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February 16, 2016

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

**Re: Petition of Pennsylvania Power Company for Approval To Establish and Implement
A Distribution System Improvement Charge
Docket No. P-2015-2508931**

Dear Secretary Chiavetta:

Enclosed for filing is the *Petition of Pennsylvania Power Company for Approval To Establish and Implement A Distribution System Improvement Charge* ("Petition"). The Petition is accompanied by Penn Power Statement No. 1, the Direct Testimony of Kevin M. Siedt, and Penn Power Exhibits KMS-1 through KMS-5. Penn Power Exhibit KMS-2 is the Company's proposed Distribution System Improvement Charge ("DSIC") Rider, which the Company is requesting be approved to become effective on July 1, 2016.

Copies of the enclosed Petition and supporting Direct Testimony with accompanying Exhibits have been served on the persons and in the manner shown on the enclosed Certificate of Service.



Very truly yours,


Anthony C. DeCusatis

c: Paul T. Diskin, Director, Bureau of Technical Utility Services (w/encls.)
Bohdan R. Pankiw, Chief Counsel, Law Bureau (w/encls.)
Per Certificate of Service (w/encls.)

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PENNSYLVANIA : Docket No. P-2015-2508931
POWER COMPANY FOR APPROVAL :
TO ESTABLISH AND IMPLEMENT A :
DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Petition of Pennsylvania Power Company for Approval To Establish and Implement A Distribution System Improvement Charge** on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

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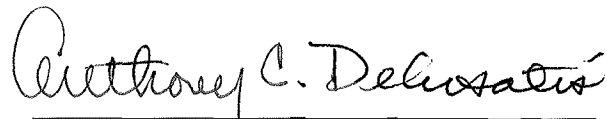
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Date: February 16, 2016

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA
POWER COMPANY FOR APPROVAL
TO ESTABLISH AND IMPLEMENT A
DISTRIBUTION SYSTEM
IMPROVEMENT CHARGE** :
: **DOCKET NO. P-2015-2508931**
:
:

PETITION OF PENNSYLVANIA POWER COMPANY

Pursuant to Section 1353(b) of the Public Utility Code¹ (66 Pa.C.S. § 1353(b)), Pennsylvania Power Company (“Penn Power” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (the “Commission”) to establish and implement a distribution system improvement charge (“DSIC”) to recover, outside of a base rate case, a return on and a return of capitalized costs related to eligible property constructed or installed to rehabilitate, improve and replace portions of its electric distribution system. Accordingly, Penn Power requests that the Commission authorize the Company to file as a tariff supplement the rider being submitted as Penn Power Exhibit KMS-2 (“DSIC Rider”) to become effective on one-day’s notice for bills rendered on and after July 1, 2016. As explained below, this Petition and the accompanying testimony and exhibits contain all of the elements, and provide all of the information, required by Section 1353(b) and the Commission’s *Final Implementation Order*² for the Commission to grant Penn Power approval to establish and implement a DSIC pursuant to the DSIC Rider.

¹ Hereafter, all section references are to the Pennsylvania Public Utility Code unless otherwise noted.
² *Implementation of Act 11 of 2012 – Final Implementation Order*, Docket No. M-2012-2293611 (August 2, 2012) (“*Final Implementation Order*”), p. 22.

I. INTRODUCTION AND BACKGROUND

1. Act 11 of 2012 (“Act 11”), which was signed into law on February 4, 2012, amended Chapters 3 and 13 of the Public Utility Code by, among other things, adding Sections 1350-1360, which authorize utilities, including electric utilities, to implement a DSIC.

2. On August 2, 2012, the Commission entered the Final Implementation Order, which sets forth procedures and guidelines for implementing Act 11 and, in particular, the DSIC provisions of that Act.³ As part of the Final Implementation Order, the Commission promulgated a Model Tariff that contains the terms and conditions that must be incorporated in a tariff or tariff supplement filed by an eligible utility to establish a DSIC.

3. Penn Power provides electric distribution service to approximately 163,000 customers in a certificated service territory encompassing all or portions of six counties in western Pennsylvania. Penn Power is a “public utility” and an “electric distribution company” (“EDC”) as those terms are defined in the Code.⁴ Penn Power, together with Metropolitan Edison Company, Pennsylvania Electric Company, and West Penn Power Company, is one of four subsidiaries of FirstEnergy Corp. that furnish electric distribution service as public utilities and EDCs in Pennsylvania.

4. The names and addresses of Penn Power’s attorneys authorized to receive all notices and communications regarding this filing are as follows:

³ The *Final Implementation Order* was entered after the Commission had issued its *Tentative Implementation Order* on May 10, 2012, and had considered comments filed by interested parties in response to the *Tentative Implementation Order*. See *Final Implementation Order*, p. 3.

⁴ See 66 Pa.C.S. §§ 102 and 2803.

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II. PENN POWER'S LONG-TERM INFRASTRUCTURE IMPROVEMENT PLAN ("LTIP" OR THE "PLAN")

5. Section 1352(a) provides that, before an EDC can request approval to establish a DSIC, it must submit an LTIP that:

- a. Identifies the types and ages of property that the utility will improve or replace with eligible property for which it will seek cost recovery under a DSIC;
- b. Furnishes an initial schedule for the planned repair or replacement of eligible property;
- c. Identifies, generally, the location of the eligible property;
- d. Provides a reasonable estimate of the quantity of eligible property to be improved or replaced;
- e. Provides projections of annual expenditures to implement the plan and the measures to be taken to ensure the plan is cost-effective; and
- f. Explains how the accelerated repair, improvement or replacement of eligible property will ensure and maintain adequate, efficient, safe, reliable and reasonable service.

6. On October 19, 2015, Penn Power filed its LTIP for a five-year term from 2016 through 2020. (A copy of the Company's LTIP is being provided as Penn Power Exhibit KMS-1.) The Company's LTIP conforms to the requirements of Section 1352 and contains the eight

major elements set forth in Section 121.3(a) of the Commission's regulations (52 Pa. Code §121.3(a)(1)-(8)). The LTIP covers a broad spectrum of distribution-related equipment and facilities that, as discussed in Appendix A of the Plan, are grouped into six categories of DSIC-eligible property consisting of the following:

- Circuit Ties, Loops and New Sources
- Install Supervisory Control and Data Acquisition (SCADA) Devices
- Replace Overhead Conductors
- Underground Residential Development (URD) Cable Replacement
- Wood Pole Replacement
- Unreimbursed Highway Relocation

7. Upon the Commission's approval of Penn Power's request to implement a DSIC, the Company proposes to increase its projected capital investment, pursuant to its LTIP, by \$56.35 million over the five-year term of its Plan, in order to implement the infrastructure improvement initiatives described above. As more fully explained in its LTIP, those initiatives are designed to strengthen, upgrade, and modernize the Company's distribution system and, in that way, enhance customer service and reliability.

8. On February 11, 2016, the Commission entered a final order that made the findings required by its regulations at 53 Pa. Code § 121.4(e) for approval of an LTIP – specifically, that Penn Power's LTIP:

- (1) Contains measures to ensure that the projected annual expenditures are cost-effective.
- (2) Specifies the manner in which it accelerates or maintains an accelerated rate of infrastructure repair, improvement or replacement.
- (3) Is sufficient to ensure and maintain adequate, efficient, safe, reliable and reasonable service.
- (4) Meets the requirements of § 121.3(a) (relating to LTIP).

Accordingly, based on the findings in its final order, the Commission determined that Penn Power's LTIP satisfies the requirements of Section 1352(a)(7) and, therefore, granted its approval of the Plan.

III. SECTION 1353(B) AND THE FINAL IMPLEMENTATION ORDER

9. Section 1353(b) provides that a petition requesting Commission approval to establish a DSIC must include:

- a. An initial tariff that conforms to a Model Tariff adopted by the Commission containing the minimum requirements specified in Section 1352(b)(1);
- b. Testimony, affidavits, exhibits or other evidence that demonstrate that DSIC is in the public interest and will facilitate the utility's compliance with Section 1501, the Commission's regulations and orders and the requirements of state and federal law as each relates to the utility's provision of adequate, efficient, safe, reliable and reasonable service;
- c. A long-term infrastructure improvement plan that conforms to the requirements of Section 1352; and
- d. Certification that a base rate case has been filed within five years of the date the petition is filed and, if not, the utility must file a base rate case to be eligible to implement a DSIC.

10. In the *Final Implementation Order*, the Commission incorporated the terms of Section 1353(b) and, as required by Section 1353(b)(1), adopted a Model Tariff. In addition, the Commission recommended that a utility not already employing a DSIC obtain the Commission's approval of an LTIP before filing a petition to establish a DSIC. The *Final Implementation Order* (pp. 22-24) also provided guidance on the form of notice that would be required to establish a DSIC and for quarterly changes in the DSIC rate. *Id.* at 24-26.

IV. PENN POWER'S REQUEST TO ESTABLISH A DSIC SATISFIES ALL OF THE REQUIREMENTS SET FORTH IN SECTION 1353(B) AND THE FINAL IMPLEMENTATION ORDER

A. Initial Tariff (Section 1353(b)(1))

11. As noted previously, Penn Power Exhibit KMS-2 is the Company's proposed DSIC Rider, which conforms fully to the Model Tariff adopted by the Commission in the Final Implementation Order and complies with the requirements of Section 1353(b)(1). In particular, the description of eligible property in Section 1.B. of the DSIC Rider has been adopted verbatim from the description of eligible property in the Model Tariff. In Section 2 of the DSIC Rider, Penn Power proposes that the DSIC and the initial DSIC rate of 0.299%⁵ become effective on July 1, 2016 and that quarterly changes in the DSIC rate will be filed thereafter to become effective on the first day of October, January, April and July of each year. The method of calculating each quarterly DSIC change in the DSIC rate is set forth in Section 2.D. of the DSIC Rider and follows the formula set forth in the Model Tariff. In that regard, Penn Power has elected to use projected quarterly revenues rather than one-fourth of its projected annual revenues. As required by the Final Implementation Order, the DSIC will be applied on a bills-rendered basis. *Id.* at 26-28. The DSIC will apply equally to all customer classes except customers served on Rate Schedules GSDS and GT at voltage levels over 46,000 volts.⁶

B. Testimony, Affidavits, Exhibits or Other Evidence (Section 1353(b)(2))

12. Accompanying this Petition, Penn Power is submitting Penn Power Statement No. 1, the direct testimony of Kevin M Siedt. Mr. Siedt is also sponsoring Penn Power Exhibit

⁵ A calculation of the initial DSIC rate is provided as Penn Power Exhibit KMS-3.

⁶ The reasons for not applying the DSIC to customers served on Rate Schedules GSDS and GT at voltage levels over 46,000 volts are set forth in more detail in Penn Power Statement No. 1, which is submitted with this Petition.

KMS-1 through KMS-5. Mr. Siedt's direct testimony: (1) summarizes the principal terms of Penn Power's DSIC Rider; (2) explains the calculation of Penn Power's proposed initial DSIC rate;⁷ (3) provides the information required by Section 1353(b), including an explanation of why the approval of Penn Power's proposed DSIC is in the public interest; (4) discusses the impact of the initial and subsequent DSIC rates on customers' electric bills; and (5) describes how customers will receive notice of the filing of the Company's Petition and of quarterly DSIC rate updates.

C. Penn Power's LTIP (Section 1353(b)(3))

13. As explained in Paragraph Nos. 5-8, above, Penn Power has previously filed its LTIP, which the Commission has already approved. A copy of Penn Power's LTIP is being submitted as Penn Power Exhibit KMS-1.

D. Certification That A Base Rate Case Has Been Filed Within Five Years (Section 1353(b)(4))

14. Penn Power filed an electric distribution base rate case on August 4, 2014, at Docket Nos. R-2014-2428744 et al. Complaints and interventions were submitted in connection with that rate filing, which resulted in its suspension, by operation of Section 1308(d), until May 3, 2015. The case was assigned to the Office of Administrative Law Judge for hearings and a recommended decision. Thereafter, a Joint Petition for Partial Settlement of Rate Investigation was executed, which was approved by the Commission in its final Order entered on April 9, 2015. Accordingly, Penn Power can certify that it has filed a base rate within five years of the filing of this Petition. Penn Power's certification is being submitted as Penn Power Exhibit KMS-4.

⁷ As explained by Mr. Siedt, the Company will update the calculation of its proposed initial DSIC rate based on actual data when it makes the requisite filing of its initial DSIC rate prior to that rate being placed into effect.

V. NOTICE TO CUSTOMERS

15. Section 1354 requires utilities to provide notice to customers “in bill inserts or through other means as prescribed by the Commission” for each of the following: (1) a utility’s submission to the Commission of a proposed DSIC in its initial tariff; (2) the Commission’s disposition of the utility’s proposed DSIC and initial tariff; (3) quarterly changes in the DSIC; and (4) any other information, as the Commission may require.

16. In the *Final Implementation Order*, the Commission considered various comments on the notice requirements and held as follows:

NFGD, First Energy and EAP all suggest that the Final Implementation Order should follow the straightforward language from the proposed model tariff, which required a bill insert on the initial filing of the DSIC and a bill message on subsequent changes. We agree and clarify that the notice requirement set forth in the proposed model tariff governs.


Id. at 26.

Consistent with Section 1354 and the Final Implementation Order, beginning with the first billing route starting on February 29, 2016, the Company will include a bill insert, in the form provided as Penn Power Exhibit KMS-5, in the bills issued to customers who are subject to the DSIC informing them of the filing of this Petition and the estimated impact of a DSIC on their bills. The Company will continue inserting such notices in customers’ bills until all customers subject to the DSIC have received notice. Additionally, customers will be notified of updates to the DSIC rate through a bill message. The DSIC rate will be shown on the bills of customers subject to the DSIC as a separate charge.

VI. CONCLUSION

17. Pennsylvania Power Company has satisfied all of the requirements set forth in Section 1353 and the Commission's *Final Implementation Order* to establish and implement a DSIC in conformity with the terms of the DSIC Rider provided as Penn Power Exhibit KMS-2. Accordingly, the Commission should enter an Order granting this Petition, authorizing Pennsylvania Power Company to establish and implement a DSIC and approving the DSIC Rider to be filed on one day's notice to become effective for bills rendered on and after July 1, 2016.

Respectfully submitted,



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Date: February 16, 2016

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA POWER :
COMPANY FOR APPROVAL TO :
ESTABLISH AND IMPLEMENT A : DOCKET NO. P-2015-2508931
DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :**

VERIFICATION

I, Kevin M. Siedt, verify and affirm that that the facts set forth in the foregoing Petition, my Direct Testimony (Statement No. 1) and Exhibits KMS-1 through KMS-5 are true and correct to the best of my knowledge, information and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Kevin M. Siedt

Dated: February 16, 2016

Penn Power Statement No. 1

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PENNSYLVANIA POWER COMPANY FOR
APPROVAL TO ESTABLISH AND IMPLEMENT A
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

Docket No. P-2015-2508931

**Direct Testimony
of
Kevin M. Siedt**

List of Topics Addressed

**Distribution System Improvement Charge Rider
Calculation of Initial Rate
Public Interest Considerations
Information Required By Section 1353(b) Of The Public Utility Code
Customer Bill Impact
Customer Notice**

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**DIRECT TESTIMONY
OF
KEVIN M. SIEDT**

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Please state your name and business address.**

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

5 **Q. By whom are you employed and in what capacity?**

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

8 **Q. What are your responsibilities as a Consultant in the Pennsylvania Rates and
9 Regulatory Affairs Department?**

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

19

1 **Q. What is your educational background?**

2 A. I obtained a Master's 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 **Q. What is the purpose of your direct testimony?**

7 A. The purpose of my direct testimony is to describe the Distribution System Improvement
8 Charge ("DSIC") Rider ("DSIC Rider") that Penn Power is requesting the Commission to
9 approve; provide a calculation of the initial charge under the proposed DSIC Rider,
10 which is subject to updating prior to the proposed effective date of that charge; and set
11 forth the information required by the Section 1353(b) of the Public Utility Code,¹
12 including addressing the public interest considerations identified in Section 1353(b)(2). I
13 will also discuss the impact of the initial and subsequent DSIC charges on customers'
14 electric bills and explain how customers will receive notice of the filing of the
15 Company's Petition and of quarterly DSIC rate updates.

16 **Q. Are you sponsoring any exhibits to your testimony?**

17 A. Yes, I am sponsoring Penn Power Exhibits KMS-1 through KMS-5, which accompany
18 my direct testimony. Each of these exhibits is described in more detail later in my
19 testimony.

20

¹ Unless stated or the context indicates otherwise, all references to a "Section" or "Sections" are to the Pennsylvania Public Utility Code.

1 **Q. Has the Commission approved a Long-Term Infrastructure Improvement Plan**
2 **(“LTIP” or “Plan”) for the Company?**

3 A. Yes. Pursuant to Section 1352, the Commission’s regulations at 52 Pa. Code §§ 121.1-
4 121.8 and the PUC’s final order entered on August 2, 2012 in *Implementation of Act 11*
5 *of 2012* at Docket No. M-2012-2293611 (“Final Implementation Order”), Penn Power
6 filed a proposed LTIP with the Commission on October 19, 2015. A copy of the
7 Company’s LTIP is being submitted as Penn Power Exhibit KMS-1. As provided in its
8 LTIP, Penn Power proposes to increase its projected capital investment by \$56.35
9 million over a five-year period (2016-2020) in order to strengthen, upgrade and
10 modernize its distribution system through various infrastructure improvement initiatives
11 that are described in detail in Appendix A to its Plan. By its final order entered on
12 February 11, 2016, the Commission found and determined that Penn Power’s LTIP
13 satisfies all of the requirements set forth in Section 1352(a)(7) and its regulations at 52
14 Pa. Code §§ 121.4(e)(1)-(4) and, therefore, approved Penn Power’s LTIP.²

15 **II. PENN POWER’S PROPOSED DSIC RIDER**

16 **Q. Please describe the rate adjustment mechanism that the Company proposes to**
17 **establish to recover the fixed costs of DSIC-eligible LTIP investments placed in**
18 **service between base rate cases.**

19 A. The Company proposes to implement a DSIC that conforms to the requirements and
20 specifications set forth in Sections 1353-1358 and the Final Implementation Order. Penn

² *Petition for Approval of Pennsylvania Power Company for Approval of its Long-Term Infrastructure Improvement Plan*, Docket No. P-2015-2508931 (Final Order entered February 11, 2016), pp. 29-30.

1 Power Exhibit KMS-2 is a copy of the Company's proposed DSIC Rider. The purpose of
2 the DSIC Rider, as described in Section 1350, is "to recover the reasonable and prudent
3 costs incurred to repair, improve, or replace eligible property that is part of the utility's
4 distribution system." Eligible property must be installed pursuant to an approved LTIP
5 (*see* Sections 1352 and 1353(b)(3)), not been previously reflected in the utility's rates or
6 rate base (*see* Section 1357(a)(1)(i)), and placed in service between base rate cases (*see*
7 Sections 1357(a)(1)(ii) and 1357(a)(2)). Pursuant to the terms of Penn Power's proposed
8 DSIC Rider, its DSIC rate will be updated on a quarterly basis and will be reconciled on
9 an annual basis for the twelve months ending December 31 of each year, as provided in
10 Section 1358(e). For each reconciliation period, the revenues billed pursuant to the DSIC
11 will be compared to the Company's eligible costs, and the difference will be either
12 refunded to, or recovered from, customers to whom the DSIC applies over a one-year
13 period commencing on April 1st of the year immediately succeeding the reconciliation
14 period. Over-collections (and any credits that may be due to customers) will be refunded
15 with interest computed at the residential mortgage lending rate specified by the Secretary
16 of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et*
17 *seq.*).

18 **Q. When would Penn Power's proposed DSIC rider become effective?**

19 A. Penn Power requests that its proposed DSIC go into effect on July 1, 2016. Penn Power's
20 last distribution base rate case was filed on August 4, 2014 based on a fully projected

1 future test year ending April 30, 2016.³ By implementing its DSIC effective July 1,
2 2016, Penn Power will be able to charge an initial DSIC rate that reflects eligible
3 property placed in service in May 2016, which is the first month subsequent to the fully
4 projected future test year employed in its last base rate case.

5 **Q. What time periods will be reflected in the quarterly updates of the Company's DSIC**
6 **rate?**

7 A. Each quarterly update after the effective date of the initial DSIC rate will reflect eligible
8 plant additions placed in service during the three-month period ending one month prior to
9 the effective date of such updated DSIC rate, and those eligible plant additions will be
10 added to the eligible plant additions placed in service since the inception of the DSIC to
11 calculate the updated DSIC rate. Ten days prior to each quarterly update, the Company
12 will file supporting data for the updated DSIC rate with the Commission and serve that
13 filing on the Commission's Bureau of Investigation and Enforcement ("I&E"), the Office
14 of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA").

15 **Q. Under what conditions will the Company cease to impose charges on customers'**
16 **bills pursuant to its approved DSIC?**

17 A. The Company will reset its DSIC rate to zero: (1) upon the effective date of new base
18 rates resulting from a distribution base rate case (*see* Section 1358(b)(1)); (2) if, in any
19 quarter, data filed with the Commission in the Company's most recent annual or quarterly
20 earnings report show that it will earn a rate of return that would exceed the rate of return

³ The Company's base rate case filed on August 4, 2014, was resolved by a partial settlement that was approved by the Commission. *Pa. P.U.C. v. Pennsylvania Power Company*, Docket Nos. R-2014-2428744 *et al.* (Final Order entered April 9, 2015) (hereafter, the "Penn Power 2015 Rate Order").

1 the Company is allowed to use to calculate fixed costs under its DSIC (*see* Section
2 1358(b)(3)); or (3) upon the expiration of the Company's approved LTIP without a
3 further LTIP having been approved by the Commission (*see* 52 Pa. Code § 121.5).

4 **Q. Does Penn Power propose that the DSIC apply to all electric distribution**
5 **customers?**

6 A. No. The DSIC will not apply to customers receiving service under Rate Schedules GSDS
7 and GT at voltage levels over 69,000 volts. Although those customers receive service at
8 what are, for Penn Power, transmission-level voltages, they are served by facilities that
9 are properly classified as distribution plant, are recorded in the Company's distribution
10 plant accounts and have been included in the Company's Pennsylvania distribution rate
11 base for purposes of establishing its distribution base rates. However, Penn Power's
12 LTIP does not contain any infrastructure improvement projects for distribution facilities
13 operating at transmission-level voltages and, therefore, the Company's calculations of its
14 DSIC rates, during the five-year term of its currently approved LTIP, will not include
15 any additions to such plant. Accordingly, it is appropriate that the DSIC not apply to
16 customers receiving service under Rate Schedules GSDS and GT at voltage levels over
17 69,000 volts.

18 **Q. What property is eligible to be reflected in the Company's DSIC calculations?**

19 A. All of the plant additions that the Company will include in the calculation of its initial
20 DSIC rate and each subsequent DSIC update will consist of property included in the
21 categories of plant previously identified and described in the Company's LTIP. As

1 previously explained, the Commission found and determined that the Company’s LTIIIP
2 meets the requirements and satisfies the standards set forth in Section 1352(a), including
3 that the LTIIIP identifies infrastructure improvement projects that constitute “eligible
4 property owned or operated by the utility for which the utility would seek recovery under
5 this subchapter.”⁴ Accordingly, all of the property that the Company will include in
6 calculating its initial DSIC rate and each subsequent update will constitute DSIC-eligible
7 property.

8 **Q. Please describe the tariff rider the Company is filing to establish its proposed DSIC.**

9 A. Penn Power Exhibit KMS-2, which I previously identified, is the DSIC Rider the
10 Company requests the Commission to approve to establish a DSIC and implement a
11 DSIC rate. The DSIC Rider was developed to track the model DSIC tariff the
12 Commission appended to the Final Implementation Order, with appropriate changes to
13 reflect information and conditions specific to the Company such as, for example, the
14 exclusion of certain rate schedules from the DSIC.

⁴ As the descriptions of property in the Company’s LTIIIP demonstrate, all of the infrastructure projects included in that Plan are within the categories of “eligible property” defined in Section 1351, as follows:

“Eligible property.” Property that is part of a distribution system and eligible for repair, improvement and replacement of infrastructure under this subchapter.

Included property shall be as follows:

- (1) For electric distribution companies, eligible property shall include:
 - (i) Poles and towers.
 - (ii) Overhead and underground conductors.
 - (iii) Transformers and substation equipment.
 - (iv) Any fixture or device related to eligible property under subparagraphs (i), (ii) and (iii), including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers.
 - (v) Unreimbursed costs related to highway relocation projects where an electric distribution company must relocate its facilities.
 - (vi) Other related capitalized costs.

1 **III. CALCULATION OF THE COMPANY'S INITIAL DSIC RATE**

2 **Q. Please explain the calculation of the Company's proposed initial DSIC rate.**

3 A. Penn Power Exhibit KMS-3 shows the calculation of the Company's proposed initial
4 DSIC rate. However, as I previously indicated, the calculation will be refreshed using
5 updated data before the DSIC rate is filed.

6 The calculation begins with the original cost less accumulated depreciation of DSIC-
7 eligible property for the period covered in the DSIC rate calculation. In this instance, it is
8 the month of May 2016.

9 The fixed costs of eligible property that may be recovered under a DSIC are defined in
10 Section 1357(a)(3) as "depreciation and pretax return." The Company is calculating
11 annual depreciation expense using the annual accrual rates employed in the Companies'
12 most recent base rate case for the categories of plant included in the calculation. The pre-
13 tax return is calculated using statutory federal and state income tax rates, the Company's
14 actual capital structure, and the Company's actual cost rate for long-term debt⁵ for the
15 period ending one month prior to the effective date of the proposed DSIC rate.⁶ The cost
16 of equity used by the Company is consistent with the terms of the Joint Petition for
17 Partial Settlement of Rate Investigation approved by the Commission in the Penn Power
18 2015 Rate Order, which provides, in Section II.A.6, as follows:

⁵ The Company does not have any preferred or preference stock outstanding.

⁶ For purposes of the calculation provided in Penn Power Exhibit KMS-2, the Company used its actual capital structure and actual costs rates for the quarter ended September 30, 2015. When the calculation is refreshed using updated data for the initial DSIC rate to become effective July 1, 2016, the Company will use its actual capital structure and actual cost rates for the month ending May 31, 2016.

1 The Joint Petitioners agree and hereby stipulate that the Company
2 shall use the rate of return on equity as calculated for electric
3 utilities and published in the “Bureau of Technical Utility Services
4 Report on the Quarterly Earnings of Jurisdictional Utilities” for the
5 most recent quarter for the following purposes:

- 6 a. Calculating a distribution system improvement charge
7 (“DSIC”) if a DSIC is hereafter proposed by the Company
8 and approved by the Commission; . . .

9 At its January 28, 2016 Public Meeting, the Commission released the latest Bureau of
10 Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities,
11 which sets forth an equity return rate of 9.90% for use by electric utilities in calculating
12 their DSIC rates.

13 The sum of depreciation and pre-tax return is then grossed-up for Gross Receipts Tax,
14 and the resulting value is divided by Projected Quarterly Revenues for distribution
15 service, including all applicable clauses and riders, but excluding revenues billed under
16 Rate Schedules GSDS and GT at voltage levels over 69,000 volts. The resulting initial
17 DSIC rate is 0.299%.

18 Ten days before the initial DSIC rate becomes effective on July 1, 2016, the Company
19 will update the computation to reflect the DSIC-eligible projects actually placed in
20 service in May 2016 and its actual capital structure and cost of long-term debt as of May
21 31, 2016.

22

1 **Q. How will the Company calculate the projected quarterly revenue component of the**
2 **DSIC?**

3 A. The Company has elected to calculate projected quarterly revenues for the applicable
4 three-month period rather than the alternative of using one-fourth of projected annual
5 revenues. The Company has concluded that this method will more closely align with its
6 actual sales and, therefore, avoid larger over or under-collections.

7 **Q. What impact will the DSIC have on electric distribution customers' bills?**

8 A. As previously explained, the Company estimates that its initial DSIC rate will
9 approximate 0.299%. For an average residential customer of Penn Power using 1,000
10 kilowatt hours, this would represent an increase of fifteen cents per month based on rates
11 and applicable riders, including the price-to-compare for default service, in effect as of
12 February 9, 2016. While the DSIC rate is expected to increase with each quarterly update
13 after the initial rate becomes effective, Section 1358(a) provides that the DSIC rate may
14 not exceed "5% of the amount billed to customers under the applicable rates . . ." ⁷
15 However, quarterly updating of the DSIC rate to reflect eligible plant additions provides
16 for incremental increases in customers' bills and, therefore, the DSIC avoids larger, one-
17 time increases that could result if base rate filings were the only mechanism available for
18 the Company to recover the fixed costs of eligible property. Thus, the structure of the
19 DSIC inherently employs gradualism to mitigate, over time, the impact on customers'
20 bills.

⁷ Section 1358(a)(2) grants the Commission authority to waive (i.e., increase) the statutory limitation.

1 **Q. Will the operation of the DSIC be subject to audit?**

2 A. Yes, audits will be completed at intervals determined by the Commission to identify any
3 costs that may have been recovered under the DSIC that do not comply with applicable
4 provisions of the Public Utility Code and applicable Commission orders. Any costs that
5 the Commission, after providing due process to the Company to address the issue, finds
6 should not have been recovered under the DSIC will be refunded to customers through an
7 appropriate credit, together with applicable interest, in the DSIC calculation.

8 **IV. PUBLIC INTEREST CONSIDERATIONS AND THE REQUIREMENTS OF**
9 **SECTION 1353(b)**

10 **Q. Is the Company's implementation of a DSIC in the public interest and will it**
11 **facilitate compliance with the criteria and requirements identified in Section**
12 **1353(b)(2)?**

13 A. Yes, the Company's implementation of a DSIC is in the public interest and will facilitate
14 its compliance with the criteria and requirements set forth in Section 1353(b)(2).⁸ As I
15 previously explained, the Company filed an LTIP, which the Commission has approved.
16 To approve an LTIP, the Commission must find that the Plan is "adequate and sufficient
17 to ensure and maintain adequate, efficient, safe, reliable and reasonable service" (Section

⁸ Section 1353(b)(2) provides that a Petition to establish a DSIC should include:

Testimony, affidavits, exhibits or other evidence that demonstrates that a distribution improvement system charge is in the public interest and will facilitate utility compliance with the following:

- (i) The provision and maintenance of adequate, efficient, safe, reliable and reasonable service consistent with section 1501 (relating to character of service and facilities).
- (ii) Commission regulations and orders relating to the provision and maintenance of adequate, efficient, safe, reliable and reasonable service.
- (iii) Any other requirement under Federal or State law relating to the provision and maintenance of adequate, efficient, safe, reliable and reasonable service.

1 1352(a)(7)). Additionally, the Commission’s regulations pertaining to the filing and
2 approval of an LTIP (52 Pa. Code § 121.1) provide that the LTIP “must show the
3 acceleration of the replacement of aging infrastructure by the utility and be sufficient to
4 ensure and maintain adequate, efficient, safe, reliable and reasonable service to
5 customers.” Accordingly, the Commission’s prior approval of the Company’s LTIP
6 reflects findings that satisfy most, if not all, of the criteria set forth in the public interest
7 standard articulated in Section 1353(b)(2).

8 As explained in the Company’s LTIP (p. 5), the implementation of that Plan “is expected
9 to promote additional reliability improvement by upgrading and modernizing the
10 distribution system and, in that way, enhancing service to customers.” Consistent with
11 that goal, during the period covered by its LTIP, the Company will increase and
12 accelerate spending “beyond what has been historically required to counteract routine
13 system degradation” (LTIP, p. 3) and, therefore, the LTIP “includes projects that are
14 incremental to its typical capital spending levels” (LTIP, p. 7). Consistent with the
15 purpose for which the DSIC was authorized, the Company’s implementation of a DSIC
16 Rider will provide the financial assurance to enable the Company to sustain its increased
17 and accelerated level of investment, pursuant to its approved LTIP. That financial
18 assurance is obtained by the DSIC because it permits more timely recovery of the fixed
19 costs of the increased and accelerated investments in eligible property than would be
20 afforded solely by seeking increases in base rates. In that way, the DSIC will facilitate
21 the Company’s compliance with Section 1501 and applicable requirements “relating to
22 the provision of adequate, efficient, safe, reliable and reasonable service” (*see* Sections
23 1353(b)(2)(ii) and (iii)).

1 As I previously explained in discussing the impact of the DSIC on customers' electric
2 bills, in addition to providing timely recovery of the Company's fixed costs of eligible
3 property, the quarterly updating feature of the DSIC avoids larger, one-time increases that
4 could result if base rate filings were the only mechanism available to recover those costs.
5 In that way, the gradualism imparted by the DSIC mechanism mitigates the impact on
6 customers' bills of the increased and accelerated investment that the DSIC enables.

7 **Q. In addition to its public interest provision, does Section 1353(b) impose other**
8 **requirements for Commission approval of a Petition to establish a DSIC?**

9 A. Yes, it does. Section 1353(b)(1) requires that the Petition include "an initial tariff that
10 complies with a model tariff adopted by the commission." As I previously explained,
11 Penn Power Exhibit KMS-2 – the Company's DSIC Rider – satisfies this requirement.

12 Section 1353(b)(3) requires that the Petition include a "long-term infrastructure
13 improvement plan." A copy of the Company's LTIIP is provided as Penn Power Exhibit
14 KMS-1.

15 Section 1353(b)(4) requires a "certification that a base rate case has been filed within five
16 years prior to the date of the filing of the petition." A copy of that certification is being
17 provided as Penn Power Exhibit KMS-4.

18

1 V. **CUSTOMER NOTICE**

2 Q. **How will customers be notified of the filing of the Company's Petition to establish a**
3 **DSIC and subsequent quarterly updates?**

4 A. The Final Implementation Order (p. 24) provides that "Section 1354 requires utilities to
5 provide notice of the following: (1) submission of the DSIC petition, (2) the
6 Commission's disposition of the DSIC petition, (3) any quarterly changes to the DSIC
7 rate, and (4) any other information required by the Commission." The Commission
8 determined that customers must be notified by bill insert of the initial filing of the DSIC.
9 It also determined that utilities should have the flexibility to use a bill insert or bill
10 message for quarterly updates.

11 Consistent with the Commission's requirements, the Company will include a bill insert,
12 in the form provided in Penn Power-Exhibit KMS-5, beginning with the first billing route
13 starting on February 29, 2016, in the bills issued to customers who are subject to the
14 DSIC informing them of the filing and the estimated impact of a DSIC on their bills. The
15 Company will continue inserting such notices in customers' bills until all customers
16 subject to the DSIC have received notice. Additionally, customers will be notified of
17 updates to the DSIC rate through a bill message. The DSIC rate will be shown on the
18 bills of customers subject to the DSIC as a separate charge.

19

1 VI. CONCLUSION

2 Q. Please summarize the reasons why the Commission should approve the Company's
3 Petition and authorize the Company to implement a DSIC.

4 A. The Company has submitted a Petition and accompanying testimony and exhibits that
5 comply with all of the requirements of Section 1353 and the Final Implementation Order
6 to establish a DSIC. As previously explained, in order for the Company to increase and
7 accelerate its investment in distribution infrastructure improvements designed to enhance
8 service to customers and, in particular, reliability, a DSIC is needed to provide the
9 financial assurance of full and timely cost recovery of the DSIC-eligible plant additions
10 set forth in its Commission-approved LTIIP.

11 Q. Mr. Siedt, does this complete your direct testimony?

12 Yes, it does.
13

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Appendix A
Resume: Education and Experience of Kevin M. Siedt

Education:

1984 Bachelor of Science Degree- Accounting/Finance, Rowan University,
Glassboro, New Jersey
1994 Masters of Business Administration Degree, Moravian College,
Bethlehem, PA

Experience:

1984 – 1987 Commercial Credit Analyst – First Fidelity Bank
1987 – 1993 Financial Analyst, Corporate Finance Department – Foster Wheeler
Corporation
1993 – 1996 Senior Financial Analyst, Corporate and Project Finance – Foster Wheeler
Corporation
1996 – 1997 Manager of Financial Analysis, Corporate and Project Finance - Foster
Wheeler Corporation
1997 – 1998 Director of Financial Analysis, Corporate and Project Finance – Foster
Wheeler Corporation
1998 – 2001 Financial Consultant, Treasury Department – GPU Corporation
2001 – 2002 Consultant, Market Economics – GPU Corporation
2002 – 2010 Staff Business Analyst, Rates and Regulatory Affairs – FirstEnergy
Corporation
2010 – 2014 Rate Analyst V, Rates and Regulatory Affairs – FirstEnergy Corporation
2014 – present Consultant, Rates and Regulatory Affairs – FirstEnergy Corporation

Prepared and presented testimony in the following rate-related cases:

Pa. P.U.C. Cases: Docket Nos. P-00072259
P-2010-2157862
M-2011-2250561
M-2011-2259298
M-2011-2250682
P-2012-2292284
C-2012-2284617
C-2012-2295306
M-2012-2312766
M-2012-2312767
M-2012-2312769
M-2012-2312772
M-2012-2312633
M-2012-2312770
M-2012-2334387
M-2012-2334392

M-2012-2334395
M-2012-2334398
P-2013-2391368
P-2013-2391372
P-2013-2391375
P-2013-2391378
R-2014-2428745
R-2014-2428743
R-2014-2428744
R-2014-2428742
M-2015-2514768

NJ BPU Cases: Docket Nos.

ER05121018
EM02030152
EM03060438
EM04010045
EM05040314
EM12040309

Assisted in development and preparation in the following rate cases:

Pa. P.U.C. Cases: Docket Nos.

R-00061366
R-00061367
P-0072305
M-2008-2069887
P-2008-20066692
P-2009-2093053
P-2009-2093054
R-00974008
R-00974009
M-2009-2092222
M-2009-2112952
M-2009-2552956
P-2009-2093053
P-2009-2093054
M-A-2010-2176520
A-2010-2176732
P-2011-2273650
P-2011-2273668
P-2011-2273669
P-2011-2273670
M-2012-2289411
C-2012-2284

Penn Power Exhibit KMS-1

Pennsylvania Power Company

Long-Term Infrastructure Improvement Plan



Long-Term Infrastructure Improvement Plan

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I. Introduction

Pursuant to the requirements of Subchapter B, Distribution Systems, of the Pennsylvania Public Utility Code, 66 Pa.C.S. §§ 1350-1360, and the Pennsylvania Public Utility Commission's ("PUC" or the "Commission") Final Implementation Order for Implementation of Act 11 of 2012, entered August 2, 2012, at Docket No. M-2012-2293611, and the Commission's regulations at 52 Pa. Code §§ 121.1-121.8, Pennsylvania Power Company ("Penn Power" or "Company") respectfully submits its Long-Term Infrastructure Improvement Plan ("LTIIIP") for approval by the Commission.

Penn Power is actively engaged and diligently committed to continuing to perform in a manner that results in satisfactory and cost effective reliability performance for its customers. Reliability indices such as System Average Interruption Frequency Index ("SAIFI"), Customer Average Interruption Duration Index ("CAIDI"), and System Average Interruption Duration Index ("SAIDI") indicate that Penn Power has generally been successful in its efforts to maintain system reliability. Despite a decreasing trend in the number of equipment and line failures per year equipment and line failures combined are one of the top causes for outages at Penn Power due to an aging infrastructure. Penn Power has undertaken traditional means of cost recovery to support the spending levels necessary to properly maintain the reliability of its distribution system and, to that end, filed an electric distribution base rate case in August 2014, which concluded with a complete settlement that was approved by the Commission in April 2015.¹

However, further increased and accelerated spending beyond what has historically been required to counter routine system degradation is additionally required. Upgrading the distribution system more quickly through an LTIIIP is intended to enhance and modernize service to customers and maintain or improve overall system reliability and resiliency. The Penn Power LTIIIP will provide reliability advancements, customer service improvements, and will position the Company to meet the needs and demands of its customers into the future.

II. Requirements of the LTIIIP

Pursuant to 52 Pa. Code § 121.3(a), a utility seeking to implement a distribution system improvement charge ("DSIC") mechanism or to continue a previously-approved DSIC mechanism must file an LTIIIP. The LTIIIP must include the eight elements listed in that regulation. The required elements and the locations within Penn Power's LTIIIP where they are addressed are set forth below:

52 Pa. Code § 121.3(a)(1). The descriptions of the six infrastructure improvement initiatives set forth in Appendix A identify the types and ages of DSIC-eligible property in subsections captioned "Description" and "Age of Infrastructure."

¹ *Pa. Pub. Util. Comm'n v. Pennsylvania Power Co.*, Docket No. R-2014-2428744 (Final Order entered April 9, 2015).



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52 Pa. Code § 121.3(a)(2). The table at the front of Appendix A, captioned “Summary Cost by Year,” shows the planned expenditures, by year, for the period 2016-2020, as well as the total for that period, for each of the infrastructure improvement initiatives discussed in Appendix A.

52 Pa. Code § 121.3(a)(3). The descriptions of each infrastructure improvement initiative in Appendix A set forth the general location of eligible property relating to each initiative in subsections titled “Anticipated Locations.”

52 Pa. Code § 121.3(a)(4). Reasonable estimates of the quantity of eligible property to be improved or repaired are provided in the subsection titled “Schedule” in the description of each infrastructure improvement initiative in Appendix A.

52 Pa. Code § 121.3(a)(5). The projected annual expenditures and the manner in which Penn Power expects to finance those expenditures are addressed in Section V, below. Additional detail concerning the expenditures by year is provided in Appendix A within the description of each infrastructure improvement initiative.

52 Pa. Code § 121.3(a)(6). A description of the manner in which the infrastructure repair, improvement, or replacement will be accelerated and how repair, improvement or replacement will ensure and maintain adequate, efficient, safe, reliable and reasonable service to customers is addressed in Sections III, V, and VIII, below.

52 Pa. Code § 121.3(a)(7). The workforce management and training programs in place for Penn Power that are designed to ensure that it will have access to a qualified workforce to perform work under its LTIP in a cost-effective, safe and reliable manner is described in Section VII, below.

52 Pa. Code § 121.3(a)(8). A description of how Penn Power expects to reach out to, and coordinate with, other utilities, the Pennsylvania Department of Transportation and local governments regarding their planned maintenance/construction projects and roadways that may be impacted by the LTIP is provided in Section VI, below.

III. Distribution Reliability

To reduce the likelihood of distribution line and equipment caused outages, Penn Power follows the FirstEnergy Distribution Inspection & Maintenance Practices (“I&M”).² These practices are intended to balance cost and benefit while preventing equipment and line failures. They also set forth schedules for regular inspection of distribution facilities. Specifically, distribution line capacitors and reclosers are inspected annually; radio controlled switches are inspected twice per year; overhead circuits and equipment; underground equipment are inspected on a five-year

² Pursuant to § 57.198, every two years an electric distribution company shall file, and receive approval from the Commission of, a biennial plan for the periodic inspection, maintenance, repair and replacement of its facilities. On December 30, 2013, Paul Diskin, Director, Technical Utility Services, issued a letter approving the Company’s biennial inspection, maintenance, repair, and replacement plan effective January 1, 2015 through December 31, 2016.



Long-Term Infrastructure Improvement Plan

cycle; and wood pole ground-line inspections are performed on a twelve-year cycle. These inspections are an important source of information in determining the need for, and prioritizing, the repair, improvement or replacement of Penn Power's distribution facilities

In addition to I&M, the Company also employs other routine programs to ensure the reliability of its distribution system. First, the Company has an ongoing initiative to sectionalize Penn Power's system in order to reduce the number of customers that lose power if an event occurs at a point on the system. Sectionalizing involves installing fuses on most mainline taps and installing additional line reclosers. Second, the Customers Experiencing Multiple Interruptions ("CEMI") program focuses on clusters of customers that experience frequent or repeated outages or other issues, such as low voltage or momentary outages. This program aims to enhance system performance and provide a means to reduce the frequency of outages at the customer level that might not otherwise be addressed when targeting overall system metrics. Third, FirstEnergy Substation Practices and Methods are employed to ensure the reliability and integrity of substation equipment, to safeguard employees and the public and to meet all state and federal regulatory requirements. FirstEnergy uses a combination of condition assessment and reliability evaluations to determine maintenance programs and intervals and to determine when substation equipment should be repaired or replaced. Condition assessment involves visual inspections, functional testing, diagnostic testing or any combination thereof. All major equipment is visually inspected periodically pursuant to Penn Power's substation patrol inspection practice.

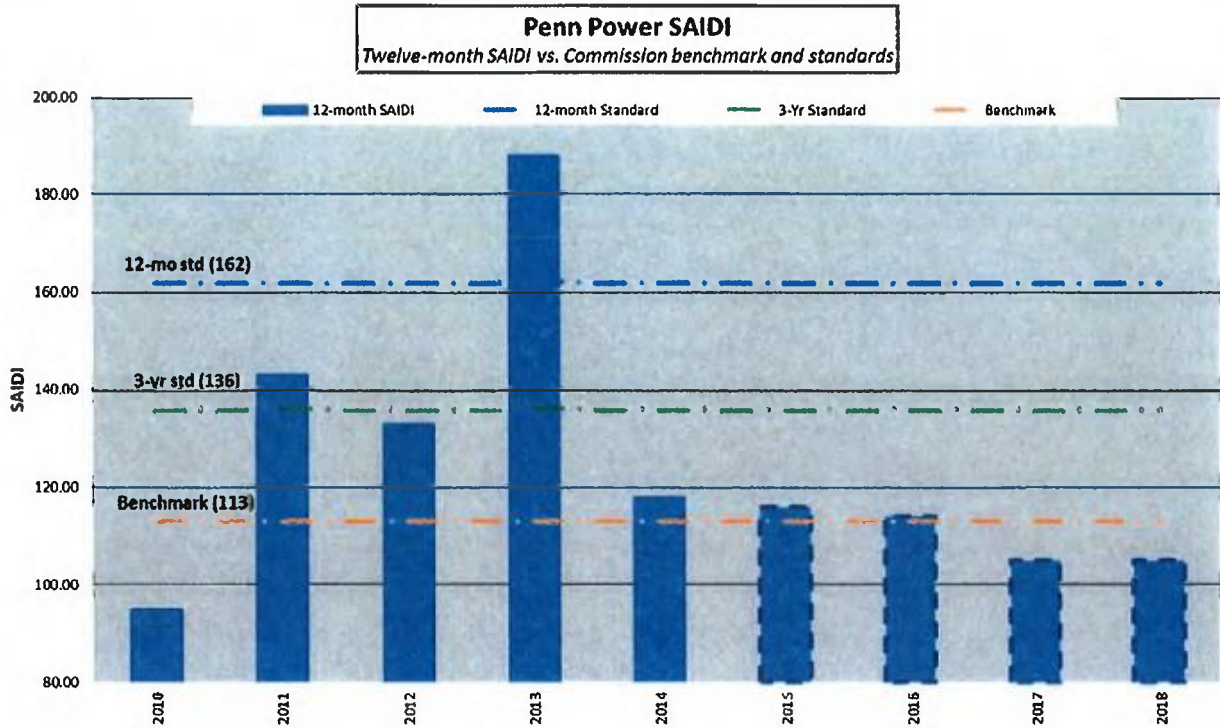
Traditionally, Penn Power has experienced good reliability performance, often performing better than benchmark. In 2013, Penn Power experienced a difficult weather year, resulting in year-end performance that did not achieve the twelve-month performance standard for SAIFI, SAIDI, and CAIDI. Penn Power's leadership recognized this negative trend and as a result formed a Reliability Enhancement Team. This team identified projects and programs to improve reliability. Since the implementation of the Reliability Enhancement Team, SAIFI, SAIDI, and CAIDI performance has steadily improved.

If approved, the LTIP is expected to promote additional reliability improvement by upgrading and modernizing the distribution system and, in that way, enhancing service to customers. However, forecasting future reliability performance can be challenging, and reliability performance is largely influenced by weather experienced in a given year. Therefore, Penn Power presents only the projected reliability performance through 2018. These values represent improvements based on historical reliability experience and the expected benefit to be derived from each project. These benefits can vary based on actual outages and the weather variability inherent in all reliability estimates. Figure 1 shows Penn Power's SAIDI performance from 2010 through 2014 and also shows the estimated reliability improvement as a result of the LTIP through 2018.



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Figure 1. Historical and projected SAIDI performance

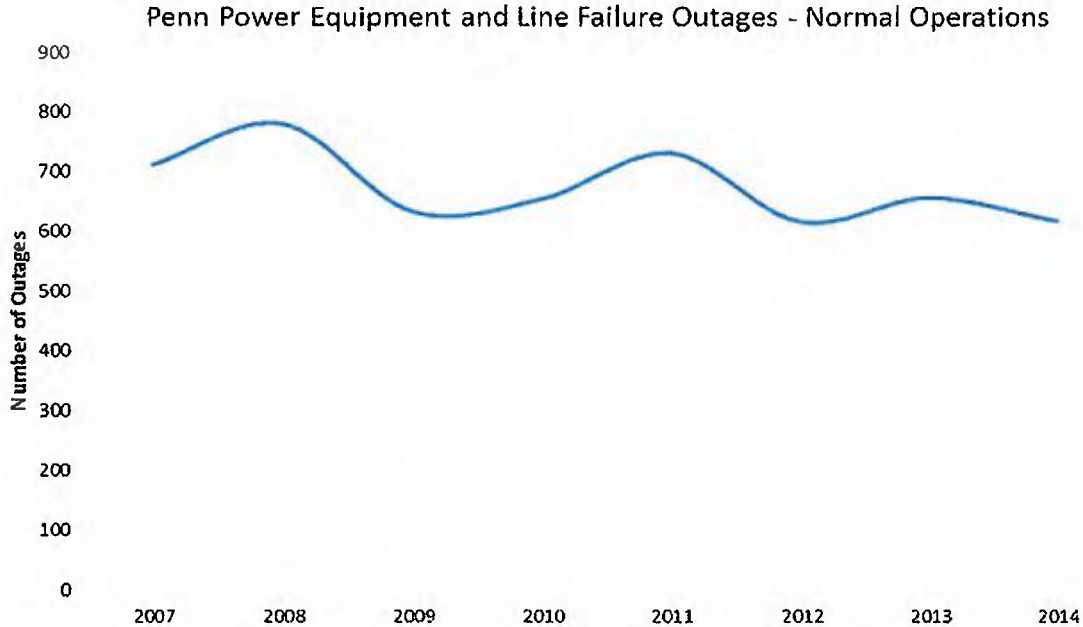


IV. The Need for the LTIP

Despite routine inspection and maintenance and the recent improvements described above, equipment and line failures continue to place pressure on Penn Power’s ability to ensure adequate, efficient, and reliable service. Outages also increase unplanned work and operation and maintenance costs. Nonetheless, despite a decreasing trend in the number of non-storm equipment and line failure outages over time, the average number of customers interrupted (“CI”) and the average amount of customer minutes interrupted (“CMI”) per outage incident due to line failures have steadily increased. Penn Power’s non-storm related equipment and line failures are graphed by year in Figure 2 below.



Figure 2. Penn Power Historical Equipment and Line Failures



In order to address equipment and line failures, Penn Power has performed focused and detailed reliability studies on distribution circuits to identify the causes of outages and to look for outage trends. The results of these studies were used to develop plans designed to improve the performance of the system as measured by SAIFI, SAIDI, and CAIDI, as discussed in more detail hereafter.

V. Implementation of the LTIIP

Penn Power’s LTIIP encompasses the five-year period from 2016 through 2020 and includes projects that are incremental to its typical capital investment levels. Penn Power plans to finance the necessary capital by utilizing the timely recovery of invested funds through the DSIC mechanism. During the term of the LTIIP, Penn Power projects spending an additional \$56.35 million on programs and projects intended to improve reliability. This accelerated capital investment is inclusive of the Company’s DSIC-qualifying projects contained in the implementation plan (“PA Management Audit Plan”) submitted in response to ordering paragraphs 3 and 4 of the March 30, 2015 Pennsylvania Management Audit Order.³ The projects and programs identified in the PA Management Audit Plan total approximately \$29.65 million.

³ On March 30, 2015, the Commission issued an order directing Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and Penn Power Company to prepare and file a revised implementation plan relating to specific topics addressed in the report issued by the Commission’s Bureau of Audits on February 12, 2015. Implementation Plan for the Focused Management Audit of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and Penn Power Company, Docket Nos. D-2013-2365991, D-2013-2365992, D-2013-2365993, D-2013-2365994.



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The LTIIIP also includes an additional investment in reliability (“Additional Reliability Plan”) improvements of \$20.65 million. If performed in accordance with an approved LTIIIP, the projects and programs identified in the PA Management Audit Plan and Additional Reliability Plan will accelerate replacement of obsolete or aging infrastructure in order to strengthen Penn Power’s distribution system (i.e., help to reduce outages) and will accelerate the construction of new infrastructure aimed to split large circuits and provide additional feeds to circuits during outage situations (i.e., reduce the number of customers affected if an outage occurs). Further, Penn Power’s PA Management Audit Plan facilitates the Company’s goal of achieving benchmark-level performance for SAIFI, SAIDI, and CAIDI by year-end 2018. If performed in accordance with an approved LTIIIP, the Additional Reliability Plan will work in conjunction with the PA Management Audit Plan to further support their common goal of achieving benchmark-level performance. Finally, the LTIIIP includes approximately \$6.05 million for unreimbursed costs related to government-required highway relocation projects.⁴ As previously noted. The infrastructure improvement initiatives outlined above LTIIIP programs are described in more detail in Appendix A.

The acceleration of Penn Power’s reliability related capital investment that will occur by implementing its LTIIIP is evidenced by comparing the data in Figures 3 and 4, below. Figure 3 shows Penn Power’s total capital investment related to maintaining and improving reliability for the period 2010-2014. Figure 4 shows Penn Power’s planned capital investment for the same categories of plant for the period 2016-2020.

Figure 3. Penn Power’s historic capital investment

Annual Expenditures (in millions of dollars)						
Category	2010	2011	2012	2013	2014	Avg. Annual Spend
Maintaining and Improving Reliability	\$1.71	\$2.69	\$4.54	\$2.34	\$8.24	\$3.90

Figure 4. Penn Power’s planned capital investment

Annual Expenditures (in millions of dollars)						
Category	2016	2017	2018	2019	2020	Avg. Annual Spend
Maintaining and Improving Reliability	\$23.28	\$26.98	\$16.52	\$13.34	\$13.68	\$18.76

*The entire budget for 2020 is not available, therefore, a 2.5% growth rate is assumed.

For the most part, the programs that were considered for inclusion in Penn Power’s LTIIIP are those designed to have the greatest impact on reliability (in term of positive effect on customer service) per dollar spent. Additionally, in most cases, the programs included in the LTIIIP were chosen to reduce the number of outages caused by aging equipment and lessen unplanned work and operation and maintenance costs. On an ongoing basis, projects will be prioritized to maximize the reliability and operating benefits to Penn Power’s customers. The effectiveness of the projects and programs that comprise the LTIIIP will be reviewed periodically to determine that they remain prudent and cost-effective. Reliability and equipment failure trends will be

⁴ 66 Pa.C.S. § 1351 designates as “eligible property” unreimbursed costs related to highway relocation projects where an electric distribution company must relocate its facilities.



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analyzed on an ongoing basis as well to assess the impact of on-going investments. Thus, the Company will continuously review its plan and will assess the effectiveness of the identified projects and programs in relation to actual performance results. The Company may re-prioritize, alter completion dates, and add or remove projects based on ongoing engineering analyses to maximize the reliability and operating benefits to the affected circuits, while taking into consideration the overall impact to reliability and operational improvement and the costs and benefits to customers.

VI. Outreach and Coordination with Other Entities

Penn Power communicates and coordinates with the Pennsylvania Department of Transportation (“PennDOT”), local governments, local municipalities, and other utilities and entities with regard to work that is scheduled to be performed that may affect the operations of those entities. Examples of communication and coordination efforts include press releases, public meetings, contact with local officials, and communication to customers who will experience a planned outage due to construction in their service area. However, most of the work that will be performed under Penn Power’s LTIIIP will likely have minimal impact on these entities’ work schedules. Because the possible impacts depend on the circumstances at the time work is actually being performed, specific project outreach plans are not currently available.

VII. Access to a Qualified Workforce

A. Penn Power Workforce

The Company created Power Systems Institute (“PSI”), which is a unique, two-year program that combines classroom learning with the hands-on training needed to open the door to opportunities in the electric industry. The program was created as a way to help replace retiring line and substation employees. Upon completing the program, graduates will have a total of 1,280 hours of hands-on technical training as well as 60 hours of academic college credits. Graduates will earn an associate’s degree and are classified as a mid-level line or substation worker. Qualified graduates are offered positions with the Company subject to the Company’s standard hiring process.

It is the Company’s practice to size its workforce to accommodate a steady state workload that includes day-to-day activity and a reasonable level of storm response as projected from historical averages. For those times when workload increases above steady-state levels, the Company is able to supplement its own resources by accessing a portfolio of affiliated resources⁵ that may be able to move into the area to assist on a temporary basis. The Company also employs contractors to supplement regular status employees, particularly during construction of large capital projects.

⁵ FirstEnergy Corp.’s portfolio of operating companies includes not only those four located within the Commonwealth of Pennsylvania, but an additional six operating in other jurisdictions. The consistency in standards and work practices employed across all ten of these operating companies enables streamlined resource sharing in a way that promotes both safety and cost efficiency for those companies under this umbrella.



Long-Term Infrastructure Improvement Plan

In regard to training for qualified electrical workers, the Company adheres to the Occupational Safety and Health Administration (“OSHA”) Regulation 29 CFR 1910.269 Electrical Power Generation, Transmission, and Distribution standard, American National Standards Institute, American Society for Testing Materials, and Institute of Electrical and Electronics Engineers standards. Training material leverages FirstEnergy work practices, procedures, construction standards, and the Accident Prevention Handbook.

Formal training is provided by the Workforce Development (“WFD”) team. This group consist of full time instructors supplemented by contracted instructors who are generally retired craft workers. WFD develops, conducts, and evaluates knowledge and skills training for apprentices and incumbents.

Training is provided through varying methods, which consist of hands-on, classroom and on-the-job training. The curriculum is designed to support the employee’s progression and includes a formalized skills demonstration program that allows for practice to gain proficiency in critical tasks. Finally, employees are required to complete progressive testing in a controlled setting to demonstrate skill proficiency prior to advancing within the craft line.

Formal and annual regulatory training mandated by agencies such as OSHA, the Department of Transportation, and the Environmental Protection Agency is managed within WFD, which ensures that all employees complete the required training within the applicable timeframes. Interpretation of training revisions is managed with the assistance of FirstEnergy and FirstEnergy Utilities Safety Division. WFD maintains the integrity of all training materials and tracks completion to ensure compliance. All training adheres to FirstEnergy policies and procedures to ensure quality, consistency and accuracy.

B. Contractor Workforce

In the event that resources are necessary to supplement the Company’s workforce, FirstEnergy’s Utilities Sourcing Department employs its Contractor of Choice Program to ensure FirstEnergy secures a skilled labor force and specialized equipment in order to complete projects on schedule and at competitive market pricing. Under the Contractor of Choice Guidelines the FirstEnergy Utilities Sourcing Department will issue a Request for Proposal (“RFP”) to a list of contractors who have a history of successfully completing projects safely, on schedule and at competitive market pricing. After a thorough bid clarification process with the contractors the responses to the RFP are evaluated by Engineering, Project Management and Supply Chain. A contractor is selected based on available manpower and equipment resources, understanding of project scope, constructability, management and safety oversight and pricing. A contractor is required to:

- Employ only persons known by the contractor to be experienced, qualified, reliable and trustworthy.
- Have in writing a series of safe work practices, procedures and programs pertinent to the work being done.



Long-Term Infrastructure Improvement Plan

Upon completion of the work, a designated representative of the Company will evaluate the work performed by the contractor before final acceptance.

Supplier diversity is a core value inherent to all of the Company's business operations. Supporting diversity is an essential element to locating sources of materials and services, selecting suppliers and managing supplier and contractor relationships.

VIII. Summary

The proposed LTIP is designed to allow Penn Power to respond to equipment and line failures presently occurring across its system. Over the course of the last ten years, Penn Power has made significant investments in its distribution system in the form of fuses, reclosers and switches to limit the scope of outages and improve response times. Despite these investments, Penn Power continues to experience equipment and line failures as equipment continues to age and deteriorate. The proposed LTIP will enable Penn Power to address these conditions.

The reasonable, prudent and cost-effective investments set forth in Penn Power's LTIP accelerate the rate of infrastructure repair, improvement or replacement on its distribution system and are expected to enhance reliability by reducing the number and scope of outages and improving outage response times. These improvements should also better enable Penn Power to achieve work efficiencies by focusing on planned work instead of reacting to unplanned work. Penn Power's LTIP contains all of the elements required by 52 Pa. Code § 121.3(a). Accordingly, Penn Power's LTIP satisfies the criteria for Commission approval set forth in 52 Pa. Code § 121.4(e).



Appendix A



Long-Term Infrastructure Improvement Plan

Summary Cost by Year

Infrastructure Improvement Initiative	Planned Annual Expenditures (in millions of dollars)					
	2016	2017	2018	2019	2020	Total
Total	\$14.18	\$16.31	\$9.30	\$8.28	\$8.28	\$56.35
Create Circuit Ties and Loops and Add New Sources	\$10.57	\$12.75	\$6.33	\$-	\$-	\$29.65
Install SCADA Devices	\$1.02	\$0.97	\$0.38	\$0.70	\$0.70	\$3.77
Replace Overhead Conductor	\$-	\$-	\$-	\$2.81	\$2.81	\$5.62
Unreimbursed Highway Relocation	\$1.21	\$1.21	\$1.21	\$1.21	\$1.21	\$6.05
URD Cable Replacement	\$-	\$-	\$-	\$2.18	\$2.18	\$4.36
Wood Pole Replacement	\$1.38	\$1.38	\$1.38	\$1.38	\$1.38	\$6.90



Create Circuit Ties and Loops and Add New Sources

Description

Create tie points and loops between radial circuits and build new substations.

Identification and Justification

Although some of the distribution circuits have ties back to other circuits, there are circuits or portions of circuits that are radial in nature. During an outage, customers served by radial circuits, remain out of service until repairs are made. This project will build distribution ties between radial sections of the circuits to allow for circuit switching during outages and is designed to enable faster service restoration for customer served by radial circuits. The scope also includes building three new substations. These new substations will provide a new source to feed customers as well as provide additional capacity. Projects will be prioritized using the following criteria:

- Reliability history of the circuit (SAIDI, SAIFI, and CAIDI)
- Worst performing circuit status
- Field inspections

Age of Infrastructure

The work encompassed by this initiative involves the installation of new equipment designed to enhance or modernize service to customers. The infrastructure targeted for enhancement is not chosen based on age or condition but by reliability performance. However, the average age of the circuits that will be upgraded is 75 years old.

Schedule

Planned Circuit Ties, Loops, or Substations					
2016	2017	2018	2019	2020	Total
11	10-12	10-12	-	-	31-35

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$10.57	\$12.75	\$6.33	\$-	\$-	\$29.65

**Long-Term Infrastructure Improvement Plan**

Anticipated Locations

Specific locations that have been identified for the 2016 program scope are detailed below. Locations for the program during the remaining years of the LTIIIP will be determined using the methodology detailed above.

Operations Center	Total
Mercer	5
New Castle	1
Zelienople	5
2016 Total	11



Install SCADA Devices

Description

Install additional supervisory control and data acquisition (“SCADA”) devices on subtransmission and substation locations where circuit conditions and system performance warrant. Install adaptive relaying capability to selected substations.

Identification and Justification

This program is designed to reduce SAIFI, CAIDI, and SAIDI, while improving the reliability performance of the circuits. These devices better enable dispatchers to restore customers during outages and will also allow dispatchers to pinpoint the location of faulted sections more quickly, saving crew time for actual repair and reduce the length of the outages. Adaptive relaying functionality minimizes fuse operations caused by lightning and wind during storms and also improve the speed of restoration after storm. The following guidelines will be used to prioritize the installation of the new devices:

- Number of substations tapped on the line
- Number of customers on the circuit
- Number of lock-out operations on the circuit
- Accessibility of switch location and frequency of operations
- Reliability history of the circuit (SAIDI, SAIFI, and CAIDI)
- Worst performing circuit status

Age of Infrastructure

The work encompassed by this initiative involves the installation of new equipment designed to enhance or modernize service to customers. The infrastructure targeted for enhancement is not chosen based on age or condition but by reliability performance. However, the average age of the substations that will be upgraded is 88 years old.

Schedule

Planned SCADA Controlled Devices					
2016	2017	2018	2019	2020	Total
5	14	1	2	2	24

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$1.02	\$0.97	\$0.38	\$0.70	\$0.70	\$3.77



Long-Term Infrastructure Improvement Plan

Anticipated Locations

Specific locations that have been identified for the 2016 program scope are detailed below. Locations for the program will be determined using the methodology detailed above.

Operations Center	Total
Mercer	1
New Castle	3
Zelienople	1
2016 Total	5



Long-Term Infrastructure Improvement Plan

Replace Overhead Conductor

Description

Replace aging small overhead conductor and in some cases upgrade single and two phase conductor to three phase.

Identification and Justification

This type of conductor limits the ability to transfer load between substations due to their low ampacity ratings and/or the high rate at which voltage drops across them when transferring load from distant substations. The smaller conductor is also generally older and more likely to be in poor condition. Replacing the conductor is designed to improve energy efficiency, increase capacity, improve operation flexibility, as well as improve condition. This program aims to improve CAIDI and SAIDI. The following guidelines will be used to prioritize the conductor replacement:

- Reliability history of the circuit (SAIDI, SAIFI, and CAIDI)
- Field inspections

Age of Infrastructure

The average age of overhead conductor in Penn Power is 47 years old, with the smaller conductor being older than this average age.

Schedule

Miles of Conductor Replacement					
2016	2017	2018	2019	2020	Total
-	-	-	4	4	8

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$-	\$-	\$-	\$2.81	\$2.81	\$5.62

Anticipated Locations

Locations for the program will be determined using the methodology detailed above.



Long-Term Infrastructure Improvement Plan

Unreimbursed Highway Relocation

Description

Recover the unreimbursed costs of distribution facility relocations in support of highway and bridge construction projects.

Identification and Justification

Highway and bridge relocation and construction projects occur throughout the year and across the Penn Power service territory. These projects are sponsored by PennDOT, as well as individual counties and municipalities. Reimbursement amounts are calculated based on PennDOT DM-5 manual guidelines. Historically Penn Power collects 38% of the overall relocation costs from the entity making the request for equipment relocation.

Age of Infrastructure

The infrastructure targeted for relocation is not chosen based on age or condition but merely by its location. Despite that fact, replacement of infrastructure with newer equipment may result in reliability improvement.

Schedule

Average Number of Projects					
2016	2017	2018	2019	2020	Total
12-15	12-15	12-15	12-15	12-15	60-75

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$1.21	\$1.21	\$1.21	\$1.21	\$1.21	\$6.05

Anticipated Locations

The location of the work varies and is driven by the construction schedules of PennDOT and other government entities.



Underground Residential Distribution (“URD”) Cable Replacement

Description

Replace bare concentric neutral primary voltage cable that was manufactured prior to 1986.

Identification and Justification

The targeted type of cable was manufactured without an insulating jacket around the concentric neutral wires that are on the outside perimeter of the cable. The neutral conductors corrode and fail prematurely. The corrosion results in poor voltage quality and underground primary faults caused by unevenly stressed cable insulation. Replacement of this cable should reduce the length of customer outages since the Company will no longer have to spend the extra time to locate a fault and make repairs to the degraded neutral conductors. The following guidelines will be used to prioritize the cable replacement:

- Reliability history of the circuit (SAIDI, SAIFI, and CAIDI)
- Field inspections

Age of Infrastructure

The URD cable which will be targeted for replacement in this program was installed prior to 1986.

Schedule

Feet of Cable Replacement					
2016	2017	2018	2019	2020	Total
-	-	-	39,600	39,600	79,200

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$-	\$-	\$-	\$2.18	\$2.18	\$4.36

Anticipated Locations

Locations for the program will be determined using the methodology detailed above.



Long-Term Infrastructure Improvement Plan

Wood Pole Replacement

Description

Replacement of poles identified as non-restorable during the annual Penn Power distribution pole inspection process.

Identification and Justification

This program is the systematic replacement of wood poles that have been identified by a qualified inspector to have degraded beyond restorable condition (cannot be reinforced). These poles are identified during annual inspections of the distribution network. The program ultimately contributes to storm hardening efforts, and aims to improve public and employee safety as well as contribute to service reliability. Penn Power inspects approximately 10,700 poles per year, from which a historical trend indicated a 2.5% rejection rate.

Age of Infrastructure

In general, the age of the poles that will be replaced will not be known until they are identified through the inspection process. The average age of all poles across Penn Power is 39 years old.

Schedule

Planned Pole Replacements					
2016	2017	2018	2019	2020	Total
270	270	270	270	270	1,350

Planned Annual Expenditures (in millions)

2016	2017	2018	2019	2020	Total
\$1.38	\$1.38	\$1.38	\$1.38	\$1.38	\$6.90

Anticipated Locations

Project locations are directly linked to the distribution pole inspection plan and are identified yearly. Penn Power will endeavor to combine construction activities with other programs identified elsewhere in this infrastructure improvement plan with wood pole replacements in order to maximize efficiencies and crew utilization.

Penn Power Exhibit KMS-2

PENNSYLVANIA POWER COMPANY**RIDERS****RIDER O****DISTRIBUTION SYSTEM IMPROVEMENT CHARGE**

In addition to the net charges provided for in this Tariff, a charge of 0.299% will apply consistent with the Commission Order dated _____ at Docket No. P-2015-2508931, approving the Distribution System Improvement Charge ("DSIC"). This charge will be effective during the period July 1, 2016 through September 30, 2016.

1. General Description

A. Purpose: To recover the reasonable and prudent costs incurred to repair, improve, or replace eligible property which is completed and placed in service and recorded in the individual accounts, as noted below, between base rate cases and to provide Pennsylvania Power Company with the resources to accelerate the replacement of aging infrastructure, to comply with evolving regulatory requirements and to develop and implement solutions to regional supply problems.

The costs of extending facilities to serve new customers are not recoverable through the DSIC.

B. Eligible Property: The DSIC-eligible property will consist of the following:

- Poles and towers (account 364);
- Overhead conductors (account 365) and underground conduit and conductors (accounts 366 and 367);
- Line transformers (account 368) and substation equipment (account 362);
- Any fixture or device related to eligible property listed above, including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers;
- Unreimbursed costs related to highway relocation projects where an electric distribution company must relocate its facilities; and
- Other related capitalized costs.

C. Effective Date: The DSIC will become effective July 1, 2016.

Issued: (ISSUED DATE)

Effective: July 1, 2016

Pennsylvania Power Company

Rider O (Continued)

2. Computation of the DSIC

A. Calculation: The initial DSIC, effective July 1, 2016, shall be calculated to recover the fixed costs of eligible plant additions that have not previously been reflected in the Company’s rates or rate base and will have been placed in service during the month of May 2016. Thereafter, the DSIC will be updated on a quarterly basis to reflect eligible plant additions placed in service during the three-month periods ending one month prior to the effective date of each DSIC update. Thus, changes in the DSIC rate will occur as follows:

<u>Effective Date of Change</u>	<u>Date to which DSIC-Eligible Plant Additions Reflected</u>
January 1	September – November
April 1	December – February
July 1	March – May
October 1	June - August

B. Determination of Fixed Costs: The fixed costs of eligible distribution system improvements projects will consist of depreciation and pre-tax return, calculated as follows:

1. Depreciation: The depreciation expense shall be calculated by applying the annual accrual rates employed in Pennsylvania Power Company’s most recent base rate case for the plant accounts in which each retirement unit of DSIC-eligible property is recorded to the original cost of DSIC-eligible property.

2. Pre-tax return: The pre-tax return shall be calculated using the statutory state and federal income tax rates, the Company’s actual capital structure and actual cost rates for long-term debt and preferred stock as of the last day for the three-month period ending one month prior to the effective date of the DSIC and subsequent updates. The cost of equity will be the equity return rate approved in the Company’s last fully litigated base rate proceeding for which a final order was entered not more than two years prior to the effective date of the DSIC. If more than two years shall have elapsed between the entry of such a final order and the effective date of the DSIC, then the equity return rate used in the calculation will be the equity return rate calculated by the Commission in the most recent Quarterly Report on the Earnings of Jurisdictional Utilities released by the Commission.

Issued: (ISSUED DATE)

Effective: July 1, 2016

Pennsylvania Power Company

Rider O (Continued)

C. Application of DSIC: The DSIC will be expressed as a percentage carried to two decimal places and will be applied to the total amount billed to each customer for distribution service under the Company's otherwise applicable rates and charges, excluding amounts billed for and the State Tax Adjustment Surcharge (STAS). To calculate the DSIC, one-fourth of the annual fixed costs associated with all property eligible for cost recovery under the DSIC will be divided by the Company's projected revenue for distribution service (including all applicable clauses and riders) for the quarterly period during which the charge will be collected, exclusive of the STAS.

D. Formula: The formula for calculation of the DSIC is as follows:

$$\text{DSIC} = \frac{((\text{DSI} * \text{PTRR}) + \text{Dep} + e) \times 1 / (1 - T)}{\text{PQR}}$$

Where:

- DSI = Original cost of eligible distribution system improvement projects net of accrued depreciation.
- PTRR = Pre-tax return rate applicable to DSIC-eligible property.
- Dep = Depreciation expense related to DSIC-eligible property.
- e = Amount calculated under the annual reconciliation feature or Commission audit, as described below.
- PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers, excluding customers served under the Company's Rate Schedule GSDS over 69,000 volts and Rate Schedule GT over 69,000 volts, plus revenue from any customers which will be acquired by the beginning of the applicable service period.
- T = Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

Minimum bills shall not be reduced by reason of the DSIC, nor shall changes hereunder be a part of the monthly rate schedule minimum. The DSIC shall not be subject to any credits or discounts. The STAS included in this Tariff is applied to charges under the DSIC.

Issued: (ISSUED DATE)

Effective: July 1, 2016

Pennsylvania Power Company

Rider O (Continued)

Quarterly Updates:

Supporting data for each quarterly update will be filed with the Commission and served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate, and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the update.

4. Customer Safeguards

A. Cap: The DSIC is capped at 5.0% of the amount billed to customers for distribution service (including all applicable clauses and riders) as determined on an annualized basis.

B. Audit/Reconciliation: The DSIC is subject to audit at intervals determined by the Commission. Any cost determined by the Commission not to comply with any provision of 66 Pa C.S. §§ 1350, *et seq.*, shall be credited to customer accounts. The DSIC is subject to annual reconciliation based on a reconciliation period consisting of the twelve months ending December 31 of each year. The revenue received under the DSIC for the reconciliation period will be compared to the Company's eligible costs for that period. The difference between revenue and costs will be recouped or refunded, as appropriate, in accordance with Section 1307(e), over a one-year period commencing on July 1 of each year. If DSIC revenues exceed DSIC-eligible costs, such over-collections will be refunded with interest. Interest on over-collections and credits will be calculated at the residential mortgage lending rate specified by the Secretary of Banking in accordance with the Loan Interest and Protection Law (41 P.S. §§ 101, *et seq.*) and will be refunded in the same manner as an over-collection.

C. New Base Rates: The DSIC will be reset at zero upon application of new base rates to customer billings that provide for prospective recovery of the annual costs that had previously been recovered under the DSIC. Thereafter, only the fixed costs of new eligible plant additions that have not previously been reflected in Pennsylvania Power Company's rates or rate base will be reflected in the quarterly updates of the DSIC.

D. Customer Notice: Customers shall be notified of changes in the DSIC by including appropriate information on the first bill they receive following any change. An explanatory bill insert shall also be included with the first billing.

E. Customer classes: Effective July 1, 2016, the DSIC shall be applied equally to all customer classes except Rate Schedule GSDS over 69,000 volts and Rate Schedule GT over 69,000 volts

F. Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Utility would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section.

Issued: (ISSUED DATE)**Effective: July 1, 2016**

Penn Power Exhibit KMS-3

Pennsylvania Power Company
Computation of Proposed Initial DSIC Rate
To be effective July 1, 2016 through September 30, 2016

Line No.		May-16	7/1/2016 Quarterly Rate
1	Incremental Plant Additions	\$ 1,772,091	\$ 1,772,091
2	Cumulative Plant	\$ 1,772,091	\$ 1,772,091
3	Accumulated Depreciation	\$ -	\$ -
4	Retirements	\$ -	\$ -
5	Distribution System Improvement Projects net of Accumulated Depreciation	\$ 1,772,091	\$ 1,772,091
6	Quarterly Pre-tax return rate (Schedule 2) applied to DSIC-eligible property (Line 5)		\$ 55,234
7	Weighted Average Quarterly Depreciation rate (Schedule 4) applied to DSIC-eligible property (Line 5)		\$ <u>8,203</u>
8	Net Amount to be recovered w/o GRT		\$ 63,438
9	Net Amount to be recovered w GRT ¹		67,415
10	Projected Quarterly Revenue (Schedule 3)		\$ 22,550,428
11	DSIC Rate (Line 9 divided by Line 10)		0.299%

¹Gross up for Gross Receipts Tax = Net Amount x (1/ (1-5.9%))

Pennsylvania Power Company
Computation of Composite DSIC Pre-tax Rate of Return

Line No.	Description	Capitalization Ratio	Embedded Cost	Pre-tax Rate of Return	Tax Multiplier	Pre-Tax Rate of Return (PTRR)
1	Long-Term Debt	42.09%	6.34%	2.67%	-	2.67%
2	Common Equity	<u>57.91%</u>	9.90%	5.73%	1.709211797	<u>9.80%</u>
3	Total	<u>100.00%</u>		<u>8.40%</u>		<u>12.47%</u>
Quarterly Pre-Tax Rate of Return (Line No 3, Col. 7 / 4)						<u>3.12%</u>

Footnotes:

- 1) Capitalization Ratio from the Company's Quarterly Earnings Report filed with Commission (Quarter ending September 30, 2016)
- 2) Long-Term Debt Cost from the Company's Quarterly Earnings Report filed with Commission (Quarter ending September 30, 2016)
- 3) Common Equity Cost from the Commission's Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities dated January 28, 2016

**Pennsylvania Power Company
Revenue Forecast**

Jul-16	7,436,713
Aug-16	7,825,630
Sep-16	<u>7,288,085</u>
Total	22,550,428

**Pennsylvania Power Company
Weighted Average Depreciation rate**

	2016 Annual Capital Additions	May 2016 Capital Additions	% of Total	Book Depreciation Rate	Weighted Average Depreciation
Create Circuit Ties and Loops	\$ 10,570,000	\$ 1,321,250	74.542%	1.72%	1.282%
Install SCADA Devices	1,020,000	127,500	7.193%	3.17%	0.228%
Unreimbursed Highway Relocation	1,210,000	151,250	8.533%	1.87%	0.160%
Wood Pole Replacement	<u>1,380,000</u>	<u>172,500</u>	<u>9.732%</u>	1.87%	<u>0.182%</u>
	\$ 14,180,000	\$ 1,772,500	100.000%		1.852%

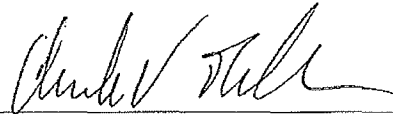
Penn Power Exhibit KMS-4

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PENNSYLVANIA POWER :
COMPANY FOR APPROVAL TO :
ESTABLISH AND IMPLEMENT A : DOCKET NO. P-2015-2508931
DISTRIBUTION SYSTEM :
IMPROVEMENT CHARGE :

BASE RATE CASE CERTIFICATION

I, Charles V. Fullem, in my capacity as Director, Rates and Regulatory Affairs of FirstEnergy Corp., certify that Pennsylvania Power Company filed a base rate case on August 4, 2014, at Docket No. R-2014-2428744, and that the Pennsylvania Public Utility Commission entered a final order approving the Joint Petition for Partial Settlement of Rate Investigation in that case on April 9, 2015.



Charles V. Fullem
Director, Rates and Regulatory Affairs
FirstEnergy Corp.

Dated: February 16, 2016

Penn Power Exhibit KMS-5

PENNSYLVANIA POWER COMPANY
NOTICE OF PROPOSED ELECTRIC DISTRIBUTION
SYSTEM IMPROVEMENT CHARGE

Pennsylvania Power Company (Penn Power) has filed a request with the Pennsylvania Public Utility Commission (PPUC) to implement a Distribution System Improvement Charge (DSIC) to recover the reasonable and prudent costs incurred to repair, improve or replace infrastructure that the Company uses to deliver electricity to its customers. This notice describes the Company's request, the PPUC's role and what actions you can take.

In February 2012, Act 11 was signed into law to allow the use of a DSIC by natural gas and electric distribution companies to help accelerate the replacement of aging facilities. This surcharge on customers' bills will reduce the frequency and the associated costs of base rate cases filed with the PPUC while maintaining a high level of customer protection. DSIC charges are designed to provide customers with improved service quality, greater rate stability, increased safety and fewer service interruptions.

The proposed effective date of the initial DSIC for Penn Power is July 1, 2016. The actual effective date will depend on when the DSIC is approved by the PPUC. Penn Power's DSIC rate will be a percentage of each customer's monthly distribution charges. The Company estimates that its initial percentage will be approximately 0.299 percent.

The final calculation of the initial percentage charges will be filed with the PPUC after the Company's DSIC is approved, and, if allowed to become effective on July 1, 2016, will be in effect from July 1, 2016 through September 30, 2016. Thereafter, the DSIC rate will be updated on a quarterly basis to reflect eligible property that Penn Power places in service during three-month periods ending prior to each update.

You may examine the material Penn Power filed with the PPUC, which explains the requested DSIC and the reasons for it. The docket number is P-2015-2508931. A copy of this material is kept at the following office:

Pennsylvania Power Company
401 South Jefferson Street
New Castle, PA 16101

The state agency which approves electric rates for public utilities is the PPUC. The PPUC will examine the requested DSIC filing and can prevent the implementation of the DSIC until it investigates and/or holds hearings on the request. The Company must prove that the requested rates are reasonable. After examining the evidence, the PPUC may grant all, some or none of the request.

There are three ways to challenge a Company's request for a DSIC:

1. You may file a formal complaint. If you want a hearing before a judge, you must file a formal complaint. By filing a formal complaint, you assure yourself the opportunity to take part in hearings about the DSIC request. All complaints should be filed with the PPUC as soon as possible. If no formal complaints are filed, the PPUC may grant all, some or none of the request without holding a hearing before a judge.
2. You may send the PPUC a letter telling why you object to the requested DSIC. Sometimes there is information in these letters that makes the PPUC aware of problems with the Company's service or management. This information can be helpful when the PPUC investigates the DSIC. Send your letter or request for a formal complaint form.

Pennsylvania Public Utility Commission
Post Office Box 3265
Harrisburg, PA 17105-3265

Complaint forms can also be accessed at the PUC website in Adobe Acrobat format:
http://www.puc.state.pa.us/general/onlineforms/pdf/official_complaint_form_final.pdf.

3. You may be a witness at a public input hearing. Public input hearings are held if the PPUC opens an investigation of the Companies' DSIC request and if there is a large number of customers interested in the case. At these hearings, you have the opportunity to present your views in person to the PPUC judge hearing the case and the Companies' representatives. All testimony given "under oath" becomes part of the official case record. These hearing are held in the service are of the Companies.

For more information call the PPUC at 1-800-692-7380. You may leave your name and address so you can be notified of any hearings that may be scheduled in this case.