
<th>(128,318,817)</th>
</tr>
</thead>
</table>

STEP THREE

<table>
<thead>
<tr>
<th>Deferred Tax Difference between Normalization and Flow-Through</th>
<th>(136,418,500)</th>
<th>(43,829,934)</th>
<th>(5,995,442)</th>
<th>(86,593,125)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Recoverable Through Future Rates (Excluding Tax Gross-up)</td>
<td>136,418,500</td>
<td>43,829,934</td>
<td>5,995,442</td>
<td>86,593,125</td>
</tr>
<tr>
<td>Tax Gross-up</td>
<td>96,749,610</td>
<td>31,084,706</td>
<td>4,252,038</td>
<td>61,412,866</td>
</tr>
<tr>
<td>Taxes Recoverable Through Future Rates</td>
<td>$233,168,110</td>
<td>$74,914,640</td>
<td>$10,247,479</td>
<td>$148,005,991</td>
</tr>
</tbody>
</table>

* General Balance of Taxes Recoverable allocated to Transmission property based on wage and salary allocator. See Exhibit No. DLC-103
## Duquesne Light Corporation
### Accumulated Deferred Taxes Recorded
#### December 31, 2006

<table>
<thead>
<tr>
<th>Account 282</th>
<th>Source</th>
<th>a Transmission</th>
<th>b General</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Property Related Federal Method/Life Deferreds</td>
<td>DLC 12/31/2006 PowerTax</td>
<td>$ (17,090,291)</td>
<td>$ (21,553,732)</td>
</tr>
<tr>
<td>2 Total (Account 282)</td>
<td></td>
<td>$ (17,090,291)</td>
<td>$ (21,553,732)</td>
</tr>
<tr>
<td>Source</td>
<td>Description</td>
<td>Source Code/Line/Column</td>
<td>Amount</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>1 Transmission Taxes Recoverable Through Future Rates (Acct 182.3)</td>
<td>Exh. DLC-101, Line 23, Col d</td>
<td></td>
<td>$ 74,914,640</td>
</tr>
<tr>
<td>2 G&amp;I Taxes Recoverable Through Future Rates (Acct 182.3)</td>
<td>Exh. DLC-101, Line 23, Col f</td>
<td></td>
<td>$ 10,247,479</td>
</tr>
<tr>
<td>3 Wages and Salaries Allocator</td>
<td>DLC 2006 Formula Rate Update Line 90</td>
<td></td>
<td>7.10076%</td>
</tr>
<tr>
<td>4 Allocated G&amp;I Taxes Recoverable Through Future Rates</td>
<td>Line 3 x Line 2</td>
<td></td>
<td>$ 727,649</td>
</tr>
<tr>
<td>5 Transmission Regulatory Asset To Be Recovered</td>
<td>Line 1 + Line 4</td>
<td></td>
<td>$ 75,642,289</td>
</tr>
</tbody>
</table>

Duquesne Light Corporation
Transmission Regulatory Asset To Be Recovered
December 31, 2006
### Duquesne Light Corporation
#### Computation of the Monthly Deferred Tax Adjustment Charge

<table>
<thead>
<tr>
<th>Source</th>
<th>Description</th>
<th>Code</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Transmission Plant in Service as of December 31, 2006</td>
<td>2006 Form No. 1, p. 207, line 58g</td>
<td>$ 371,959,371</td>
<td></td>
</tr>
<tr>
<td>2 Transmission Accumulated Depreciation</td>
<td>2006 Form No. 1, p. 219, line 25c</td>
<td>(126,020,495)</td>
<td></td>
</tr>
<tr>
<td>3 Transmission Net Plant in Service as of December 31, 2006</td>
<td></td>
<td>$ 245,938,876</td>
<td></td>
</tr>
<tr>
<td>4 2006 Transmission Depreciation Expense</td>
<td>2006 Form No. 1, p. 336, line 7f</td>
<td>8,107,999</td>
<td></td>
</tr>
<tr>
<td>5 Avg Remaining Book Useful Life in Years</td>
<td>Line 3 / Line 4</td>
<td>30.33</td>
<td></td>
</tr>
<tr>
<td>6 Avg Remaining Book Useful Life in Years (Rounded up)</td>
<td></td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>7 Transmission Regulatory Asset To Be Recovered</td>
<td>Exhibit No. DLC-103, Line 5</td>
<td>$ 75,642,289</td>
<td></td>
</tr>
<tr>
<td>8 Annual Amortized Regulatory Asset To Be Recovered</td>
<td>Line 5 / Line 4</td>
<td>$ 2,440,074</td>
<td></td>
</tr>
<tr>
<td>9 Monthly Amortized Regulatory Asset To Be Recovered</td>
<td>Line 7 / 12</td>
<td>$ 203,339</td>
<td></td>
</tr>
</tbody>
</table>
# Reconciliation of Total Company Regulatory Asset to FERC Form 1

<table>
<thead>
<tr>
<th>Source</th>
<th>Source Description</th>
<th>Line/Column</th>
<th>Amount ($)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>2006 Regulatory Asset True Up Within 2007 FERC Form 1 (Debit)</td>
<td>2007 Form No. 1, p. 232, line 1c</td>
<td>8,537,469</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>2006 Regulatory Asset True Up Within 2007 FERC Form 1 (Credit)</td>
<td>2007 Form No. 1, p. 232, line 1e (Partial)</td>
<td>(21,008)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Taxes Recoverable Through Future Rates</td>
<td>DLC-101, Total Balance Line 23 (Line 1 + Line 2 + Line 3)</td>
<td>$ 233,168,110</td>
<td></td>
</tr>
</tbody>
</table>

$ 233,168,110
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Duquesne Light Company

Docket No. ER13-___-000

AFFIDAVIT

I, the undersigned, being duly sworn, do depose and say, that the Prepared Direct Testimony of Matthew L. Simpson is the testimony of the undersigned, and that the statements contained herein and the exhibits sponsored by me are true, correct, accurate and complete to the best of my knowledge, information and belief, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

Matthew L. Simpson
Senior Tax Manager
Duquesne Light Company

Subscribed and Sworn to before me this 13th day of April 2013.

Notary Public
My Commission expires: 

PAMELA L. GINN
Wary Public
PITTBRITTEN, ALLEGHENY COUNTY
Commission Enka Jan 9, 2017

Exhibit No. DLC-100
Attachment D

Testimony of
William V. Pfrommer
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

) Duquesne Light Company ) Docket No. ER13-___-000 )

PREPARED DIRECT TESTIMONY

OF

WILLIAM V. PFROMMER
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Duquesne Light Company

Docket No. ER13-___-000

PREPARED DIRECT TESTIMONY
OF
WILLIAM V. PFROMMER

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
A. My name is William V. Pfrommer. My business address is Duquesne Light Company,
   411 Seventh Avenue, Pittsburgh, PA 15219.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?
A. I am employed by Duquesne Light Company (“Duquesne” or “Company”) as the
   Manager, Rates and Tariff Services. I have held this position since 2007.

Q. WHAT ARE YOUR DUTIES AS MANAGER, RATES AND TARIFF SERVICES?
A. I am responsible for overseeing the Company’s retail rates and wholesale transmission
   rates, which includes supervising the implementation of the changes to the transmission
   rates proposed in this proceeding. In addition, it is my responsibility to ensure the rates
   are properly applied to customer bills.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?
A. I received a Bachelor of Science Degree in Mechanical Engineering from Grove City
   College in 1978 and a Masters in Business Administration from the University of
   Pittsburgh in 1989. I am a licensed professional engineer in the Commonwealth of
   Pennsylvania.
Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I was employed by Westinghouse Air Brake Company in 1978 and performed various duties as a staff engineer. I began my career at Duquesne in 1982 as a Project Engineer in the Engineering and Construction Division at the Beaver Valley Power Station. Over the last 30 years, I have held staff, supervisory and managerial positions in engineering, nuclear construction, customer technical services, marketing and rates. In the Rate Department at Duquesne, I was responsible for the calculations to unbundle the rates to support the implementation of electric utility restructuring and customer choice in Pennsylvania. As General Manager of Rates at AquaSource, Inc., the previous water and wastewater subsidiary of DQE, Inc., I was responsible for providing direction to regional controllers on all regulatory matters, and maintaining the tariffs in the 12 states where AquaSource had utility operations. More recently, I have been responsible for rate matters in the Company’s base rate proceedings, default service proceedings and surcharge filings.

Q. HAVE YOU PREVIOUSLY TESTIFIED AS A WITNESS IN PROCEEDINGS BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION OR IN OTHER REGULATORY PROCEEDINGS?

A. Yes. I have testified on rate design matters before the Pennsylvania Public Utility Commission (“PA PUC”) and Federal Energy Regulatory Commission (“Commission”). A list of proceedings in which I have submitted testimony is provided in Appendix A.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide support for Duquesne’s request to recover a deferred income tax liability that is currently unfunded due to Duquesne’s transition in
transmission ratemaking methodology with respect to the recovery of certain income
taxes from a flow-through methodology required by the PA PUC to full normalization
pursuant to the Commission’s rules and regulations. My testimony describes how and
why Duquesne intends to recover this unfunded deferred tax liability through the
proposed Monthly Deferred Tax Adjustment Charge in a new Attachment H-17C of the
PJM Interconnection, L.L.C. Open Access Transmission Tariff (the “PJM Tariff”).
Lastly, I will explain how Duquesne proposes to apply this Monthly Deferred Tax
Adjustment Charge.

Q. PLEASE DESCRIBE HOW DUQUESNE RECOVERED ITS TRANSMISSION
REVENUE REQUIREMENT FROM CUSTOMERS BEFORE 1997.

A. Before 1997, it is my understanding that nearly all of Duquesne’s transmission revenue
requirement was recovered through bundled retail electricity rates regulated by the PA
PUC that included the cost of transmission of service. As Mr. Simpson explains in his
direct testimony, these retail rates incorporated a flow-through methodology required by
the PA PUC that flowed through certain income tax benefits associated with accelerated
depreciation and other income tax timing differences to retail customers (the “PA PUC
Flow-Through Requirement”). It is my understanding that Duquesne also served a small
number of wholesale customers located in what is now the Duquesne PJM Transmission
Zone through Commission-jurisdictional contracts during this time period.

Q. PLEASE DESCRIBE HOW DUQUESNE RECOVERED ITS TRANSMISSION
REVENUE REQUIREMENT FROM CUSTOMERS BEGINNING IN 1997.

A. In compliance with Order No. 888, Duquesne filed its own Open Access Transmission
Tariff (“Tariff”) with the Commission on July 9, 1996 in Docket No. OA96-56-000. On
February 11, 1998, the Commission accepted a settlement agreement with respect to the Tariff. *See* Duquesne Light Company, Docket No. OA96-56-000, Letter Order (issued Feb. 11, 1998). The rates determined by that settlement agreement became effective on November 1, 1997. *See* Duquesne Light Company, Docket No. OA96-56-000, Letter Order (issued Dec. 18, 1997). Duquesne has reviewed its records regarding rates and found nothing to suggest that the settlement that established the Company’s stated annual transmission service revenue requirement changed how the tax benefits of accelerated depreciation or other timing differences were treated.

Duquesne later integrated with PJM on January 1, 2005. *See* PJM Interconnection, L.L.C., 109 FERC ¶ 61,299 (2004). The rates, annual revenue requirement, and billing determinants used to incorporate Duquesne under the PJM Tariff were, with certain limited exceptions unrelated to the treatment of income taxes, the same as those included in Duquesne’s Tariff and agreed to in the settlement agreement in Docket No. OA96-56-000. *See* PJM Interconnection, L.L.C., Docket No. ER05-85-000, Conforming Tariff Revisions Associated with the Integration of Duquesne into the PJM Markets & Tariff (filed Oct. 28, 2004). Thus, Duquesne’s transmission ratemaking appears to have been continued to be based upon the flow-through method of recovering tax expense until December 1, 2006, the effective date of Duquesne’s cost-of-service transmission formula rate in Attachment H-17A of the PJM Tariff. Duquesne has searched its records regarding rates and has found nothing to suggest otherwise.

Q. **DID DUQUESNE’S TRANSMISSION FORMULA RATE CHANGE HOW ITS INCOME TAXES FOR RATEMAKING PURPOSES WERE DETERMINED?**
A. Yes. Duquesne’s transmission formula rate, which the Commission accepted in Docket No. ER06-1549-000, provides for the use of full normalization to determine the allowable income tax expense in deriving the Net Zonal Revenue Requirement. Thus, when Duquesne’s formula rate became effective on December 1, 2006, it changed its transmission ratemaking methodology with respect to the recovery of income taxes, including changing income tax savings that had previously been flowed through to ratepayers pursuant to the PA PUC Flow-Through Requirement to full normalization.

Q. DID THE IMPLEMENTATION OF ITS TRANSMISSION FORMULA RATE AFFECT DUQUESNE’S ABILITY TO RECOVER ITS DEFERRED INCOME TAX LIABILITY THAT ACCRUED UNDER THE PA PUC FLOW-THROUGH REQUIREMENT?

A. Yes. As Mr. Simpson explains in his direct testimony, under the PA PUC Flow-Through Requirement, Duquesne’s allowable income tax expense in its rates was reduced to reflect the benefits of accelerated depreciation and other timing differences. As a result, income tax expense was lower than it otherwise would have been under a full normalization ratemaking methodology. However, consistent with the PA PUC Flow-Through Requirement, it was expected and understood that once the timing differences reversed, Duquesne would collect the resulting higher income taxes from ratepayers as the benefits of the timing differences were exhausted. As a result of converting to full normalization using the formula methodology, Duquesne’s deferred tax liability that previously was accrued pursuant to the PA PUC Flow-Through Requirement will no longer be fully recovered because the offsetting higher tax expenses that will occur in later periods will not be flowed through to its transmission customers under full
normalization. Without an adjustment, the reversal of the timing differences will result in Duquesne’s network service rates under-recovering its deferred income tax expense.

Duquesne’s transmission formula rate does not provide a mechanism to allow Duquesne to make the necessary adjustment to address the shortfall in its revenue requirement resulting from the switch from flow-through treatment to full normalization that leaves its deferred tax liability unfunded. Accordingly, a separate charge to collect this revenue shortfall is necessary.

**Q. HOW DOES DUQUESNE PROPOSE TO RECOVER ITS UNFUNDED DEFERRED TAX LIABILITY?**

**A.** Duquesne proposes to recover its unfunded deferred tax liability through a Monthly Deferred Tax Adjustment Charge. The Monthly Deferred Tax Adjustment Charge will be a fixed monthly demand charge in a new attachment to the PJM Tariff, Attachment H-17C.

**Q. WHICH CUSTOMERS WILL BE CHARGED THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE?**

**A.** The Monthly Deferred Tax Adjustment Charge will apply only to network service customers serving retail electricity distribution customers of Duquesne. More precisely, the terms of the new Attachment H-17C limit the Monthly Deferred Tax Adjustment Charge to network service customers that serve one or more customers taking retail electricity distribution service from Duquesne under its PA PUC distribution tariff. As a result of Pennsylvania’s retail restructuring, the class of customers that are network service customers serving retail distribution customers includes Electric Generation Suppliers (“EGSs”) and Duquesne, in its role as a default service provider, or Provider of
Last Resort (“POLR”), to retail customers who are not taking generation supply service from EGSs.

Duquesne proposes to limit the Monthly Deferred Tax Adjustment Charge to these customers because they serve the retail customers who took service over Duquesne’s transmission facilities at rates based on the flow-through method. These retail customers already received the benefits of the PA PUC Flow-Through Requirement and would have been responsible for the future higher income tax expense once the timing differences associated with those transmission facilities reversed.

Q. WILL ANY OTHER CUSTOMERS BE SUBJECT TO THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE?

A. No, they will not. Nor will the Monthly Deferred Tax Adjustment Charge apply to any wholesale transmission customer in the Duquesne Zone that does not serve any retail electricity distribution customer of Duquesne. As described above, Duquesne has no reasoned basis for concluding that any customers other than retail customers benefitted from tax benefits flowed through pursuant to the PA PUC Flow-Through Requirement in the past. Moreover, even if any customers other than retail customers had somehow benefited from the PA PUC Flow-Through Requirement in the past (and there is no reasoned basis to conclude they did) the current and expected future number of these customers and the revenues they will generate are small. Accordingly, because the revenues from these customers represent a small fraction of Duquesne’s total revenues the otherwise appropriate exclusion of customers other than retail customers from the Monthly Deferred Tax Adjustment Charge would result in a *de minimis* change for the
charges assessed to network service customers under the Monthly Deferred Tax Adjustment Charge.

Q. HOW WILL EACH CUSTOMER’S MONTHLY DEFERRED TAX ADJUSTMENT CHARGE BE DETERMINED?

A. The Monthly Deferred Tax Adjustment Charge for each network service customer serving retail electricity distribution customers of Duquesne will be determined by allocating the Monthly Amortized Regulatory Asset To Be Recovered among customers in the same manner as monthly network service charges are allocated, under Section 34.1 of the PJM Tariff, using the network service customer’s daily load coincident with the annual peak of the Duquesne Zone. However, as described above, the Monthly Deferred Tax Adjustment Charge will be allocated only among network service customers serving Duquesne’s retail customers, rather than all customers in the Duquesne Zone. As shown in the new Attachment H-17C, the Monthly Deferred Tax Adjustment Charge will be determined by multiplying the Monthly Amortized Regulatory Asset To Be Recovered by the applicable individual network service customer’s annual peak load (net of behind the meter generation) divided by the coincident peak load of all network service customers serving Duquesne’s retail customers. Load growth or decline will not affect Duquesne’s recovery, and it will recover only the stated Annual Amortized Regulatory Asset To Be Recovered each year because the shares and peak load are adjusted annually.

Q. WHAT WILL THE RATE IMPACT OF THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE BE?

A. As calculated by Mr. Simpson, the total Transmission Regulatory Asset To Be Recovered is $75,642,289. The Annual Amortized Regulatory Asset To Be Recovered will be
$2,440,074 based on a remaining useful life of the assets of 31 years. The Monthly Amortized Regulatory Asset To Be Recovered will be $203,339 and the Monthly Deferred Tax Adjustment Charge will be $66.58 per MW of demand based upon Duquesne’s 2012 coincident peak of 3,054 MW. The Annual Amortized Regulatory Asset To Be Recovered represents about 2 percent of Duquesne’s 2012 Net Zonal Revenue Requirement of $112,886,659 calculated in its formula rate.

Q. WHY HAS DUQUESNE CHOSEN TO INCLUDE THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE IN A NEW ATTACHMENT H-17C TO THE PJM TARIFF?

A. As described above, the Monthly Deferred Tax Adjustment Charge should only apply only to those customers that benefitted from previous flowing through of certain tax benefits under the PA PUC Flow-Through Requirement. Accordingly, the Monthly Deferred Tax Adjustment Charge should not be included as part of Duquesne’s transmission formula rate that applies to all of Duquesne’s transmission customers, but should instead be included as a separate attachment to the PJM Tariff so that it can apply to specific transmission customers. Accordingly, the Monthly Deferred Tax Adjustment Charge is included in the proposed new Attachment H-17C to the PJM Tariff that would immediately follow Duquesne’s existing transmission formula rate and its implementation protocols in Attachments H-17 through H-17B to the PJM Tariff.

Q. ARE ANY CHANGES TO THE FORMULA RATE NECESSARY TO ENSURE DUQUESNE RECOVERS ITS TAX EXPENSES?

A. No. The formula rate correctly implements the Commission’s tax normalization policies.
Q. DID THE ACCOUNTING CHANGES NECESSARY TO CORRECT THE MISMATCH BETWEEN DUQUESNE’S ACCOUNTING AND RATEMAKING METHODOLOGY AFFECT THE FORMULA RATE’S DETERMINATION OF TRANSMISSION RATES?

A. Yes. However, the effect on Duquesne’s transmission rates is extremely small. As Mr. Simpson explains in his testimony, the accounting changes affected Account 282 (Accumulated deferred income taxes—Other Property), which is used to determine Duquesne’s Accumulated Deferred Income Taxes (“ADIT”) in Attachment 1 to the formula rate. None of the changes, however, would exceed 0.2% of the Company’s current Net Zonal Revenue Requirement.

As part of its 2013 formula rate update, Duquesne will implement the changes to the data inputs for 2007-2010 as identified by Mr. Simpson in his direct testimony and refund any overcharges as appropriate. Any refunds will be implemented though PJM’s billing process for the respective years. As Mr. Simpson explains in his direct testimony, Duquesne corrected the mismatch between its accounting and ratemaking methodology in 2011, so future rates determined under its formula rate, including 2012 rates will properly reflect full normalization.

Q. WHEN IS DUQUESNE PROPOSING THAT THE MONTHLY DEFERRED TAX ADJUSTMENT CHARGE TAKE EFFECT?

A. Duquesne is proposing that the Monthly Deferred Tax Adjustment Charge become effective on June 1, 2013 so that it coincides with the beginning of the next effective Rate Year, as defined in the implementation protocols for Duquesne’s formula rate as specified in Section 1(a) of Attachment H-17B of the PJM Tariff. A June 1, 2013
effective date will also allow the Monthly Deferred Tax Adjustment Charge to be incorporated in the Annual Update to Duquesne’s Electric Service Tariff filed with the PA PUC, which will update Duquesne’s Transmission Service Charge under this tariff effective June 1, 2013 and ensure that the Monthly Deferred Tax Adjustment Charge will begin to be applied to EGSs and Duquesne in its role as a POLR on the same effective date (and thus in a competitively neutral manner).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.
Appendix A
William V. Pfommer
Rate and Regulatory Proceedings

Pennsylvania Public Utility Commission:
Docket No. R-2010-2179522 – Distribution Base Rate Case
Docket No. P-2009-2135500 - Provider of Last Resort (POLR V)
Docket No. M-2009-2123948 - Act 129 Smart Meter Procurement and Installation Plan
Docket No. P-00072247 - Provider of Last Resort (POLR IV)
Docket No. R-00061346 – Distribution Base Rate Case
Docket No. P-00032071 - Provider of Last Resort (POLR III)

Federal Energy Regulatory Commission:
Docket No. ER08-1309-000 – Changes to the MISO Open Access Transmission Tariff to integrate the Company into the Midwest Independent System Operator, Inc.
Docket No. ER05-85-000 – Changes to the PJM Open Access Transmission Tariff to integrate the Company into the PJM Interconnection, L.L.C.

Other:
Cause No. 42416, Filed April 14, 2003, Indiana Utility Regulatory Commission – Petition of Utility Center, Inc., d/b/a AquaSource
UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Duquesne Light Company

Docket No. ER13-___-000

AFFIDAVIT

I, the undersigned, being duly sworn, do depose and say, that the Prepared Direct Testimony of William V. Pfrommer is the testimony of the undersigned, and that the statements contained herein are true, correct, accurate and complete to the best of my knowledge, information and belief, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

William V. Pfrommer
Manager, Rates and Tariff Services
Duquesne Light Company

Subscribed and Sworn to before me this ___ day of April 2013.

Notary Public

My Commission expires: ____________________