

Met-Ed/Penelec/Penn Power/West Penn Statement No. 3

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**METROPOLITAN EDISON COMPANY
Docket No. M- _____**

**PENNSYLVANIA ELECTRIC COMPANY
Docket No. M- _____**

**PENNSYLVANIA POWER COMPANY
Docket No. M- _____**

**WEST PENN POWER COMPANY
Docket No. M- _____**

ENERGY EFFICIENCY AND CONSERVATION PLANS

**Testimony
of
Kevin M. Siedt**

List of Topics Addressed

**Phase III Cost Recovery Mechanism and Initial Rates
Program Cost Reconciliation Process
Phase II Final Cost Collection**

1 **I. INTRODUCTION AND BACKGROUND**

2

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Kevin M. Siedt. My business address is 2800 Pottsville Pike, Reading
5 Pennsylvania 19612.

6

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am employed by FirstEnergy Service Company as a Consultant in the Rates and
9 Regulatory Affairs Department – Pennsylvania.

10

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS A CONSULTANT IN THE PA
12 RATES AND REGULATORY AFFAIRS DEPARTMENT?**

13 A. Generally, the PA Rates and Regulatory Affairs Department provides regulatory support
14 for Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company
15 (“Penelec”), Pennsylvania Power Company (“Penn Power”), and West Penn Power
16 Company (“West Penn”) (collectively the “Companies”). I support the development,
17 preparation, and presentation of the Companies’ retail electric rates and related rules and
18 regulations, ensuring uniform administration and interpretation in all their rate-related
19 matters before the Pennsylvania Public Utility Commission (“Commission”). I also
20 address issues such as non-utility generation costs, regulatory program cost recovery and
21 other financial matters.

1 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?**

2 A. I obtained a Masters Degree in Business Administration from Moravian College in 1994.
3 I am also a graduate of Rowan University where I received a Bachelor of Science Degree
4 with a major in Accounting and Finance in 1984. My work experience is more fully
5 described in Appendix A.

6
7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

8 A. I am testifying on behalf of Met-Ed, Penelec, Penn Power and West Penn. My testimony
9 equally applies to all of the Companies, unless otherwise stated. Further, rather than
10 reiterating what is included in the Companies' Phase III Plans in my testimony, any
11 references to sections of those plans are incorporated as if fully rewritten herein.

12
13 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

14 A. The purpose of my testimony is to introduce and explain the Companies' proposed cost
15 recovery mechanism that will be used to recover the costs incurred by the Companies
16 during the planning and implementation of their respective Phase III Energy Efficiency
17 and Conservation Plans ("Phase III Plans") which are required by Act 129¹ and the
18 Commission's 2015 Implementation Order.² I will also be explaining how the rates
19 being proposed in this proceeding for the first year of the Phase III Plans were
20 determined and how the Companies will recover final costs incurred under their Energy

¹ Act 129 of 2008, 66 Pa C.S. § 2806.1 ("Act 129")

² *Energy Efficiency and Conservation Programs*, Docket No. M-2014-2424864, Implementation Order (entered June 19, 2015) ("2015 Implementation Order").

1 Efficiency and Conservation (“EE&C”) Plans that are currently in effect during Phase II³
2 of the Commission’s EE&C Program (“Phase II Plans”).⁴

3
4 **Q. HAVE YOU PREPARED EXHIBITS TO ACCOMPANY YOUR TESTIMONY?**

5 A. Yes. I have attached the following Met-Ed/Penelec/Penn Power/West Penn Exhibits to
6 my testimony:

7 KMS-1: Met-Ed Phase III EE&C-C Rider

8 KMS-2: Penelec Phase III EE&C-C Rider

9 KMS-3: Penn Power Phase III EE&C-C Rider

10 KMS-4: West Penn Phase III EE&C-C Rider

11 KMS-5: West Penn Tariff 38 Phase III EE&C-C Rider

12 KMS-6: Spreadsheet demonstrating how the rates included in each of the riders
13 were determined.

14 Each of these exhibits was prepared by me or under my supervision and is described in
15 detail later in my testimony.

³ Phase II of the Commission’s EE&C Program is in effect for the three year period starting on June 1, 2013 and ending on May 31, 2016 (“Phase II Period”).

⁴ Phase II EE&C Plans were required by Act 129 and the Commission’s order issued in *Energy Efficiency and Conservation Programs*, Docket Nos. M-2012-2289411 and M-2008-2069887, Implementation Order (entered August 3, 2012).

1 **II. PHASE II RIDER COST RECOVERY**

2

3 **Q. HOW ARE THE COMPANIES RECOVERING COSTS INCURRED UNDER**
4 **THEIR RESPECTIVE PHASE II PLANS?**

5 A. The costs associated with the development and implementation of the Phase II Plans are
6 currently being recovered through each Company's Phase II EE&C-C Riders -- recovery
7 mechanisms that were approved by the Commission in Docket Nos. M-2012-2334387
8 (Met-Ed), M-2012-2334392 (Penelec), M-2012-2334395 (Penn Power), and M-2012-
9 2334398 (West Penn).

10

11 **Q. DO THE COMPANIES PLAN TO MAINTAIN THE EXISTING PHASE II**
12 **EE&C-C RIDERS BEYOND THE END OF THE PHASE II PERIOD?**

13 A. No, the Companies plan to terminate the Phase II EE&C-C Riders at the end of the Phase
14 II Period, which ends on May 31, 2016. Notwithstanding, a process must be put into
15 place to allow for the full recovery of Phase II costs. Since certain Phase II costs will
16 either not be known by May 31, 2016 or will continue to accrue after Phase II comes to
17 an end, the Companies are proposing that an additional adjustment be included in their
18 Phase III recovery mechanism to account for these remaining Phase II costs. I discuss
19 this adjustment for Phase II costs in more detail later in my testimony.

1 **Q. PLEASE PROVIDE EXAMPLES OF THE TYPES OF PHASE II COSTS THAT**
2 **WILL CONTINUE TO ACCRUE POST PHASE II.**

3 A. Even though the Phase II programs will end on May 31, 2016, the Companies must still
4 account for and report the results from these programs. Therefore, the Companies will
5 incur a variety of Phase II related costs post Phase II, including costs for evaluation,
6 measurement and verification (“EM&V”) of program results, consulting costs related to
7 EM&V analysis, and the development of final reports to the Commission.

8
9 **III. PHASE III COST RECOVERY MECHANISM**

10
11 **Q. PLEASE DESCRIBE THE RECOVERY MECHANISM THAT THE**
12 **COMPANIES ARE PROPOSING BE USED TO RECOVER THE PHASE III**
13 **EE&C PROGRAM COSTS.**

14 A. As permitted by Act 129 and 66 Pa.C.S. § 1307, the Companies are proposing to
15 implement EE&C-C Riders to recover Phase III related costs (“Phase III EE&C-C
16 Riders”) which, with two exceptions, are virtually identical to the Phase II EE&C-C
17 Riders that are currently in effect to recover costs incurred under the Phase II Plans.
18 Copies of the Phase III EE&C-C Riders for Met-Ed, Penelec, Penn Power, and West
19 Penn are attached to my testimony as Met-Ed/Penelec/Penn Power/West Penn Exhibits
20 KMS-1 through KMS-5 respectively. Met-Ed/Penelec/Penn Power/West Penn Exhibit
21 KMS-6, which is also attached, sets forth the specific calculation of the rates included in
22 each Phase III EE&C-C Rider. Further, each Company’s Phase III EE&C Rider(s), is
23 included in Appendix F of the respective Company’s Phase III Plans.

1 **Q. HOW DO THE PROPOSED PHASE III EE&C-C RIDERS DIFFER FROM THE**
2 **PHASE II EE&C-C RIDERS?**

3 A. As I mentioned, there are two significant differences between the Phase II and Phase III
4 EE&C-C Rider designs. First, in the Phase II Plans, the Companies calculated the
5 EE&C-C Rider rate based on the statutory 2% budget cap for the specific Annual
6 Computational Period.⁵ In subsequent Annual Computational Periods, the same
7 calculation was done based on that specific period, with the addition of a reconciliation
8 factor based on the actual experience from the prior Computational Period. Pursuant to
9 the 2015 Implementation Order (at page 149), the Phase III EE&C-C rates will be
10 computed annually with the initial period commencing on June 1, 2016 and ending on
11 May 31, 2017 (“Initial Computational Period”), and will utilize the annual projected
12 *program cost estimate* instead of the *total approved budget* amount (2% budget cap) as
13 was done during Phase II. The use of the projected program costs should reduce the
14 amount of reconciliation necessary during the Phase III EE&C-C rate period.

15
16 The second significant difference is the method by which the final costs related to the
17 Phase II Plan are reconciled and collected. In the Phase II Plans, the Companies sought
18 to extend the Phase I recovery mechanism into the Phase II Period until December 31,
19 2013 in order to collect Phase II related costs that were either not known at the end of
20 Phase II or were incurred thereafter. Rather than maintaining two recovery mechanisms
21 for a period of time during the Phase III Period, the Companies, instead, are including a
22 second reconciliation factor in the Phase III EE&C-C Riders to collect any Phase II

⁵ The Annual Computational Period commences on June 1 of each year and ends on the next May 31st.

1 related costs that were not collected prior to the end of the Phase II Period. This
2 reconciliation factor will be eliminated from the Phase III EE&C Rider rate calculations
3 after the Phase III EE&C Rider rates to be effective June 1, 2017 are implemented.
4

5 **Q. ARE THERE ANY OTHER ADJUSTMENTS TO THE PHASE III EE&C-C**
6 **RATE CALCULATIONS THAT WILL ONLY BE MADE FOR A PORTION OF**
7 **THE PHASE III PERIOD?**

8 A. Yes, but only for Met-Ed. Pursuant to the Commission's Order at Docket No. M-2009-
9 2092222 ("IDER Order"), Met-Ed's residential class budget for Phase I was increased by
10 \$3,984,171 to account for estimated costs to remove at a customer's request the
11 Integrated Distributed Energy Resources ("IDER") equipment used in a discontinued
12 residential direct load control program – costs that had not been anticipated at the time
13 the Phase I Plan was approved.⁶ Consistent with the Commission's IDER Order, the
14 Company has and will continue to utilize the IDER equipment removal budget for
15 removal of the devices until the earlier of (i) the end of the Phase II Period (May 31,
16 2016); or the point at which the Company no longer anticipates any more customer
17 removal requests. As of the date of the filing of this plan, the Company expects to utilize
18 the IDER removal budget through May 31, 2016. Accordingly, the Company will
19 perform a reconciliation of the total budget to the actual removal expenditures, and
20 include any remaining credit as part of Met-Ed's Phase II final reconciliation for the
21 Residential class. This one time reconciliation will occur during Program Year 1 and will
22 be reflected in the Phase III EE&C-C rates to be effective June 1, 2017.

⁶ This increase did not cause Met-Ed to exceed its 2% spending cap.

1 **Q. PLEASE DESCRIBE THE PHASE III EE&C-C RIDERS.**

2 A. In the Phase III EE&C-C Riders, the Phase III EE&C-C rates are expressed as a price per
3 kWh for the residential, non-profit, commercial and street lighting classes. The industrial
4 class will be billed based upon the individual customer's Peak Load Contribution
5 ("PLC") kW. The Phase III EE&C-C rates will be calculated separately for the
6 residential, non-profit, commercial, street lighting and industrial customer classes. As
7 previously indicated, Met-Ed/Penelec/Penn Power/West Penn Exhibits KMS-1 through
8 KMS-5 are copies of the proposed Phase III EE&C-C Riders for Met-Ed, Penelec, Penn
9 Power, and West Penn, respectively. The first page of each rider sets forth the Phase III
10 EE&C-C rates, as well as the rate schedules that comprise the residential, non-profit,
11 commercial, street lighting and industrial customer classes. The remaining pages of each
12 rider set forth (i) the rate formula that is used to calculate the rates; (ii) a description of
13 how the Phase III EE&C-C rates are developed; and (iii) a description of how revenues
14 billed under the Phase III EE&C-C Riders will be reconciled to actual costs as they are
15 incurred.

16

17 **Q. PLEASE LIST THE RATE SCHEDULES THAT ARE INCLUDED IN EACH**
18 **CUSTOMER CLASS.**

19 A. The residential customer class rate schedules for each of the Companies are as
20 follows:

21 **Met-Ed, Penelec, Penn Power - RS**

22 **West Penn - 10.**

1 The rate schedules for the commercial customer class for each of the Companies are as
2 follows:

3 **Met-Ed** – GS-Small, GS-Medium, and Outdoor Lighting Service

4 **Penelec** – GS-Small, GS-Medium, and Outdoor Lighting Service

5 **Penn Power** – GS, GS Special Rule GSDS, GM, PLS,

6 **West Penn** – Rate Schedules 20 and 30

7
8 The rate schedules for the non-profit customer class for each of the Companies are as
9 follows:

10 **Met-Ed** – GS – Volunteer Fire Company and Non-Profit Ambulance Service,
11 Rescue Squad and Senior Center Service Rate and MS

12 **Penelec** – GS – Volunteer Fire Company and Non-Profit Ambulance Service,
13 Rescue Squad and Senior Center Service Rate and H

14 **Penn Power** – GS Special Provision for Volunteer Fire Companies, Non-Profit
15 Senior Citizen Centers, Non-Profit Rescue Squads, and Non-Profit Ambulance
16 Services; and PNP

17 **West Penn** – 20 (special provision for volunteer fire companies, non-profit senior
18 citizen centers, non-profit rescue squads, and non-profit ambulance services)

19
20 The rate schedules for the industrial customer class for each of the Companies are as
21 follows:

22 **Met-Ed** – GS-Large, GP, and TP

23 **Penelec** – GS-Large, GP, and LP

1 **Penn Power** – GS-Large, GP and GT

2 **West Penn** – 35, 40, 44, 46 in Tariff No. 39 and Tariff No. 37 (Pennsylvania
3 State University).

4
5 The rate schedules for the street lighting customer class for each of the Companies are as
6 follows:

7 **Met-Ed** – Street Lighting Service, Ornamental Street Lighting Service, and LED
8 Street Lighting Service.

9 **Penelec** – High Pressure Sodium Vapor Street Lighting Service, Municipal Street
10 Lighting Service, and LED Street Lighting Service

11 **Penn Power** – SV, SVD, SM, and LED

12 **West Penn** – 51 through 58, 71, 72

13
14 **Q. ARE THERE ANY CUSTOMERS WHO WILL NOT PAY THE PHASE III**
15 **EE&C-C RIDER RATES?**

16 **A.** Yes, customers taking service under Met-Ed’s or Penelec’s Borderline Service rate
17 schedule will not pay the Phase III EE&C-C Rider charge. These rate schedules are only
18 available to public utility companies for resale in adjacent service territories under
19 reciprocal agreements between either Met-Ed or Penelec and the other public utilities.
20 These public utilities are not eligible for any of the energy efficiency or peak demand
21 reduction programs being proposed in either Met-Ed’s or Penelec’s Phase III EE&C
22 Plans. Therefore, no EE&C-C rate will be applied to Borderline Service customers.

1 **Q. WHAT WAS THE BASIS FOR DETERMINING THE RATE SCHEDULES THAT**
2 **WOULD BE INCLUDED WITHIN EACH OF THE COMPANIES' CUSTOMER**
3 **CLASSES?**

4 A. The Phase III EE&C-C Rate Schedule groupings by residential, non-profit, commercial,
5 street lighting and industrial customer classes are essentially the same as the customer
6 class groupings that are currently in place in the Companies' Phase II EE&C-C Riders in
7 their respective Commission-approved tariffs. Minor adjustments were made to the
8 customer class groupings as a result of the tariff revisions that were approved by the
9 Commission and implemented through the Companies' 2014 Base Rate Case
10 proceedings.⁷ These revisions became effective on May 19, 2015.

11
12 **Q. FOR WHAT PERIOD OF TIME WOULD THE PHASE III EE&C-C RIDERS**
13 **FOR EACH COMPANY BE EFFECTIVE?**

14 A. The Companies are proposing that their respective Phase III EE&C-C Riders become
15 effective for service rendered on or after June 1, 2016, and continue through May 31,
16 2021.

17
18 **Q. HOW DO THE COMPANIES INTEND TO COLLECT PHASE III RELATED**
19 **COSTS THAT WILL NOT BE COLLECTED BY MAY 31, 2021?**

20 A. If the Commission concludes that additional cost effective energy efficiency and/or
21 demand reduction can be attained post Phase III, the Companies currently anticipate

⁷ 2014 General Base Rate Case; Met-Ed (Docket No. R-2014-2428745), Penelec (Docket No. R-2014-2428743), Penn Power (Docket No. R-2014-2428744), West Penn (Docket No. R-2014-2428742).

1 recovering any Phase III costs not recovered by the end of Phase III through a Phase IV
2 cost recovery mechanism. Should there be no Phase IV of the Commission's EE&C
3 Program, the Companies reserve the right herein to request, through a separate filing,
4 approval from the Commission to extend the Phase III EE&C-C Rider beyond the end of
5 Phase III in order to collect any remaining Phase III costs.

6
7 **Q. WILL THE PHASE III EE&C-C RIDERS AND THE ASSOCIATED PHASE III**
8 **EE&C-C RATES BE BY-PASSABLE FOR CUSTOMERS WHO OBTAIN**
9 **GENERATION SERVICE FROM A SUPPLIER OTHER THAN THE**
10 **COMPANIES?**

11 A. No. Except for the Met-Ed and Penelec Borderline Service customers that I previously
12 discussed, all customers will pay the Phase III EE&C-C Rider rates, regardless of the
13 source of the customer's generation service. The Phase III EE&C-C Riders and
14 applicable EE&C-C rates will be applied to each kWh (or PLC kW for the industrial
15 customer class) delivered during a billing month to customers served under the Rate
16 Schedules identified as part of either the residential, non-profit, commercial, street
17 lighting or industrial classes.

18
19 **Q. HOW ARE THE PHASE III EE&C-C RIDER RATES STRUCTURED?**

20 A. Section 7 of each of the Companies' Phase III Plans describes the structure and
21 mechanics of the Phase III EE&C-C Riders. Generally, the Phase III EE&C-C Rider
22 rates to be billed to the residential, non-profit, commercial, street lighting and industrial
23 classes consist of three principal components. The first, is the EEC_C, or "current cost"

1 component; the second, the reconciliation component, or “E” factor for Phase III costs
2 and the third, a second “E” Factor (E_2) for collection of Phase II related costs remaining
3 to be collected after May 31, 2016.

4
5 **Q. PLEASE DESCRIBE THE EEC_C COMPONENT.**

6 A. The EEC_C component represents the recovery of estimated costs to be incurred during the
7 Annual Computation Period or “Computational Period” in which the Phase III EE&C-C
8 rates will be in effect for each customer class. As shown on the second and third pages of
9 Met-Ed/Penelec/Penn Power/West Penn Exhibits KMS-1 through KMS-5, the EEC_C
10 component is customer class specific. The costs included in each customer class’ EEC_C
11 rate are identified as EEC_{Exp1} , EEC_{Exp2} , EEC_{Exp3} , and EEC_{Exp4} .

12
13 EEC_{Exp1} represents customer class specific costs that will be associated with the customer
14 class specific EE&C programs as approved by the Commission. These costs will also
15 include an allocated portion of any indirect costs, such as marketing costs, that will be
16 incurred by the Companies.

17
18 EEC_{Exp2} represents an allocated portion of administrative start-up costs incurred by the
19 Companies in connection with the development of each Company’s Phase III EE&C
20 Plans and related programs in response to the Commission’s orders and guidance in its
21 2015 Implementation Order. These costs are incurred to design, create, and obtain
22 Commission approval of the Companies’ respective Phase III EE&C Plans, and include,
23 but are not limited to, consultant costs, outside legal fees, and other direct and indirect

1 costs associated with the development and implementation of the Companies' Phase III
2 EE&C Plans in compliance with the Commission directives.

3
4 EEC_{Exp3} represents the costs allocated to the Companies for the funding of the
5 Commission's statewide evaluator contract. These costs are not subject to the 2%
6 spending cap imposed by Act 129.⁸

7
8 **Q. PLEASE DESCRIBE THE E-FACTOR COMPONENT OF THE PHASE III**
9 **EE&C-C RATES.**

10 A. The E-factor component of each Company's residential, non-profit, commercial, street
11 lighting and industrial class specific Phase III EE&C-C rates represents a reconciliation
12 of actual Phase III EE&C program costs incurred by customer class to actual Phase III
13 EE&C revenues billed by customer class on a monthly basis.⁹ For each of the
14 Companies, this monthly reconciliation by specific customer class will result in either an
15 over-collection of costs by customer class (revenues billed, excluding Pennsylvania
16 Gross Receipts Tax ("GRT"), greater than actual costs) or an under-collection by
17 customer class (revenues billed, excluding GRT, less than actual costs). The E-factor
18 component will be applied on a customer class specific basis.

⁸ 2015 Implementation Order, p. 95.

1 **Q. WILL THE INITIAL PHASE III EE&C-C RATES BY CUSTOMER CLASS**
2 **INCLUDE A RECONCILIATION OR E-FACTOR COMPONENT?**

3 A. No. Because this is a new rider, the initial Phase III EE&C-C rates will not include an
4 initial Phase III E-factor component. The first time the Phase III E-factor component will
5 be included as part of the determination of the Phase III EE&C-C Rider rates will be in
6 the Companies' annual filing that will be submitted to the Commission by May 1, 2017
7 for rates to be effective June 1, 2017, and will be included in each subsequent Phase III
8 EE&C-C Rider filing.

9

10 **Q. PLEASE DESCRIBE THE SECOND E-FACTOR (E₂).**

11 A. The second E-factor component (E₂), is a reconciliation adjustment for the collection of
12 Phase II-related costs that were not collected by the end of Phase II. Because of timing,
13 this adjustment will be made for purposes of determining both the Phase III EE&C-C
14 Rider rates that are being proposed as part of this plan to be effective on June 1, 2016,
15 and the subsequent Program Year rider rate that will be effective June 1, 2017.

16

17 **Q. PLEASE DESCRIBE HOW THE RECONCILIATION OF FINAL PHASE II**
18 **COSTS WILL BE PERFORMED.**

19 A. Because the Rider filings are generally filed with the Commission on May 1st of each
20 year to be in effect on June 1st of that same year, the Phase II costs will be reconciled in
21 two distinct steps. The first step, will reconcile the total actual recoverable Phase II Plan
22 expenditures incurred through March 31, 2016 to the actual Phase II Plan revenues
23 collected through March 31, 2016. Since the Phase II Riders will end on May 31, 2016,

1 the result of the Phase II reconciliation through March 31, 2016 will appear as a separate
2 line item in the Phase III EE&C-C Rider, which will go into effect on June 1, 2016. The
3 second step will account for all actual Phase II revenues and expenses that are realized
4 during the period April 1, 2016 through March 31, 2017 in a final reconciliation. The
5 final over/under collection that results from this reconciliation will also be included as a
6 separate line item in the Phase III EE&C-C rate calculation that will be effective on June
7 1, 2017.

8
9 **Q. HOW WILL THE COMPANIES INCLUDE ACTUAL COSTS INCURRED**
10 **THROUGH MARCH 31, 2016 IN THIS PROCEEDING WHEN THE PROPOSED**
11 **RATES INCLUDED IN THIS PROCEEDING WERE FILED IN NOVEMBER**
12 **2015?**

13 A. Since the Companies do not have the actual data available through March 31, 2016 at the
14 time of this filing, an update to the reconciliation will be done when the Companies file
15 their compliance filing on May 1, 2016 for rates to be effective on June 1, 2016.

16
17 **Q. HOW OFTEN WILL THE PHASE III EE&C-C RATES BY CUSTOMER CLASS**
18 **BE CHANGED?**

19 A. The Companies anticipate that the Phase III EE&C-C rates will be changed annually, on
20 June 1 of each year. However, each of the riders includes a provision that allows the
21 Companies to seek interim revisions to the Phase III EE&C-C rates, should the
22 Companies determine that the rates, if left unchanged, would result in material over- or

1 under-collection of all recoverable costs incurred or expected to be incurred by customer
2 class.

3
4 **Q. WHAT INFORMATION WILL THE COMPANIES PROVIDE WHEN SEEKING**
5 **TO CHANGE THE PHASE III EE&C-C RATE?**

6 A. In these annual submissions to the Commission, the Companies will provide the
7 following information in the derivation of the calculated Phase III EE&C-C Rider rates:

- 8 1. A reconciliation between actual Phase III EE&C-C revenues and actual Phase III
9 EE&C-C costs for the Phase III EE&C-C Reconciliation Period, as adjusted for
10 removal of gross receipts tax. Because this is a new rider, this information is not
11 being provided in support of the Phase III EE&C-C Rider rates being proposed
12 through this plan for the period June 1, 2016 through May 31, 2017. Such
13 reconciliations will be provided starting in Program Year 2 for rates to be effective
14 June 1, 2017.
- 15
16 2. Any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be
17 billed during April and May of the applicable program year, as adjusted for the
18 removal of GRT. Because this is a new rider, this information is not being
19 provided in support of the Phase III EE&C-C Rider rates being proposed through
20 this plan for the period June 1, 2016 through May 31, 2017. Such adjustments will
21 be provided starting in Program Year 2.
- 22 3. The Phase III EE&C budget estimate for the forthcoming Phase III EE&C-C
23 Computational Period by rate class.

1 4. A reconciliation adjustment for any remaining Phase II EE&C costs that were not
2 collected by the end of the Phase II Period. This adjustment will only be included
3 in the initial EE&C-C rate that will become effective on June 1, 2016 and will be
4 approved as part of this plan, and the subsequent EE&C-C rate that will be in
5 effect for the period June 1, 2017 through May 31, 2018.

6 5. And, for Met-Ed only, the Phase II final reconciliation of the Integrated
7 Distributed Energy Resources (“IDER”) budget that I discussed earlier in my
8 testimony.

9
10 **Q. WILL THE COMPANIES FILE ANY REPORTS RELATED TO THE PHASE III**
11 **EE&C-C RIDERS WITH THE COMMISSION?**

12 A. Yes. As stated in each of the Companies’ Phase III EE&C-C Riders, an annual report
13 that sets forth the actual revenues collected and costs incurred will be filed with the
14 Commission by June 30th of each year. These reports will be provided by customer class
15 and will be subject to annual review and audit by the Commission.

16
17 **IV. INITIAL PHASE III EE&C-C RIDER RATES**

18 **Q. ARE THE COMPANIES PROPOSING SPECIFIC EE&C-C RIDER RATES IN**
19 **THIS PROCEEDING?**

20 A. Yes. The first page of Met-Ed/Penelec/Penn Power/West Penn Exhibits KMS-1, KMS-2,
21 KMS-3, KMS-4, and KMS-5 have the applicable residential, non-profit, commercial,
22 street lighting and industrial Phase III EE&C-C rates that would become effective June 1,
23 2016. These rates are based on the budgeted costs by customer class for the period June

1 1, 2016 through May 31, 2017 – costs that are subject to review and approval in this
2 proceeding. The specific calculation of the Phase III EE&C-C rates for each of the
3 Companies is set forth in Met-Ed/Penelec/Penn Power/West Penn Exhibit KMS-6.

4
5 **Q. ARE ANY OF THE PROJECTED COSTS INCLUDED IN THE INTITIAL**
6 **EE&C-C RATES BEING RECOVERED THROUGH BASE RATES?**

7 A. No.

8
9 **V. CONCLUSIONS**

10 **Q. ARE YOU FAMILIAR WITH THE REQUIRMENTS FOR RECONCILABLE**
11 **ADJUSTMENT CLAUSES AS SET FORTH IN 66 PA.C.S. § 1307?**

12 A. Yes, I am.

13
14 **Q. IN YOUR OPINION, DO THE COMPANIES' PHASE III EE&C-C RIDERS AS**
15 **DESCRIBED IN YOUR TESTIMONY MEET THE REQUIREMENTS FOR A**
16 **RECONCILABLE ADJUSTMENT CLAUSE TARIFF MECHANISM AS SET**
17 **FORTH IN 66 PA.C.S. § 1307?**

18 A. Yes, they do meet the requirements of 66 Pa.C.S. § 1307, as well as the provisions
19 included in the Commission's 2015 Implementation Order and Act 129.

20
21 **Q. MR. SIEDT, DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

22 A. Yes, it does.

RIDER xxxxx
PHASE III ENERGY EFFICIENCY AND CONSERVATION CHARGE RIDER

An Energy Efficiency and Conservation (“EEC”) Charge (“Phase III EE&C-C”) shall be applied to each Billing Unit during a billing month to Customers served under this Tariff, with the exception of those served under Borderline Service rates. Billing Units are defined as follows:

Residential, Non-profit, Commercial, and
Street Lighting Customer Classes: Per kWh

Industrial Customer Class: Per kW PLC

Residential, Non-profit, Commercial, and Street Lighting Customer Class rates will be calculated to the nearest one-thousandth of a cent per kWh. Industrial Customer Class rates will be calculated to the nearest one-hundredth of a dollar per kW PLC. The Phase III EEC-C rates shall be calculated separately for each customer class according to the provisions of this rider.

For service rendered June 1, 2016 through May 31, 2017 the Phase III EE&C-C rates billed by customer class are as follows:

Residential Customer Class (Rate RS):

0.198 cents per kWh.

Non-profit Customer Class (Rate GS – Volunteer Fire Company, and Non-Profit Ambulance Service, Rescue Squad and Senior Center Service Rate and Rate MS):

1.775 cents per kWh.

Commercial Customer Class (Rate GS-Small, Rate GS-Medium, and Outdoor Lighting Service):

0.126 cents per kWh.

Street Lighting Customer Class (Street Lighting Service, Ornamental Street Lighting Service, and LED Lighting Service):

(0.072) cents per kWh.

Industrial Customer Class (Rate GS-Large, Rate GP, and Rate TP):

\$ 0.23 per kW PLC.

RIDERS

Rider xxx (continued)

The Phase III EE&C-C rates by customer class shall be calculated in accordance with the formula set forth below:

$$EEC-C = [(EEC_C - E - E^2) / S] \times [1 / (1 - T)]$$

$$EEC_C = EEC_{Exp1} + EEC_{Exp2} + EEC_{Exp3}$$

Where:

EEC-C = The charge in cents or dollar per Billing Unit by customer class as defined by this rider applied to each Billing Unit for the Rate Schedules identified in this rider.

EEC_C = The Energy Efficiency and Conservation Costs by customer class incurred and projected to be incurred by the Company for the EEC-C Computational Period calculated in accordance with the formula shown above.

EEC_{Exp1} = Costs incurred and projected to be incurred associated with the customer class specific EEC Programs as approved by the Commission for the Phase III EEC-C Computational Period by customer class. These costs also include an allocated portion of any indirect costs incurred associated with all the Company's EEC Programs for the Phase III EEC-C Computational Period.

EEC_{Exp2} = An allocated portion of incremental administrative start-up costs incurred by the Company through May 31, 2016 in connection with the development of the Company's Phase III EEC Programs in response to the Commission's orders and guidance at Docket Nos. M-2012-2289411 and M-2008-2069887. These costs to design, create, and obtain Commission approval for the Company's Phase III EEC Programs include, but are not limited to, consultant costs, legal fees, and other direct and indirect costs associated with the development and implementation of the Company's Phase III EEC Programs in compliance with Commission directives.

RIDERS

Rider xxxx (continued)

- EEC_{Exp3} = An allocated portion of the costs the Company incurs and projects to incur to fund the Commission's statewide evaluator contract which shall be excluded in the final determination of the Act 129 limitation on the Company's Phase III EEC Programs costs.
- E = The cumulative over or under-collection of EEC costs by customer class that results from the billing of the Phase III EEC-C rates (an over-collection is denoted by a positive E and an under-collection by a negative E).
- E^2 = Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016 (an over-collection is denoted by a positive E and an under-collection by a negative E).
- S = The Company's projected Billing Units (kWh sales delivered to all Customers in the Residential, Non-profit, Commercial, and Street Lighting Customer Classes or kW PLC demand for the Industrial Customer Class).
- T = The Pennsylvania gross receipts tax rate in effect during the billing month expressed in decimal form as reflected in the Company's base rates.

All capitalized terms not otherwise defined in this rider shall have the definitions specified in the Definitions of Terms section of this tariff. For the purpose of this rider, the following additional definitions shall apply:

RIDERS

Rider xxxx (continued)

1. Phase III EE&C-C Computational Period – The 12-month period from June 1 through May 31.
2. Phase III EE&C-C Initial Reconciliation Period – June 1, 2016 through March 31, 2017 for the initial period of the rider,
3. Phase III EE&C-C Reconciliation Period – The 12-month period ending March 31 each year thereafter, except for the Initial Reconciliation Period, for the duration of this rider.
4. Peak Load Contribution (“PLC”) – A Customer’s contribution to the Company’s transmission zone normalized summer peak load, as estimated by the Company in accordance with PJM rules and requirements.
5. Phase II EE&C – The energy efficiency plan that terminates on May 31, 2016. Revenues and EE&C Costs will continue to accrue past the termination date. A final reconciliation of the remaining balance will be included in the June 1, 2017 Phase III EE&C-C rate calculation.

The Company will submit to the Commission by May 1 of each year starting May 1, 2017: (1) a reconciliation between actual Phase III EE&C-C revenues and actual Phase III EE&C-C costs for the Phase III EE&C-C Reconciliation Period, except for the Phase III EE&C-C Initial Reconciliation Period, as adjusted for removal of gross receipts tax; (2) any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be billed during April through May of that year, as adjusted for removal of gross receipts tax; (3) the Phase III EE&C program cost estimate for the forthcoming Phase III EE&C-C Computational Period by customer class; and (4) Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016. There shall also be a final reconciliation of amounts to be collected or refunded after May 31, 2021.

Upon determination that the Phase III EE&C-C rates, if left unchanged, would result in material over or under-collection of all recoverable costs incurred or expected to be incurred by customer class, the Company may request that the Commission approve one or more interim revisions to the Phase III EE&C-C rates to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

The Company shall file an annual report of collections under this rider by June 30th of each year starting June 30, 2017 until the conclusion of this rider.

At the conclusion of the duration of this rider, the Company is authorized to recover or refund any remaining amounts not reconciled at that time under such mechanism as approved by the Commission.

Application of the Phase III EE&C-C rates shall be subject to annual review and audit by the Commission.

RIDER xxxxx
PHASE III ENERGY EFFICIENCY AND CONSERVATION CHARGE RIDER

An Energy Efficiency and Conservation (“EEC”) Charge (“Phase III EE&C-C”) shall be applied to each Billing Unit during a billing month to Customers served under this Tariff, with the exception of those served under Borderline Service rates. Billing Units are defined as follows:

Residential, Non-profit, Commercial, and
Street Lighting Customer Classes: Per kWh

Industrial Customer Class: Per kW PLC

Residential, Non-profit, Commercial, and Street Lighting Customer Class rates will be calculated to the nearest one-thousandth of a cent per kWh. Industrial Customer Class rates will be calculated to the nearest one-hundredth of a dollar per kW PLC. The Phase III EEC-C rates shall be calculated separately for each Customer Class according to the provisions of this rider.

For service rendered June 1, 2016 through May 31, 2017 the Phase III EE&C-C rates billed by customer class are as follows:

Residential Customer Class (Rate RS):

0.322 cents per kWh.

Non-profit Customer Class (Rate GS – Volunteer Fire Company, and Non-Profit Ambulance Service, Rescue Squad and Senior Center Service Rate and Rate H):

1.526 cents per kWh.

Commercial Customer Class (Rate GS-Small, Rate GS-Medium and Outdoor Lighting Service):

0.055 cents per kWh.

Street Lighting Customer Class (High Pressure Sodium Vapor Street Lighting Service, Municipal Street Lighting Service, and LED Lighting Service):

(0.168) cents per kWh.

Industrial Customer Class (Rate GS-Large, Rate GP, and Rate LP):

\$ 0.31 per kW PLC.

RIDERS

Rider xxxx(continued)

The Phase III EE&C-C rates by Customer Class shall be calculated in accordance with the formula set forth below:

$$EEC-C = [(EEC_C - E - E^2) / S] \times [1 / (1 - T)]$$

$$EEC_C = EEC_{Exp1} + EEC_{Exp2} + EEC_{Exp3}$$

Where:

- EEC-C = The charge in cents or dollar per Billing Unit by customer class as defined by this rider applied to each Billing Unit for the Rate Schedules identified in this rider.
- EEC_C = The Energy Efficiency and Conservation Costs by customer class incurred and projected to be incurred by the Company for the Phase III EEC-C Computational Period calculated in accordance with the formula shown above.
- EEC_{Exp1} = Costs incurred and projected to be incurred associated with the customer class specific EEC Programs as approved by the Commission for the Phase III EEC-C Computational Period by customer class. These costs also include an allocated portion of any indirect costs incurred associated with all the Company's Phase III EEC Programs for the Phase III EEC-C Computational Period.
- EEC_{Exp2} = An allocated portion of incremental administrative start-up costs incurred by the Company through May 31, 2016 in connection with the development of the Company's Phase III EEC Programs in response to the Commission's orders and guidance at Docket Nos. M-2012-2289411 and M-2008-2069887. These costs to design, create, and obtain Commission approval for the Company's Phase III EEC Programs include, but are not limited to, consultant costs, legal fees, and other direct and indirect costs associated with the development and implementation of the Company's Phase III EEC Programs in compliance with Commission directives.

RIDERS

Rider xxxx (continued)

- EEC_{Exp3} = An allocated portion of the costs the Company incurs and projects to incur to fund the Commission's statewide evaluator contract which shall be excluded in the final determination of the Act 129 limitation on the Company's Phase III EEC Programs costs.
- E = The cumulative over or under-collection of EEC costs by Customer Class that results from the billing of the Phase III EEC-C rates (an over-collection is denoted by a positive E and an under-collection by a negative E).
- E^2 = Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016 (an over-collection is denoted by a positive E and an under-collection by a negative E).
- S = The Company's projected Billing Units (kWh sales delivered to all Customers in the specific Customer Class or kW PLC demand for the Industrial Customer Class).
- T = The Pennsylvania gross receipts tax rate in effect during the billing month expressed in decimal form as reflected in the Company's base rates.

All capitalized terms not otherwise defined in this rider shall have the definitions specified in the Definitions of Terms section of this tariff. For the purpose of this rider, the following additional definitions shall apply:

RIDERS

Rider xxxx (continued)

1. EE&C-C Phase III Computational Period – The 12-month period from June 1 through May 31.
2. Phase III EE&C-C Initial Reconciliation Period – June 1, 2016 through March 31, 2017 for the initial period of the rider,
3. Phase III EE&C-C Reconciliation Period – The 12-month period ending March 31 each year thereafter, except for the Initial Reconciliation Period, for the duration of this rider.
4. Peak Load Contribution (“PLC”) – A Customer’s contribution to the Company’s transmission zone normalized summer peak load, as estimated by the Company in accordance with PJM rules and requirements.
5. Phase II EE&C – The energy efficiency plan that terminates on May 31, 2016. Revenues and EE&C Costs will continue to accrue past the termination date. A final reconciliation of the remaining balance will be included in the June 1, 2017 Phase III EE&C-C rate calculation.

The Company will submit to the Commission by May 1 of each year starting May 1, 2017: (1) a reconciliation between actual Phase III EE&C-C revenues and actual Phase III EE&C-C costs for the Phase III EE&C-C Reconciliation Period, except for the Phase III EE&C-C Initial Reconciliation Period, as adjusted for removal of gross receipts tax; (2) any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be billed during April through May of that year, as adjusted for removal of gross receipts tax; (3) the Phase III EE&C program cost estimate for the forthcoming Phase III EE&C-C Computational Period by customer class; and (4) Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016. There shall also be a final reconciliation of amounts to be collected or refunded after May 31, 2021.

Upon determination that the Phase III EE&C-C rates, if left unchanged, would result in material over or under-collection of all recoverable costs incurred or expected to be incurred by customer class, the Company may request that the Commission approve one or more interim revisions to the Phase III EE&C-C rates to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

The Company shall file an annual report of collections under this rider by June 30th of each year starting June 30, 2017 until the conclusion of this rider.

At the conclusion of the duration of this rider, the Company is authorized to recover or refund any remaining amounts not reconciled at that time under such mechanism as approved by the Commission.

Application of the Phase III EE&C-C rates shall be subject to annual review and audit by the Commission.

PHASE III ENERGY EFFICIENCY AND CONSERVATION CHARGE RIDER

An Energy Efficiency and Conservation (“EEC”) Charge (“Phase III EE&C-C”) shall be applied to each Billing Unit during a billing month to Customers served under this Tariff. Billing Units are defined as follows:

Residential, Non-profit, Commercial, and
Street Lighting Customer Classes: Per kWh

Industrial Customer Class: Per kW PLC

Residential, Non-profit, Commercial, and Street Lighting Customer Class rates will be calculated to the nearest one-thousandth of a cent per kWh. Industrial Customer Class rates will be calculated to the nearest one-hundredth of a dollar per kW PLC. The Phase III EE&C-C rates shall be calculated separately for each Customer Class according to the provisions of this rider.

For service rendered June 1, 2016 through May 31, 2017 the Phase III EE&C-C rates billed by customer class are as follows:

Residential Customer Class (Rate Schedules RS):

0.211 cents per kWh.

Non-profit Customer Class (Rate GS Special Provision for Volunteer Fire Companies, Non-Profit Senior Citizen Centers, Non-Profit Rescue Squad, and Non-Profit Ambulance Service; and Rate PNP):

3.044 cents per kWh.

Commercial Customer Class (Rate Schedules GS; GS Special Rule GSDS, GM; PLS;):

0.098 cents per kWh.

Street Lighting Customer Class (Rate Schedules SV; SVD; SM, and LED):

1.851 cents per kWh.

Industrial Customer Class (Rate GS Large, GP, and Rate GT):

\$ 0.32 per kW PLC.

RIDERS

Rider xxxxx (continued)

The Phase III EE&C-C rates by Customer Class shall be calculated in accordance with the formula set forth below:

$$EEC-C = [(EEC_C - E - E^2) / S] \times [1 / (1 - T)]$$

$$EEC_C = EEC_{Exp1} + EEC_{Exp2} + EEC_{Exp3}$$

Where:

- EEC-C = The charge in cents or dollar per Billing Unit by customer class as defined by this rider applied to each Billing Unit for the Rate Schedules identified in this rider.
- EEC_C = The Energy Efficiency and Conservation Costs by customer class incurred and projected to be incurred by the Company for the Phase III EE&C-C Computational Period calculated in accordance with the formula shown above.
- EEC_{Exp1} = Costs incurred and projected to be incurred associated with the customer class specific Phase II EE&C Programs as approved by the Commission for the Phase III EE&C-C Computational Period by customer class. These costs also include an allocated portion of any indirect costs incurred associated with all the Company's Phase III EE&C Programs for the Phase III EE&C-C Computational Period.
- EEC_{Exp2} = An allocated portion of incremental administrative start-up costs incurred by the Company through May 31, 2016 in connection with the development of the Company's Phase III EE&C Programs in response to the Commission's orders and guidance at Docket Nos. M-2012-2289411 and M-2008-2069887. These costs to design, create, and obtain Commission approval for the Company's Phase III EE&C Programs include, but are not limited to, consultant costs, legal fees, and other direct and indirect costs associated with the development and implementation of the Company's Phase III EE&C Programs in compliance with Commission directives.

RIDERS

Rider xxxxx (continued)

- EEC_{Exp3} = An allocated portion of the costs the Company incurs and projects to incur to fund the Commission's statewide evaluator contract which shall be excluded in the final determination of the Act 129 limitation on the Company's Phase III EE&C Programs costs.
- E = The cumulative over or under-collection of Phase II EE&C costs by Customer Class that results from the billing of the Phase II EE&C-C rates (an over-collection is denoted by a positive E and an under-collection by a negative E).
- E^2 = Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016 (an over-collection is denoted by a positive E and an under-collection by a negative E).
- S = The Company's projected Billing Units (kWh sales delivered to all Customers in the specific Customer Class or kW PLC demand for the Industrial Customer Class).
- T = The Pennsylvania gross receipts tax rate in effect during the billing month expressed in decimal form as reflected in the Company's base rates.

All capitalized terms not otherwise defined in this rider shall have the definitions specified in the Definitions of Terms section of this Tariff. For the purpose of this Rider, the following additional definitions shall apply:

RIDERS

Rider xxxx (continued)

1. Phase III EE&C-C Computational Period – The 12-month period from June 1 through May 31.
2. Phase III EE&C-C Initial Reconciliation Period – June 1, 2016 through March 31, 2017 for the initial period of the rider,
3. Phase III EE&C-C Reconciliation Period – The 12-month period ending March 31 each year thereafter, except for the Initial Reconciliation Period, for the duration of this rider.
4. Peak Load Contribution (“PLC”) – A Customer’s contribution to the Company’s transmission zone normalized summer peak load, as estimated by the Company in accordance with PJM rules and requirements.
5. Phase II EE&C – The energy efficiency plan that terminates on May 31, 2016. Revenues and EE&C Costs will continue to accrue past the termination date. A final reconciliation of the remaining balance will be included in the June 1, 2017 Phase III EE&C-C rate calculation.

The Company will submit to the Commission by May 1 of each year starting May 1, 2017: (1) a reconciliation between actual Phase III EE&C-C revenues and actual Phase III EE&C-C costs for the Phase III EE&C-C Reconciliation Period, except for the Phase III EE&C-C Initial Reconciliation Period, as adjusted for removal of gross receipts tax; (2) any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be billed during April through May of that year, as adjusted for removal of gross receipts tax; (3) the Phase III EE&C program cost estimate for the forthcoming Phase III EE&C-C Computational Period by customer class; and (4) Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016. There shall also be a final reconciliation of amounts to be collected or refunded after May 31, 2021.

Upon determination that the Phase III EE&C-C rates, if left unchanged, would result in material over or under-collection of all recoverable costs incurred or expected to be incurred by customer class, the Company may request that the Commission approve one or more interim revisions to the Phase III EE&C-C rates to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

The Company shall file an annual report of collections under this rider by June 30th of each year starting June 30, 2017 until the conclusion of this rider.

At the conclusion of the duration of this rider, the Company is authorized to recover or refund any remaining amounts not reconciled at that time under such mechanism as approved by the Commission.

Application of the Phase III EE&C-C rates shall be subject to annual review and audit by the Commission

RIDER xxxxx
PHASE III ENERGY EFFICIENCY AND CONSERVATION CHARGE RIDER

An Energy Efficiency and Conservation (“EEC”) Charge (“Phase III EE&C-C”) shall be applied to each Billing Unit during a billing month to Customers served under this Tariff. Billing Units are defined as follows:

Residential, Non-profit, Commercial, and
Street Lighting Customer Classes: Per kWh

Industrial Customer Class: Per kW PLC

Residential, Non-profit, Commercial, and Street Lighting Customer Class rates will be calculated to the nearest one-thousandth of a cent per kWh. Industrial Customer Class rates will be calculated to the nearest one-hundredth of a dollar per kW PLC. The Phase III EE&C-C rates shall be calculated separately for each Customer Class according to the provisions of this rider.

For service rendered June 1, 2016 through May 31, 2017 the Phase III EE&C-C rates billed by customer class are as follows:

Residential Customer Class (Rate Schedule 10):

0.183 cents per kWh.

Non-profit Customer Class (Rate Schedule 20 - Special Provision for voluntary fire companies, non-profit senior citizen centers, non-profit rescue squads):

2.200 cents per kWh.

Commercial Customer Class (Rate Schedules 20 and 30):

0.042 cents per kWh.

Street Lighting Customer Class (Rate Schedules 51 through 58, 71, 72):

0.378 cents per kWh.

Industrial Customer Class (Rate Schedule 35, 40, 44, 46 and Tariff No. 37):

\$ 0.15 per kW PLC.

RIDERS

Rider xxxxx (continued)

The Phase II EE&C-C rates by Customer Class shall be calculated in accordance with the formula set forth below:

$$EEC-C = [(EEC_C - E - E^2) / S] \times [1 / (1 - T)]$$

$$EEC_C = EEC_{Exp1} + EEC_{Exp2} + EEC_{Exp3}$$

Where:

- EEC-C = The charge in cents or dollar per Billing Unit by customer class as defined by this rider applied to each Billing Unit for the Rate Schedules and Tariffs identified in this rider.
- EEC_C = The Energy Efficiency and Conservation Costs by customer class incurred and projected to be incurred by the Company for the Phase III EE&C-C Computational Period calculated in accordance with the formula shown above.
- EEC_{Exp1} = Costs incurred and projected to be incurred associated with the Customer Class specific EE&C Programs as approved by the Commission for the Phase III EE&C-C Computational Period by Customer Class. These costs also include an allocated portion of any indirect costs incurred associated with all the Company's Phase III EE&C Programs for the Phase III EE&C-C Computational Period.
- EEC_{Exp2} = An allocated portion of incremental administrative start-up costs incurred by the Company through May 31, 2016 in connection with the development of the Company's Phase III EE&C Programs in response to the Commission's orders and guidance at Docket Nos. M-2012-2289411 and M-2008-2069887. These costs to design, create, and obtain Commission approval for the Company's Phase III EE&C Programs include, but are not limited to, consultant costs, legal fees, and other direct and indirect costs associated with the development and implementation of the Company's Phase III EE&C Programs in compliance with Commission directives.

RIDERS

Rider xxxxx(continued)

- EEC_{Exp3} = An allocated portion of the costs the Company incurs and projects to incur to fund the Commission's statewide evaluator contract which shall be excluded in the final determination of the Act 129 limitation on the Company's Phase III EE&C Programs costs.
- E = The cumulative over or under-collection of Phase III EE&C costs by customer class that results from the billing of the Phase III EE&C-C rates (an over-collection is denoted by a positive E and an under-collection by a negative E).
- E^2 = Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016 (an over-collection is denoted by a positive E and an under-collection by a negative E).
- S = The Company's projected Billing Units (kWh sales delivered to all Customers in the specific Customer Class or kW PLC demand for the Industrial Customer Class).
- T = The Pennsylvania gross receipts tax rate in effect during the billing month expressed in decimal form as reflected in the Company's base rates.

All capitalized terms not otherwise defined in this rider shall have the definitions specified in the Definitions of Terms section of this Tariff. For the purpose of this Rider, the following additional definitions shall apply:

RIDERS

Rider xxxx (continued)

1. Phase III EE&C-C Computational Period – The 12-month period from June 1 through May 31.
2. Phase III EE&C-C Initial Reconciliation Period – June 1, 2016 through March 31, 2017 for the initial period of the rider,
3. Phase III EE&C-C Reconciliation Period – The 12-month period ending March 31 each year thereafter, except for the Initial Reconciliation Period, for the duration of this rider.
4. Peak Load Contribution (“PLC”) – A Customer’s contribution to the Company’s transmission zone normalized summer peak load, as estimated by the Company in accordance with PJM rules and requirements.
5. Phase II EE&C – The energy efficiency plan that terminates on May 31, 2016. Revenues and EE&C Costs will continue to accrue past the termination date. A final reconciliation of the remaining balance will be included in the June 1, 2017 Phase III EE&C-C rate calculation.

The Company will submit to the Commission by May 1 of each year starting May 1, 2017: (1) a reconciliation between actual Phase III EE&C-C revenues and actual Phase III EE&C-C costs for the Phase III EE&C-C Reconciliation Period, except for the Phase III EE&C-C Initial Reconciliation Period, as adjusted for removal of gross receipts tax; (2) any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be billed during April through May of that year, as adjusted for removal of gross receipts tax; (3) the Phase III EE&C program cost estimate for the forthcoming Phase III EE&C-C Computational Period by customer class; and (4) Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016. There shall also be a final reconciliation of amounts to be collected or refunded after May 31, 2021.

Upon determination that the Phase III EE&C-C rates, if left unchanged, would result in material over or under-collection of all recoverable costs incurred or expected to be incurred by customer class, the Company may request that the Commission approve one or more interim revisions to the Phase III EE&C-C rates to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

The Company shall file an annual report of collections under this rider by June 30th of each year starting June 30, 2017 until the conclusion of this rider.

At the conclusion of the duration of this rider, the Company is authorized to recover or refund any remaining amounts not reconciled at that time under such mechanism as approved by the Commission.

Application of the Phase III EE&C-C rates shall be subject to annual review and audit by the Commission.

TARIFF No. 37 – PENNSYLVANIA STATE UNIVERSITY
PHASE III ENERGY EFFICIENCY AND CONSERVATION CHARGE RIDER

An Energy Efficiency and Conservation (“EEC”) Charge (“Phase III EE&C-C”) shall be applied to each Billing Unit during a billing month to Customers served under this Tariff, with the exception of those served under Borderline Service rates. Billing Units are defined as follows:

Industrial Customer Class: Per kW PLC

Residential, Non-profit, Commercial, and Street Lighting Customer Class rates will be calculated to the nearest one-thousandth of a cent per kWh. Industrial Customer Class rates will be calculated to the nearest one-hundredth of a dollar per kW PLC. The Phase III EE&C-C rates shall be calculated separately for each Customer Class according to the provisions of this rider.

For service rendered June 1, 2016 through May 31, 2017 the Phase III EE&C-C rates billed by customer class are as follows:

Industrial Customer Class :

\$ 0.15 per kW PLC.

RIDERS

The Phase III EE&C-C rates by Customer Class shall be calculated in accordance with the formula set forth below:

$$EEC-C = [(EEC_C - E - E^2) / S] \times [1 / (1 - T)]$$

$$EEC_C = EEC_{Exp1} + EEC_{Exp2} + EEC_{Exp3}$$

Where:

EEC-C = The charge in cents or dollar per Billing Unit by customer class as defined by this rider applied to each Billing Unit for the Rate Schedules identified in this rider.

EEC_C = The Energy Efficiency and Conservation Costs by customer class incurred and projected to be incurred by the Company for the Phase III EE&C-C Computational Period calculated in accordance with the formula shown above.

EEC_{Exp1} = Costs incurred and projected to be incurred associated with the customer class specific EE&C Programs as approved by the Commission for the Phase III EE&C-C Computational Period by Customer Class. These costs also include an allocated portion of any indirect costs incurred associated with all the Company's Phase III EE&C Programs for the Phase III EE&C-C Computational Period.

EEC_{Exp2} = An allocated portion of incremental administrative start-up costs incurred by the Company through May 31, 2016 in connection with the development of the Company's Phase III EE&C Programs in response to the Commission's orders and guidance at Docket Nos. M-2012-2289411 and M-2008-2069887. These costs to design, create, and obtain Commission approval for the Company's Phase III EE&C Programs include, but are not limited to, consultant costs, legal fees, and other direct and indirect costs associated with the development and implementation of the Company's Phase III EE&C Programs in compliance with Commission directives.

RIDERS

- EEC_{Exp3} = An allocated portion of the costs the Company incurs and projects to incur to fund the Commission's statewide evaluator contract which shall be excluded in the final determination of the Act 129 limitation on the Company's Phase III EE&C Programs costs.
- E = The cumulative over or under-collection of EE&C costs by customer class that results from the billing of the Phase III EE&C-C rates (an over-collection is denoted by a positive E and an under-collection by a negative E).
- E^2 = Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016 (an over-collection is denoted by a positive E and an under-collection by a negative E).
- S = The Company's projected Billing Units (kW PLC demand for the Industrial Customer Class).
- T = The Pennsylvania gross receipts tax rate in effect during the billing month expressed in decimal form as reflected in the Company's base rates.

All capitalized terms not otherwise defined in this rider shall have the definitions specified in the Definitions of Terms section of this tariff. For the purpose of this rider, the following additional definitions shall apply:

RIDERS

1. Phase III EE&C-C Computational Period – The 12-month period from June 1 through May 31.
2. Phase III EE&C-C Initial Reconciliation Period – June 1, 2016 through March 31, 2017 for the initial period of the rider,
3. Phase III EE&C-C Reconciliation Period – The 12-month period ending March 31 each year thereafter, except for the Initial Reconciliation Period, for the duration of this rider.
4. Peak Load Contribution (“PLC”) – A Customer’s contribution to the Company’s transmission zone normalized summer peak load, as estimated by the Company in accordance with PJM rules and requirements.
5. Phase II EE&C – The energy efficiency plan that terminates on May 31, 2016. Revenues and EE&C Costs will continue to accrue past the termination date. A final reconciliation of the remaining balance will be included in the June 1, 2017 Phase III EE&C-C rate calculation.

The Company will submit to the Commission by May 1 of each year starting May 1, 2017: (1) a reconciliation between actual Phase III EE&C-C revenues and actual Phase III EE&C-C costs for the Phase III EE&C-C Reconciliation Period, except for the Phase III EE&C-C Initial Reconciliation Period, as adjusted for removal of gross receipts tax; (2) any adjustment to the forecasted Phase III EE&C-C revenues anticipated to be billed during April through May of that year, as adjusted for removal of gross receipts tax; (3) the Phase III EE&C program cost estimate for the forthcoming Phase III EE&C-C Computational Period by customer class; and (4) Phase II EE&C final reconciliation over or under-collection of EEC costs by customer class that results from the billing of the Phase II EEC-C rates and remaining Phase II EEC costs incurred after March 31, 2016. There shall also be a final reconciliation of amounts to be collected or refunded after May 31, 2021.

Upon determination that the Phase III EE&C-C rates, if left unchanged, would result in material over or under-collection of all recoverable costs incurred or expected to be incurred by customer class, the Company may request that the Commission approve one or more interim revisions to the Phase III EE&C-C rates to become effective thirty (30) days from the date of filing, unless otherwise ordered by the Commission.

The Company shall file an annual report of collections under this rider by June 30th of each year starting June 30, 2017 until the conclusion of this rider.

At the conclusion of the duration of this rider, the Company is authorized to recover or refund any remaining amounts not reconciled at that time under such mechanism as approved by the Commission.

Application of the Phase III EE&C-C rates shall be subject to annual review and audit by the Commission.

**Calculation of Metropolitan Edison Company's Phase III Energy Efficiency and Conservation ("EE&C-C") Charge ("EE&C-C") Rates
For the Rate Period June 1, 2016 through May 31, 2017**

Line No.	Description	Met-Ed Residential Customer Class	Met-Ed Non-profit Customer Class	Met-Ed Commercial Customer Class	Met-Ed Street Lighting Customer Class	Met-Ed Industrial Customer Class	Met-Ed Total
		(1)	(2)	(3)	(4)	(5)	(6)
1	Total Met-Ed Projected Program Costs for the period June 1, 2016 through May 31, 2017 subject to 2% cap	15,568,152	220,765	4,008,866	42,419	3,340,117	23,180,319
2	Met-Ed's Share of Statewide Evaluator Costs (June 1, 2016 through May 31, 2017)	<u>326,403</u>	<u>4,629</u>	<u>84,050</u>	<u>889</u>	<u>70,029</u>	<u>486,000</u>
3	Total Met-Ed Projected Program Costs including Statewide Evaluator Cost (Line 1 + Line 2)	\$ 15,894,555	\$ 225,394	\$ 4,092,916	\$ 43,308	\$ 3,410,146	\$ 23,666,319
4	Phase II (over)/under collection through October 31, 2015 (to be updated at compliance filing)	<u>(5,927,091)</u> ^(D)	<u>(17,928)</u>	<u>(1,483,909)</u>	<u>(69,164)</u>	<u>(1,948,253)</u>	<u>(9,446,345)</u>
5	Total to be collected June 1, 2016 to May 31, 2017	\$ 9,967,463.98	\$ 207,465.73	\$ 2,609,007.38	\$ (25,856.08)	\$ 1,461,892.98	\$ 14,219,974
6	Customer Class Projected Kilowatt-Hours ("kWh") Delivered or Peak Load Contribution Kilowatt ("kW") for June 1, 2016 - May 31, 2017	5,101,715,244 kWhs	15,693,228 kWhs	2,916,566,830 kWhs	29,062,158 kWhs	10,029,432 kWhs	
7	Phase II - EE&C-C Rates Before Pa Gross Receipts Tax Gross-Up Factor (Line 5 / Line 6)	\$ 0.00195 per kWh	\$ 0.01322 per kWh	\$ 0.00089 per kWh	\$ (0.00089) per kWh	\$ 0.14576 per kW	
8	Pa Gross Receipts Tax Gross-Up Factor [1 / (1-T)] with T = 5.90% Pa Gross Receipts Tax in Base Rates]	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	
9	Proposed Phase II EE&C-C Rates Effective June 1, 2016 (Line 7 X Line 8)	<u>\$ 0.00208</u> per kWh	<u>\$ 0.01405</u> per kWh	<u>\$ 0.00095</u> per kWh	<u>\$ (0.00095)</u> per kWh	<u>\$ 0.15</u> per kW	

- (A) Pennsylvania's Act 129 of 2008 states that the maximum annual cost recovery for Energy Efficiency and Conservation Programs cannot exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006.
 (B) For purposes of the Industrial class rate calculation, the billing unit is equal to the Peak Load Share in kW.
 (C) All costs and revenue estimates are current budgets, and subject to modification at a future date. The Statewide Evaluator Cost utilized is the estimate based on the expense incurred for Phase II.
 (D) Includes refund of IDER Decommissioning

**Calculation of Pennsylvania Electric Company's Phase II Energy Efficiency and Conservation ("EE&C-C") Charge ("EE&C-C") Rates
For the Rate Period June 1, 2016 through May 31, 2017**

Line No.	Description	Penelec Residential	Penelec Non-profit	Penelec Commercial	Penelec Street Lighting	Penelec Industrial	Penelec Total
		Customer Class (1)	Customer Class (2)	Customer Class (3)	Customer Class (4)	Customer Class (5)	Total (6)
1	Total Penelec Projected Program Costs for the period June 1, 2016 through May 31, 2017 subject to 2% cap	15,408,124	427,590	4,119,558	36,786	2,571,535	22,563,594
2	Penelec's Share of Statewide Evaluator Costs (June 1, 2016 through May 31, 2017)	<u>356,461</u>	<u>9,892</u>	<u>95,304</u>	<u>851</u>	<u>59,491</u>	<u>522,000</u>
3	Total Penelec Projected Program Costs including Statewide Evaluator Cost (Line 1 + Line 2)	\$ 15,764,585	\$ 437,482	\$ 4,214,863	\$ 37,637	\$ 2,631,027	\$ 23,085,594
4	Phase II (over)/under collection through October 31, 2015 (to be updated at compliance filing)	<u>(2,467,724)</u>	<u>150,551</u>	<u>(3,091,394)</u>	<u>(126,725)</u>	<u>(636,725)</u>	<u>(6,172,017)</u>
5	Total to be collected June 1, 2016 to May 31, 2017	\$ 13,296,861	\$ 588,033	\$ 1,123,469	\$ (89,088)	\$ 1,994,302	\$ 16,913,577
6	Customer Class Projected Kilowatt-Hours ("kWh") Delivered or Peak Load Contribution Kilowatt ("kW") for June 1, 2016 - May 31, 2017	4,035,385,308 kWh	43,171,253 kWh	3,496,289,791 kWh	38,406,213 kWh	10,032,498 kWh	
7	Phase II - EE&C-C Rates Before Pa Gross Receipts Tax Gross-Up Factor (Line 5 / Line 6)	\$ 0.00330 per kWh	\$ 0.01362 per kWh	\$ 0.00032 per kWh	\$ (0.00232) per kWh	\$ 0.19878 per kW	
8	Pa Gross Receipts Tax Gross-Up Factor [1 / (1-T) with T = 5.90% Pa Gross Receipts Tax in Base Rates]	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	
9	Proposed Phase II EE&C-C Rates Effective June 1, 2016 (Line 7 X Line 8)	<u>\$ 0.00350</u> per kWh	<u>\$ 0.01447</u> per kWh	<u>\$ 0.00034</u> per kWh	<u>\$ (0.00247)</u> per kWh	<u>\$ 0.21</u> per kW	

(A) Pennsylvania's Act 129 of 2008 states that the maximum annual cost recovery for Energy Efficiency and Conservation Programs cannot exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006.

(B) For purposes of the Industrial class rate calculation, the billing unit is equal to the Peak Load Share in kW.

(C) All costs and revenue estimates are current budgets, and subject to modification at a future date. The Statewide Evaluator Cost utilized is the estimate that was used in calculation of rates for Phase II.

**Calculation of Pennsylvania Power Company's Phase II Energy Efficiency and Conservation ("EE&C-C") Charge ("EE&C-C") Rates
For the Rate Period June 1, 2016 through May 31, 2017**

Line No.	Description	Penn Power Residential Customer Class (1)	Penn Power Non-profit Customer Class (2)	Penn Power Commercial Customer Class (3)	Penn Power Street Lighting Customer Class (4)	Penn Power Industrial Customer Class (5)	Penn Power Total (6)
1	Total Penn Power Projected Program Costs for the period June 1, 2016 through May 31, 2017 subject to 2% cap	4,368,115	68,890	1,150,442	40,024	\$ 746,771	6,374,242
2	Penn Power's Share of Statewide Evaluator Costs (June 1, 2016 through May 31, 2017)	<u>98,680</u>	<u>1,556</u>	<u>25,990</u>	<u>904</u>	<u>16,870</u>	<u>144,000</u>
3	Total Penn Power Projected Program Costs including Statewide Evaluator Cost (Line 1 + Line 2)	\$ 4,466,795	\$ 70,447	\$ 1,176,432	\$ 40,928	\$ 763,641	\$ 6,518,242
4	Phase II (over)/under collection through October 31, 2015 (to be updated at compliance filing)	<u>(1,121,628)</u>	<u>23,884</u>	<u>(628,304)</u>	<u>88,894</u>	<u>(58,521)</u>	<u>(1,695,675)</u>
5	Total to be collected June 1, 2016 to May 31, 2017	\$ 3,345,167	\$ 94,331	\$ 548,128	\$ 129,822	\$ 705,120	\$ 4,822,567
6	Customer Class Projected Kilowatt-Hours ("kWh") Delivered or Peak Load Contribution Kilowatt ("kW") for June 1, 2016 - May 31, 2017	1,582,205,261 kWhs	3,686,226 kWhs	946,924,742 kWhs	6,247,302 kWhs	3,386,247 kWhs	
7	Phase II EE&C-C Rates Before Pa Gross Receipts Tax Gross-Up Factor (Line 5 / Line 6)	\$ 0.00211 per kWh	\$ 0.02559 per kWh	\$ 0.00058 per kWh	\$ 0.02078 per kWh	\$ 0.20823 per kWh	
8	Pa Gross Receipts Tax Gross-Up Factor [1 / (1-T) with T = 5.90% Pa Gross Receipts Tax in Base Rates]	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	
9	Proposed Phase II EE&C-C Rates Effective June 1, 2016 (Line 7 X Line 8)	<u>\$ 0.00225</u> per kWh	<u>\$ 0.02719</u> per kWh	<u>\$ 0.00062</u> per kWh	<u>\$ 0.02208</u> per kWh	<u>\$ 0.22</u> per kWh	

(A) Pennsylvania's Act 129 of 2008 states that the maximum annual cost recovery for Energy Efficiency and Conservation Programs cannot exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006.

(B) For purposes of the Industrial class rate calculation, the billing unit is equal to the Peak Load Share in kW.

(C) All costs and revenue estimates are current budgets, and subject to modification at a future date. The Statewide Evaluator Cost utilized is the estimate that was used in calculation of rates for Phase II.

**Calculation of West Penn Power Company's Phase II Energy Efficiency and Conservation ("EE&C-C") Charge ("EE&C-C") Rates
For the Rate Period June 1, 2016 through May 31, 2017**

Line No.	Description	West Penn Power Residential Customer Class (1)	West Penn Power Non-profit Customer Class (2)	West Penn Power Commercial Customer Class (3)	West Penn Power Street Lighting Customer Class (4)	West Penn Power Industrial Customer Class (5)	West Penn Power Total (6)
1	Total West Penn Power Projected Program Costs for the period June 1, 2016 through May 31, 2017 subject to 2% cap	\$ 13,837,509	\$ 292,015	\$ 3,820,563	\$ 55,189	\$ 3,246,982	\$ 21,252,258
2	West Penn Power's Share of Statewide Evaluator Costs (June 1, 2016 through May 31, 2017)	<u>421,918</u>	<u>8,904</u>	<u>116,492</u>	<u>1,683</u>	<u>99,003</u>	<u>648,000</u>
3	Total West Penn Power Projected Program Costs including Statewide Evaluator Cost (Line 1 + Line 2)	\$ 14,259,427	\$ 300,919	\$ 3,937,055	\$ 56,872	\$ 3,345,985	\$ 21,900,258
4	Phase II (over)/under collection through October 31, 2015 (to be updated at compliance filing)	<u>\$ (1,917,713)</u>	<u>\$ 137,859</u>	<u>\$ (3,383,437)</u>	<u>\$ 102,974</u>	<u>\$ (2,125,662)</u>	<u>\$ (7,185,979)</u>
5	Total to be collected June 1, 2016 to May 31, 2017	\$ 12,341,714	\$ 438,778	\$ 553,618	\$ 159,846	\$ 1,220,323	\$ 14,714,279
6	Customer Class Projected Kilowatt-Hours ("kWh") Delivered or Peak Load Contribution Kilowatt ("kW") for June 1, 2016 - May 31, 2017	6,704,789,273 kWhs	19,409,418 kWhs	4,089,705,465 kWhs	47,669,319 kWhs	11,956,440 kWhs	
7	Tax Gross-Up Factor (Line 5 / Line 6)	\$ 0.00184 per kWh	\$ 0.02261 per kWh	\$ 0.00014 per kWh	\$ 0.00335 per kWh	\$ 0.10 per kW	
8	Pa Gross Receipts Tax Gross-Up Factor [1 / (1-T) with T = 5.90% Pa Gross Receipts Tax in Base Rates]	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	<u>1.062699</u>	
9	Proposed Phase II EE&C-C Rates Effective June 1, 2016 (Line 7 X Line 8)	<u><u>\$ 0.00196</u></u> per kWh	<u><u>\$ 0.02402</u></u> per kWh	<u><u>\$ 0.00014</u></u> per kWh	<u><u>\$ 0.00356</u></u> per kWh	<u><u>\$ 0.11</u></u> per kW	

(A) Pennsylvania's Act 129 of 2008 states that the maximum annual cost recovery for Energy Efficiency and Conservation Programs cannot exceed 2% of the electric distribution company's total annual revenue as of

(B) For purposes of the Industrial class rate calculation, the billing unit is equal to the Peak Load Share in kW.

(C) All costs and revenue estimates are current budgets, and subject to modification at a future date. The Statewide Evaluator Cost utilized is the estimate that was used in calculation of rates for Phase II.