

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**METROPOLITAN EDISON COMPANY
DOCKET NO. R-2014-2428745**

**PENNSYLVANIA ELECTRIC COMPANY
DOCKET NO. R-2014-242743**

**PENNSYLVANIA POWER COMPANY
DOCKET NO. R-2014-242744**

**WEST PENN POWER COMPANY
DOCKET NO. R-2014-2428742**

**Direct Testimony
of
Richard A. D'Angelo**

List of Topics Addressed

**Accounting and Financial Data
Budgets
Ratemaking Adjustments to Budgeted Test Year Data
Regulatory Treatment of Storm Damage Costs
Accelerated Customer Switching Costs
Other Filing Requirements**

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1 energy costs, non-utility generation (“NUG”) costs, quarterly earnings, and other
2 financial matters. Also, I am responsible for the administration of the Companies’
3 retail and wholesale tariffs, the development of retail electric rates, and the
4 promulgation of rules and regulations ensuring uniform tariff administration and
5 interpretation.

6 **Q. What is your educational and professional background?**

7 A. I obtained a Masters Degree in Business Administration from Pace University in
8 1976. I am also a graduate of Brooklyn College where I received a Bachelor of
9 Science degree with a major in Economics. I have over thirty-eight years of
10 experience with FirstEnergy Service Company and GPU Energy. My work
11 experience is more fully described in Appendix A.

12 **Q. Have you previously testified in regulatory proceedings?**

13 A. Yes. As set forth in Appendix A, I have previously testified before the
14 Commission, as well as the New Jersey Board of Public Utilities, the New York
15 State Public Service Commission and, at the federal level, before FERC.

16 **Q. On whose behalf are you testifying in this proceeding?**

17 A. I am testifying in this proceeding on behalf of Met-Ed, Penelec, Penn Power and
18 West Penn. My testimony equally applies to all of the Companies, unless
19 otherwise stated.

20

1 **Q. Please describe the purpose of your direct testimony.**

2 A. The general purpose of my testimony is to describe and support: (i) various
3 accounting, rate case, and other financial data that are being submitted in response
4 to the filing requirements for an electric utility base rate case proceeding; (ii) the
5 budget level of capital and operation and maintenance (“O&M”) expenses; (iii)
6 ratemaking adjustments to the budgeted test year rate base and operating income
7 statement; (iv) the rolling into base rates of smart meter costs; (v) the removal of
8 universal service costs for West Penn and their proposed recovery through a new
9 reconciliation rider; (vi) the proposed treatment of deferred storm damage
10 expenses and recovery of ongoing storm damage costs; and (viii) capital and
11 O&M costs associated with the Commission’s directive that electric distribution
12 companies (“EDCs”) accelerate customer switching of electric generation
13 suppliers (“EGSs”).

14 **Q. Have you prepared exhibits to accompany your testimony?**

15 A. Yes. Met-Ed Exhibits RAD-1 through RAD-64, Penelec Exhibits RAD-1 through
16 RAD-64, Penn Power Exhibits RAD-1 through RAD-64 and West Penn Exhibits
17 RAD-1 through RAD-64 (collectively, Exhibits RAD-1 through RAD-64) were
18 prepared by me or under my supervision. Of these, my testimony will focus
19 primarily on Exhibit RAD-1, which sets forth each Company’s proposed rate base
20 at April 30, 2016, i.e., the end of the fully projected future test year (“FPFTY”)
21 being utilized in this proceeding, and RAD-2, which provides a detailed income
22 statement and support for certain normalization and annualization adjustments to

1 the budgeted FPFTY data. The remaining exhibits, for the most part, comprise
2 responses to those Commission base rate filing requirements for which I am
3 responsible.

4 **Q. Please identify those witnesses whose testimony relates to and supports your**
5 **testimony and exhibits.**

6 A. Kimberlie L. Bortz (Met-Ed/Penelec/Penn Power/West Penn Statement No. 3)
7 describes and supports the Storm Damage Recovery Riders proposed for all four
8 Companies and the Universal Service Cost (“USC”) Rider proposed for West
9 Penn.

10 Kevin M. Siedt (Met-Ed/Penelec/Penn Power/West Penn Statement No. 4)
11 supports the pro forma levels of energy sales and normalized revenues utilized to
12 determine the Companies’ need for rate relief. Mr. Siedt also details the
13 Companies’ proposed rate design and various rider modifications.

14 Hillary E. Stewart (Met-Ed/Penelec/Penn Power/West Penn Statement No. 5)
15 explains the cost of service study she performed along with how various cost of
16 service components (e.g., rate base, expenses) attributable to FERC jurisdictional
17 service were identified and removed from the determination of the Companies’
18 distribution revenue requirement.

19 Patricia M. Larkin (Met-Ed/Penelec/Penn Power/West Penn Statement No. 6)
20 supports the Companies’ cash working capital requirements.

1 Laura W. Gifford (Met-Ed/Penelec/Penn Power/West Penn Statement No. 7)
2 describes and supports the normalization of uncollectible accounts expense, the
3 unbundling of West Penn’s generation uncollectible accounts expense, and the
4 proposed roll-in to base rates of smart meter capital and O&M expenses.

5 Michael J. Vilbert (Met-Ed/Penelec/Penn Power/West Penn Statement No. 9)
6 develops a range of the cost of equity capital to be utilized in the calculation of
7 the Companies’ overall rates of return.

8 Steven R. Staub (Met-Ed/Penelec/Penn Power/West Penn Statement No. 10)
9 presents the Companies’ proposed capital structure ratios and weighted average
10 costs of long-term debt. In addition, he supports the Companies’ requested return
11 on common equity of 10.9%.

12 **II. ACCOUNTING AND FINANCIAL DATA**

13 **Q. Do the Companies adhere to a system of accounts prescribed by the**
14 **Commission?**

15 A. Yes. The Companies’ accounting records are maintained in accordance with the
16 Commission’s regulations at 52 Pa. Code Sec. § 57.41 *et seq.* and in conformity
17 with the Uniform System of Accounts prescribed by the FERC and adopted by the
18 Commission.

19 **Q. Are the Companies’ accounting records audited?**

20 A. Yes. The Companies’ financial records are audited at least annually by an
21 independent certified public accounting firm. In addition, the FERC conducts

1 periodic compliance audits to confirm that the Companies are keeping their
2 accounts in conformity with the Uniform System of Accounts. In addition to
3 conducting its own audits, the staff of the PUC reviews the findings of FERC's
4 audits. Other independent agencies also have the authority to audit the
5 Companies' records on a recurring basis, including the Internal Revenue Service
6 ("IRS") and the Securities and Exchange Commission ("SEC"). In addition, the
7 PUC audit staff and the Pennsylvania Department of Revenue staff perform
8 annual audits of the cost recovery rider mechanisms and sales and use tax filings.

9 **Q. Have original cost determinations been made of the Companies' utility**
10 **plant?**

11 A. Yes. For Met-Ed, an original cost determination was made as of December 31,
12 1944, for which approval orders were issued by the PUC on December 11, 1945
13 at EOC Docket No. 27 and for Edison Light and Power Company (which was
14 subsequently merged with Met-Ed) on November 12, 1946 at Docket No. 11. In
15 1948, the Company filed with the Commission a basic plan for maintaining its
16 continuing property records. The PUC accepted and approved that plan on April
17 19, 1948.

18 For Penelec, an original cost determination was made as of December 31, 1943,
19 by Commission Order dated January 15, 1945 at Docket Nos. EOC 32, MGOC
20 17, EOC 7, EOC 13, EOC 14, EOC 22 and EOC 44. Original cost determinations
21 were also made for the following major companies which were later merged into
22 Penelec: Pennsylvania Edison Company at Docket Nos. EOC 31 and MGOC 16

1 by Order dated November 1, 1946 approving balances at July 2, 1946; Northern
2 Pennsylvania Power Company at Docket No. EOC 29 by Order dated January 2,
3 1946 approving balances at December 31, 1944; and Home Electric Company at
4 Docket No. EOC 21 by Order dated August 20, 1945 approving balances at
5 January 1, 1938.

6 For Penn Power, an original cost determination was approved by the Commission
7 in the mid-1940's. A subsequent original cost determination was made as part of
8 the Commission's April 6, 1984 Order in Penn Power's base rate proceeding at
9 Docket No. R-832409 (58 PaPUC 305, 60 PUR 4th 593). In that case, the
10 Commission, at the recommendation of the Office of Trial Staff, directed Penn
11 Power to develop its revenue requirement on the basis of its book reserve for
12 depreciation and to convert to the average remaining life method of depreciation
13 and, in so doing, established depreciated original cost plant values to be utilized
14 henceforth.

15 For West Penn, an original cost determination was made as of December 31,
16 1943, by Order of this Commission dated July 10, 1945 at Docket No. 50.

17 The Companies have, since the dates noted above, maintained their continuing
18 property records in accordance with the approved plans.

19

1 **III. BUDGETS**

2 **Q. Mr. D'Angelo, are you familiar with the process by which Met-Ed, Penelec,**
3 **Penn Power and West Penn budget future capital expenditures, revenues and**
4 **operating expenses?**

5 A. Yes, I am. In general, the Companies' budgeting process involves: (1) the
6 establishment of documented and well-supported goals, objectives and guidelines;
7 (2) intensive reviews and refinements by all levels of management and functional
8 staffs; and (3) careful scrutiny and ultimate approval by appropriate senior
9 management.

10 **Q. How were those budgets utilized to develop the Companies' claimed revenue**
11 **requirements in these proceedings?**

12 A. They provided the starting point for determining the Companies' claimed rate
13 base at April 30, 2016 and operating income for the twelve months ending that
14 date. Specifically, I consolidated budgeted monthly data for the months of May
15 through December from the 2015 forecast and the months of January through
16 April from the 2016 forecast to develop the "Per Budget" amounts set forth in
17 Column 1 of Exhibits RAD-1 and RAD-2.

18 **Q. Did you update any of the budgeted data for purposes of these rate filings?**

19 A. Yes. Since the completion of the capital budget, certain revisions were made to
20 the forecasted capital structures of the Companies and those changes have been
21 reflected by Mr. Staub in his testimony and exhibits. Also, the Companies made
22 certain changes to the test year for: (1) updated tax depreciation (Exhibits RAD-

1 33); (2) the provision for deferred income taxes (Exhibits RAD-41); and (3)
2 accumulated deferred income taxes (Exhibits RAD-35).

3 **Q. What opinion, if any, do you have as to the budgeted levels of capital and**
4 **expense?**

5 A. In my opinion, the budgeted levels of capital and expense are reasonable
6 estimates of what Met-Ed, Penelec, Penn Power and West Penn can expect to
7 experience during the FPFTY prior to recognition of the appropriate ratemaking
8 adjustments reflected in Exhibits RAD-1 and RAD-2.

9 **IV. RATEMAKING ADJUSTMENTS TO BUDGETED TEST YEAR DATA**

10 **A. Rate Base at April 30, 2016 (Exhibits RAD-1)**

11 **Q. Please generally describe Met-Ed, Penelec, Penn Power and West Penn**
12 **Exhibits RAD-1.**

13 A. These exhibits, which are essentially identical in format, set forth, for each
14 Company, its proposed overall distribution rate base and smart meter rate base at
15 April 30, 2016. Column 1 on page 1 of Exhibits RAD-1 provides budgeted
16 amounts; column 2 adjusts various components; and column 3 reflects the
17 adjusted rate base. The remaining columns on page 1 break the adjusted rate base
18 into separate distribution and smart meter rate base elements.

19 The adjustments to the budgeted rate base data, along with a detailed explanation
20 of each adjustment, are contained on pages 2 through 11 of Met-Ed, Penelec, and

1 West Penn, and Penn Power Exhibits RAD-1 and are referenced on page 1 by
2 adjustment number. The adjustments are designed to accomplish the following:

- 3 • Remove FERC gross plant and depreciation reserves (Met-Ed, Penelec
4 and West Penn);
- 5 • Reflect adjusted depreciation reserves applicable to rate base;
- 6 • Eliminate American Transmission Systems, Inc. (“ATSI”) plant and
7 depreciation reserves in accordance with the settlement at Docket No.
8 A-110450F0016 (Penn Power);
- 9 • Eliminate plant held for future use;
- 10 • Reflect the roll-in to base rates of smart meter investment and related
11 depreciation reserves;
- 12 • Reflect cash working capital requirements;
- 13 • Reflect material and supplies (“M&S”) inventories;
- 14 • Reflect unamortized deferred storm damage expenses as an addition to
15 rate base (Met-Ed, Penelec and West Penn);
- 16 • Reflect the transfer of unrecovered legacy meter investment from plant
17 in service to a regulatory asset account;
- 18 • Adjust accumulated deferred income taxes – liberalized depreciation;
19 and
- 20 • Adjust operating reserves, net of tax, to remove FERC jurisdictional
21 allocations (Met-Ed, Penelec and West Penn).

22

1 **Q. Please describe Adjustment No. 1 to Electric Plant in Service.**

2 A. This adjustment eliminates from plant in service accounts: (1) Asset Retirement
3 Costs (“ARC”); (2) FERC Transmission Plant, including allocated portions of
4 Intangible and General Plant, based on the results of a separations study described
5 by Ms. Stewart in Met-Ed/Penelec/Penn Power/West Penn Statement No. 5; (3)
6 legacy meters, as directed by the Commission in the Final Order in the
7 Companies’ Smart Meter Deployment Plan at Docket Nos. M-2013-2341990
8 (Met-Ed), M-2013-2341991 (Penelec), M-2013-2341993 (Penn Power), and M-
9 2013-2341994 (West Penn); and (4) in the case of Penn Power, ATSI plant in
10 accordance with the settlement at Docket No. A-110450F0016.

11 **Q. What are ARC costs?**

12 A. An ARC applies to all legal obligations associated with the retirement of long-
13 lived assets that result from construction under Financial Account Standards
14 Board Statement No. 143 (“FAS-143).” FAS-143 requires that the fair value of a
15 liability for an asset’s retirement obligation (“ARO”) be recognized in the period
16 in which it is incurred. The associated ARC is capitalized as part of the carrying
17 amount of the long-lived assets. An ARC increases the carrying amount of a
18 long-lived asset when a liability for an ARO is recognized and is depreciated over
19 the life of the asset. The ARC and related depreciation reserve are excluded from
20 rate base, while the associated depreciation expense is excluded from the income
21 statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18, Asset
22 Retirement Obligations.

1 **Q. What is the Companies' position on Plant Held for Future Use?**

2 A. Historically, the Companies claimed in rate base those investments in Plant Held
3 for Future Use that were expected to be utilized within ten years of the test period.
4 The ten-year window reflected the Commission's prior policy of allowing such
5 investments where definitive plans for utilizing the investment within the ten-year
6 period existed. Under current Commission policy, investments in Plant Held for
7 Future Use are excluded from rate base, but allowed to accrue carrying charges
8 provided they satisfy the ten-year test. Adjustment No. 2 is designed to comply
9 with that policy.

10 **Q. Please describe Adjustment No. 3 to Depreciation Reserve - Electric Plant in**
11 **Service.**

12 A. This adjustment removes from the budgeted depreciation reserve those portions
13 attributable to the plant eliminated in Adjustment No. 1.

14 **Q. What is the purpose of Adjustment No. 4?**

15 A. This adjustment includes the Companies' cash working capital requirements
16 described by Ms. Larkin in Met-Ed/Penelec/Penn Power/West Penn Statement
17 No. 6 and computed by her in Met-Ed, Penelec, Penn Power and West Penn
18 Exhibits PML-1.

19 **Q. Please describe Adjustment No. 5 to M&S inventories.**

20 A. This adjustment includes each Company's allocated portion of the materials and
21 supplies inventory maintained by the FirstEnergy Service Company at March 31,

1 2014. The historic test year-end balance was used because the Companies do not
2 budget M&S inventories. Met-Ed, Penelec, Penn Power and West Penn Exhibits
3 RAD-13 provide a monthly breakdown of M&S inventories for the thirteen
4 months ended March 31, 2014.

5 **Q. What is the purpose of Adjustment No. 6?**

6 A. Adjustment No. 6 includes in claimed rate base certain storm damage costs, the
7 recognition of which has been deferred in accordance with Commission order.
8 The specific costs deferred, and citations to the Commission orders approving
9 their deferral, are provided for Met-Ed, Penelec, and West Penn on page 7 of the
10 exhibits.

11 **Q. Please describe the adjustment for legacy meters.**

12 A. In its March 6, 2014 Order at Docket Nos. M-2013-2341990, et al., approving the
13 Companies' Smart Meter Deployment Plans, the Commission directed that the
14 cost of removing legacy meters (i.e., meters to be replaced by the installation of
15 smart meters) be charged to the regulatory asset account containing the legacy
16 meters and recovered, along with the unrecovered investment in those meters,
17 over the remaining lives of those meters. As noted previously, Adjustment No. 1
18 transfers the investment in legacy meters that will remain unrecovered as of April
19 30, 2016, to a regulatory asset account. Adjustment No. 7 adds back to rate base
20 the regulatory asset account, net of accrued depreciation, plus the estimated cost
21 of removal.

1 **Q. Please describe the adjustment of Accumulated Deferred Income Taxes –**
2 **Liberalized Depreciation.**

3 A. Adjustment No. 8 adjusts the budgeted deferred tax balances for liberalized
4 depreciation, excluding the impact of Statement of Financial Accounting
5 Standards (“SFAS”) No. 109 deferrals, to eliminate: (1) deferred income taxes
6 associated with Three Mile Island Unit No. 2 (Met-Ed and Penelec); (2) deferred
7 income taxes associated with other generation (Met-Ed); (3) other excludable
8 items (capital leases); (4) remaining state income tax deferrals including the
9 benefit of those income taxes; and (5) an allocated portion of the remaining
10 federal deferred income taxes associated with FERC Transmission Plant (Met-Ed,
11 Penelec and West Penn).

12 **Q. Please describe the adjustment proposed to operating reserves.**

13 A. Adjustment No. 9 adjusts operating reserves, net of accumulated deferred income
14 taxes, to eliminate an allocated portion associated with FERC transmission
15 operations (Met-Ed, Penelec and West Penn).

16 **Q. After taking into account the foregoing adjustments, what is Met-Ed's**
17 **claimed distribution rate base?**

18 A. Met-Ed’s claimed distribution rate base equals \$1,412,965,000, of which
19 \$28,109,000 represents the roll-in of smart meter investment.

20

1 **Q. What is Penelec's claimed distribution rate base?**

2 A. Penelec's claimed distribution rate base equals \$1,540,298,000, of which
3 \$30,884,000 represents the roll-in of smart meter investment.

4 **Q. What is Penn Power's claimed distribution rate base?**

5 A. Penn Power's claimed distribution rate base equals \$358,929,000, of which
6 \$24,326,000 represents the roll-in of smart meter investment.

7 **Q. What is West Penn's claimed distribution rate base?**

8 A. West Penn's claimed distribution rate base equals \$1,287,287,000, of which
9 \$87,918,000 represents the roll-in smart meter investment.

10 **Q. What is contained on page 11 of Exhibits RAD-I?**

11 A. This page sets forth, for each Company, its claimed overall rate of return,
12 including its proposed capital structure ratios, weighted average cost of long-term
13 debt and requested return on common equity. Those findings, which are
14 presented and supported by Mr. Staub and Dr. Vilbert, are summarized below:

1. Met-Ed	Capital Structure Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.0%	5.21%	2.60%
Preferred Stock	0.0%	---	---
Common Equity	<u>50.0%</u>	10.9%	<u>5.45%</u>
	100.0%		8.05%

2. Penelec	Capital Structure Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	50.1%	5.72%	2.87%
Preferred Stock	---	---	---
Common Equity	<u>49.9%</u>	10.9%	<u>5.44%</u>
	100.0%		8.31%

15

3. Penn Power	Capital Structure Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	49.9%	6.12%	3.05%
Preferred Stock	---	---	---
Common Equity	<u>50.1%</u>	10.9%	<u>5.46%</u>
	100.0%		8.51%

4. West Penn	Capital Structure Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	49.9%	5.38%	2.68%
Preferred Stock	---	---	---
Common Equity	<u>50.1%</u>	10.9%	<u>5.46%</u>
	100.0%		8.14%

1 **B. Statement of Operating Income For the 12 Months Ending April 30,**
2 **2016 (Exhibits RAD-2)**

3 **Q. What is contained in Met-Ed, Penelec, Penn Power and West Penn Exhibits**
4 **RAD-2?**

5 A. Met-Ed, Penelec, Penn Power and West Penn Exhibits RAD-2 contain the
6 budgeted and pro forma statements of net utility operating income for the FPPTY
7 ending April 30, 2016. The first three pages summarize the budgeted and
8 adjusted results of operations at present and proposed rates; the next five pages
9 break down each Company's revenue requirement by component part (e.g.,
10 distribution, smart meter roll-in); and the remaining pages, starting at page 9,
11 document the specific adjustments made to normalize and annualize the budgeted
12 data.

13 The adjustments are designed to accomplish the following:

- 14 • Annualize number of customers, usage and sales at end-of-test-year
15 levels;

17

- 1 • Roll into base rates revenues associated with the State Tax Adjustment
2 Surcharge (“STAS”);
- 3 • Eliminate non-jurisdictional “Other Operating Revenues,” as
4 applicable;
- 5 • Annualize payroll and employee benefit costs to reflect anticipated
6 employee levels and benefits;
- 7 • Calculate net negative salvage based on a five-year average of actual
8 net salvage, consistent with Commission practice;
- 9 • Normalize pension expense to reflect a ten-year average of cash
10 contributions consistent with the approach approved by the
11 Commission in prior proceedings;
- 12 • Normalize other post-employment benefits (“OPEBs”) to reflect the
13 actual ongoing level of service costs charged to expense consistent
14 with the approach used in the past with Commission approval;
- 15 • Normalize depreciation accruals to reflect utility plant in service as of
16 the end of the FPFTY;
- 17 • Normalize rate case expenses to reflect a two-year cost recovery
18 period;
- 19 • Eliminate non-jurisdictional O&M expenses;
- 20 • Normalize O&M expenses associated with serving new customers;
- 21 • Eliminate the Universal Service program costs included in West
22 Penn’s budget, as such costs will be recovered through West Penn’s
23 proposed USC Rider;
- 24 • Amortize the unrecovered investment in “legacy” meters being
25 replaced by smart meters over a five-year period;
- 26 • Amortize deferred storm damage O&M expenses over a three-year
27 period (Met-Ed, Penelec and West Penn);
- 28 • Amortize West Penn’s residual merger credit balance to residential
29 customers over two years;
- 30 • Remove default service-related uncollectible accounts expense from
31 distribution revenue requirement (West Penn); and
- 32

- 1 • Adjust taxes other than income including, for Penn Power, rolling the
2 5.9% Gross Receipts Tax (“GRT”) into base rates and all of its
3 applicable cost recovery riders.

4 **Q. What level of GRT has been collected in Penn Power’s base rates and its**
5 **various cost recovery riders?**

6 A. The Commonwealth of Pennsylvania requires Penn Power to pay GRT at the
7 statutory rate of 5.9%. However, Penn Power has been recovering GRT in base
8 rates and cost recovery riders at a 4.4% tax rate and has been recovering the
9 remaining 1.5% of the statutory rate in its STAS.

10 **Q. How does rolling the STAS into base rates impact the Penn Power’s various**
11 **cost recovery riders?**

12 A. Rolling the STAS into Penn Power’s base rates requires each of the Company’s
13 cost recovery riders to recover fully that rider’s GRT revenue requirement.
14 Consequently, each cost recovery rider reflects a shortfall in its GRT recovery,
15 which is made up through an applicable increase in revenue requirements shown
16 on page 2 of Penn Power Exhibit RAD-2. However, the revenue requirements for
17 the Price-To-Compare (“PTC”), USC, Energy Efficiency Conservation Charge
18 (“EE&C-C”), Default Service Support, and Solar Photovoltaic Requirements
19 Charge (“SPVRC”) Riders will be updated. Specifically, the actual rates to be
20 imposed under the various cost recovery riders will have their respective GRT
21 component updated as part of the Penn Power compliance filing at the time new
22 base rates approved in this proceeding are implemented. Because the SMT-C

1 Rider is being rolled into base rates, its revenue requirement will reflect GRT at
2 the statutory 5.9% rate.

3 **Q. Are the Companies seeking to recover any acquisition premium or other**
4 **transaction costs associated with the FirstEnergy/GPU or**
5 **FirstEnergy/Allegheny mergers as part of the revenue requirements in this**
6 **case?**

7 A. No. There is no provision in the budget for, nor has any adjustment been made to
8 include, an amortization of acquisition premiums or other transaction costs
9 associated with either of those mergers.

10 **Q. Please describe Adjustment No. 1.**

11 A. This is an adjustment to base operating revenues to: (1) annualize changes in
12 number of customers; (2) roll-in STAS revenues; (3) normalize the sales and
13 revenue effects of energy efficiency measures implemented or to be implemented
14 under the Companies' Energy Efficiency and Conservation Plans and to reflect
15 behind-the-meter generation; (4) normalize Other Revenue (Met-Ed, Penn Power,
16 and West Penn); (5) street lighting (Penelec); and (6) eliminate unbilled revenue.
17 Parts (1) through (5) of this adjustment are discussed in detail by Mr. Siedt in
18 Met-Ed/Penelec/Penn Power/West Penn Statement No. 4. I address item (6). By
19 way of background, unbilled revenue has been included in the budget projection
20 to reflect revenues for service rendered but not billed as of the end of each
21 accounting period. Items that produce unbilled revenue include such things as
22 increases in rates and increases in the number of customers. In developing pro

1 forma revenues for ratemaking purposes, separate adjustments are being made to
2 annualize and normalize the revenue effect of such factors. Therefore, to
3 eliminate any duplication of revenue for ratemaking purposes, unbilled revenue
4 must be eliminated, which is done in Adjustment No. 1.

5 **Q. Please describe Adjustment No. 2.**

6 A. This adjustment eliminates revenues projected to be billed under the Companies’
7 STAS Riders. Because all state taxes are included in distribution base rate
8 revenue requirement, no revenues will be billed under the STAS Rider. As the
9 Companies did not forecast any charge under their STAS Rider, the adjustment is
10 zero.

11 **Q. Please describe Adjustment No. 3.**

12 A. This adjustment eliminates non-jurisdictional FERC transmission revenues from
13 electric revenues projected for the FPFTY.

14 **Q. What is the purpose of Adjustment No. 4 to Distribution Expense?**

15 A. This adjustment: (1) normalizes each of the Companies’ and FirstEnergy Service
16 Company’s payroll expense to reflect year-end wage and employee levels; (2)
17 eliminates non-jurisdictional transmission expenses; and (3) excludes the
18 transmission portion of the amortization of gains or losses to reacquire debt,
19 where applicable, based on the results of the separations study described by Ms.
20 Stewart in Met-Ed/Penelec/Penn Power/West Penn Statement No. 5.

1 Supporting Schedule No. 1 develops the payroll expense to reflect year end wage
2 and employee levels for both Company and FirstEnergy Service Company
3 employees. The O&M payroll expense for each Company and FirstEnergy
4 Service Company is then allocated to individual Price to Compare, Transmission,
5 Distribution, Customer Accounts, Customer Service and Administrative and
6 General components. These amounts are later utilized in subsequent adjustments.

7 **Q. Please describe Adjustment No. 5 to Customer Accounts Expense.**

8 A. Customer Accounts expense is adjusted to reflect year end wage and employee
9 levels for each Company and FirstEnergy Service Company personnel (developed
10 in Adjustment No. 4), increased costs associated with added new customers and
11 interest on customer deposits.

12 Supporting Schedule No. 1 develops the Other O&M expenses associated with
13 serving new customers reflected in Adjustment No. 1. The Commission has
14 previously approved an adjustment to customer accounts expense in recognition
15 of this increased cost. This cost is estimated by determining the ratio of non-
16 payroll customer account expense to distribution revenues from customers and
17 applying this ratio to the additional revenue received from increased customers.

18 Supporting Schedule No. 1 also captures the cost of interest the Companies are
19 required to pay on customer deposits since the customer deposits are deducted
20 from rate base.

1 **Q. What is the purpose of Adjustment No. 6 to Customer Service and**
2 **Informational Expense?**

3 A. Customer Service and Informational Expense is adjusted to reflect year end wage
4 and employee levels for each Company and FirstEnergy Service Company that
5 were developed in Adjustment No. 4, Supporting Schedule No. 1.

6 **Q. Please describe Adjustment No. 7 to Administrative and General Expense.**

7 A. Administrative and General Expense is adjusted to reflect: (1) year-end wage and
8 employee levels for each Company and FirstEnergy Service Company that were
9 developed in Adjustment No. 4, Supporting Schedule No. 1; (2) OPEBs at the
10 service cost level; (3) pension expense at the ten-year average cash contribution
11 level; (4) employee benefit expense at year-end personal and wage levels; (5) the
12 elimination of non-jurisdictional administrative and general expenses based on the
13 results of the separations study sponsored by Ms. Stewart (Met-Ed/Penelec/Penn
14 Power/West Penn Statement No. 5); (6) inclusion of rate case expenses incurred
15 in the current proceeding normalized over a two-year period; (7) the elimination
16 of budgeted rate case expenses; and (8) the amortization of costs to allow for
17 accelerated, three day, customer switching from one supplier to another based
18 upon information contained in Exhibits RAD-64.

19 Supporting Schedule No. 1 adjusts the budgeted level of OPEB expenses to the
20 service cost level. The budgeted OPEB expense consists of the current service
21 cost, adjustments to prior years' service costs, and the financing component. The
22 service cost represents the actuarial present value of benefit liabilities accrued

1 under the plan benefit formula for services rendered during the test year.
2 Inclusion of the service cost in rates provides for recovery of the current cost of
3 benefits earned by plan participants. Any excess or shortfall related to the
4 expected return on plan assets is excluded because its inclusion would artificially
5 reduce or increase total costs and result in the recovery of more or less than the
6 normal ongoing cost of service. The adjustment to restate OPEB expense at the
7 current service cost level was adopted by the Commission at Docket Nos. R-
8 00061366 and R-00061367.

9 Supporting Schedule No. 2 normalizes the budgeted level of pension expense to
10 appropriately reflect a ten-year historical average level of actual cash
11 contributions to the pension plan under the methodology that was adopted by the
12 Commission at Docket Nos. R-00061366 and R-00061367.

13 Supporting Schedule No. 3 uses the O&M payroll expense developed in
14 Adjustment No. 4, Supporting Schedule No. 1 to normalize the employee benefits
15 costs charged to Administrative and General expense.

16 **Q. Please describe Adjustment No. 8 to Depreciation Expense.**

17 A. Budgeted Depreciation Expense is adjusted: (1) to reflect the application of
18 average remaining life depreciation rates to claimed plant in service; (2) to
19 remove depreciation expense attributable to non-jurisdictional assets; (3) to
20 restate the cost of removal/salvage expense on a five-year average basis consistent

1 with Commission practice; and (4) to amortize the unrecovered investment in
2 legacy meters at April 30, 2016 over five years.

3 **Q. Please describe Adjustment No. 9.**

4 A. This adjustment increases expenses to amortize storm damage expenses that have
5 been deferred with the Commission's prior approval. The specific costs deferred,
6 and a citation to the Commission Order approving their deferral, is provided for
7 each Company on page 24 of the exhibits. This adjustment also eliminates credits
8 that were budgeted in this account for rate case expenses and legacy meters. The
9 underlying expenses were inadvertently budgeted to Administrative and General
10 Expense but were removed from the budget in Adjustment No. 7.

11 **Q. Please describe Adjustment No. 10.**

12 A. Taxes Other Than Income Taxes included in the budget were adjusted to: (1)
13 eliminate non-jurisdictional payroll taxes; (2) reflect GRT at 5.9% for normalized
14 sales revenues; (3) eliminate non-jurisdictional expense portions of Capital Stock
15 Tax, the Public Utility Reality Tax, and other real estate taxes; and (4) adjust
16 payroll tax expense based on annualized payroll and employee levels.

17 The adjustments to remove the non-jurisdictional portion of payroll taxes, the
18 Capital Stock Tax, Public Utility Reality Tax, and other real estate taxes are based
19 on the results of the separation study performed by Ms. Stewart.

1 Supporting Schedule No. 1 shows the calculation of Federal Insurance
2 Contributions Act (“FICA”) tax associated with the annualized O&M payroll
3 expense developed in Adjustment No. 4.

4 **Q. Please describe briefly the computation of federal and state income taxes as**
5 **reflected in Adjustment No. 11.**

6 A. This schedule begins with the computation of the \$57,147,000 net operating
7 income before income taxes from data shown on page 1 of Met-Ed Exhibit RAD-
8 2 (line 5 less line 14 of column 3 on page 1); \$100,404,000 net operating income
9 before income taxes from data shown on page 1 of Penelec Exhibit RAD-2 (line 5
10 less line 14 of column 3 on page 1); \$22,637,000 net operating income before
11 income taxes from data shown on page 1 of Penn Power Exhibit RAD-2 (line 5
12 less line 14 of column 3 on page 1), and \$67,368,000 net operating income before
13 income taxes from data shown on page 1 of West Penn Exhibit RAD-2 (line 5 less
14 line 14 of column 3 on page 1). The revenues and expenses used to calculate the
15 federal and state income taxes in Adjustment No. 11 are divided into columns
16 corresponding to the components shown on pages 1-3 of these exhibits
17 (Distribution, PTC, USC, EE&C-C, Smart Meter Technologies Charge Rider,
18 DSS Rider, SPVRC, NUG and Storm Cost Recovery Rider) to derive net
19 operating income before income taxes. From that amount, interest was deducted.
20 Interest was calculated by multiplying the adjusted rate base by the weighted
21 average cost of long-term debt. The resulting figure is net income before income
22 taxes a shown on line 10.

1 Two adjustments (lines 11 and 14) were made to increase taxable income. The
2 first reflects the five-year amortization of net salvage. The second increases net
3 income by adding back the cash pension contribution included in pro forma O&M
4 expenses, which is not a current deduction for tax purposes.

5 The remaining two adjustments (lines 12 and 13) are deductions from taxable
6 income. The first adjusts depreciation to reflect accelerated depreciation, where
7 permitted, on eligible property as of April 30, 2016. The second reflects cost of
8 removal (\$6,080,000 for Met-Ed; \$8,872,000 for Penelec; \$527,000 for Penn
9 Power; \$4,938,000 for West Penn) that may be claimed as a current deduction for
10 tax purposes. The net amount of these adjustments is included in the net income
11 before federal and state income taxes to determine the income subject to state
12 income tax. The state and federal income tax calculations then follow. The state
13 and federal income taxes are computed at the statutory rates of 9.99% and 35%,
14 respectively.

15 **Q. Please describe Adjustment No. 12.**

16 A. This adjustment eliminates from the budgeted Provision for Deferred Income
17 Taxes all deferred taxes except the federal deferred taxes associated with
18 liberalized depreciation. Additionally, federal deferred taxes for liberalized
19 depreciation are adjusted to reflect plant in service as of the end of the FPFTY.
20 Detailed calculations of the federal deferrals are provided in Exhibits RAD-41.

1 The computation for post-1969 through 1980 “expansion” property is based on
2 the difference between accelerated depreciation (calculated using the Sum of the
3 Years Digits (“SYD”) method and taxable lives based on the Asset Depreciation
4 Range (“ADR”)) and straight-line depreciation using “guideline” lives. The
5 computation for 1981 and subsequent property begins by determining the
6 difference between tax depreciation using the Accelerated Cost Recovery System
7 (“ACRS”) and the Modified Accelerated Cost Recovery System (“MACRS”) and
8 straight line depreciation (using book rates and tax basis).

9 The federal tax rate of 35% was applied to the amounts calculated in the manner
10 described above and compared to the tax to be booked during the test year to
11 determine the adjustment to deferred taxes.

12 The state deferred taxes associated with liberalized depreciation pertain only to
13 FERC jurisdictional property and have been eliminated. The deferred taxes
14 associated with other miscellaneous items have been eliminated because the
15 associated income has not been included in the calculation of taxable income used
16 to compute federal and state taxes included in each Company’s revenue
17 requirement.

18 **Q. Please describe Adjustment No. 13.**

19 A. This adjustment eliminates the non-jurisdictional portion of investment tax credits
20 based on the results of the separation study performed by Ms. Stewart.

21

1 **Q. What is Met-Ed's claimed additional distribution revenue requirement?**

2 A. Reflecting all of the adjustments to the budget data discussed above, Met-Ed's net
3 utility operating income for the FPFTY at present rates is \$29,730,000 (page 1,
4 column 13, line 23). This amount, compared to the \$113,767,000 shown on page
5 3, column 33, line 23, shows that \$84,037,000 in additional return is required for
6 Met-Ed to achieve an overall return of 8.05% on its distribution rate base. This
7 translates into an additional base rate revenue requirement, or revenue deficiency
8 under existing rates, of \$152,643,000, as shown on page 2, column 23, line 1.

9 **Q. What is Penelec's claimed additional distribution revenue requirement?**

10 A. Reflecting all of the adjustments to the budget data discussed above, Penelec's net
11 utility operating income for the FPFTY at present rates is \$61,695,000 (page 1,
12 column 14, line 23), after excluding (\$726,000) allocated to the New York
13 jurisdiction. This amount, compared to the \$127,934,000 shown on page 3,
14 column 34, line 23, shows that \$66,239,000 in additional return is required for
15 Penelec to achieve an overall return of 8.31% on its Pennsylvania jurisdictional
16 distribution rate base. This translates into an additional base rate revenue
17 requirement, or revenue deficiency under existing rates, of \$120,316,000, as
18 shown on page 2, column 24, line 1.

19 **Q. What is Penn Power's claimed additional distribution revenue requirement?**

20 A. Reflecting all of the adjustments to the budget data discussed above, Penn Power's
21 net utility operating income for the FPFTY at present rates is \$14,278,000 (page
22 1, column 13, line 23). This amount, compared to the \$30,550,000 shown on

1 page 3, column 33, line 23, shows that \$16,272,000 in additional return is
2 required for Penn Power to achieve an overall return of 8.51% on its distribution
3 rate base. This translates into an additional base rate revenue requirement, or
4 revenue deficiency under existing rates, of \$29,557,000, as shown on page 2,
5 column 23, line 1.

6 **Q. What is West Penn's claimed additional distribution revenue requirement?**

7 A. Reflecting all of the adjustments to the budget data discussed above, West Penn's
8 net utility operating income for the FPFTY at present rates is \$61,502,000 (page
9 1, column 11, line 23). This amount, compared to the \$104,785,000 shown on
10 page 3, column 27, line 23, shows that \$43,283,000 in additional return is
11 required for West Penn to achieve an overall return of 8.14% on its distribution
12 rate base. This translates into an additional base rate revenue requirement, or
13 revenue deficiency under existing rates, of \$78,619,000, as shown on page 2,
14 column 19, line 1.

15 **Q. What is contained in Exhibits RAD-3, RAD-4, RAD-5 and RAD-6?**

16 A. Exhibits RAD-3 and RAD-5 set forth each Company's rate base at March 31,
17 2015 and 2014, respectively. Exhibits RAD-4 and RAD-6 set forth each
18 Company's operating income statements with normalizing adjustments for the
19 future test year (twelve months ended March 31, 2015) and the historic test year
20 (twelve months ending March 31, 2014), respectively.

1 While the specific numbers differ, these two sets of exhibits are identical in
2 format and concept to Exhibits RAD-1 and RAD-2 and the description of the
3 filing format in my testimony applies equally to them.

4 **V. REGULATORY TREATMENT OF STORM DAMAGE COSTS**

5 **Q. How has the Commission historically treated storm damage costs for**
6 **ratemaking purposes?**

7 A. As in the case of other operating expenses, utilities have been allowed to include a
8 normal, ongoing level of storm damage costs in their base rate revenue
9 requirement. In addition, utilities have been permitted to request authorization to
10 defer, for accounting purposes, extraordinary storm damage costs, with the
11 understanding that rate recovery of the deferred costs would be addressed in a
12 future base rate proceeding. In accordance with that policy and prior rulings by
13 the Commission, the Companies have included in their FPFTY revenue
14 requirement a normalized level of storm damage costs and, in the case of Met-Ed,
15 Penelec and West Penn, rate recovery of previously authorized deferrals (see
16 Exhibits RAD-1, p. 7 and Exhibits RAD-2, p. 24).

17 **Q. Are the Companies proposing any changes to the recovery of storm damage**
18 **expense in this filing?**

19 A. Yes. The Companies are proposing to institute a Storm Damage Recovery Rider
20 to provide for the annual true-up of actual storm damage O&M expenses. The
21 Riders would impose either a charge, if actual storm damage expenses exceeded
22 the base rate amount, or a credit if actual storm damage expenses were less than

1 the base rate amount. Ms. Bortz, in Met-Ed/Penelec/Penn Power/West Penn
2 Statement No. 3, describes the Storm Damage Recovery Riders proposed by the
3 Companies.

4 **Q. What is the normalized, ongoing amount of storm damage O&M expense**
5 **budgeted for the twelve months ending April 30, 2016?**

6 A. Met-Ed, Penelec, Penn Power and West Penn Exhibits RAD-63 set forth budgeted
7 storm damage expense for the twelve months ending April 30, 2016, and the
8 twelve months ending March 31, 2015, and actual storm damage expense for the
9 twelve months ended March 31, 2014, along with three additional historical
10 calendar years. The level of storm damage O&M expense to be recovered
11 through base rates is \$6,625,000 at Met-Ed, \$5,111,000 at Penelec, \$657,000 at
12 Penn Power, and \$5,276,000 at West Penn.

13 **VI. COSTS ASSOCIATED WITH IMPLEMENTATION OF ACCELERATED**
14 **CUSTOMER SWITCHING**

15 **Q. You noted previously that the Commission had ordered EDCs to accelerate**
16 **the processing of supplier switching requests. What led to this directive?**

17 A. Weather conditions earlier this year were unusually harsh and resulted in
18 unanticipated fluctuations in wholesale and retail energy prices. Customers with
19 variable rate supply contracts were adversely impacted by these developments
20 and, in response, the Commission launched a Rulemaking with the goal of
21 ensuring that customers could quickly switch electric suppliers to mitigate their
22 exposure to the types of price fluctuations they had experienced.

1 **Q. How did the Commission proceed with the Rulemaking?**

2 A. On March 18, 2014 at Docket No. L-2014-2409383, the Commission issued a
3 Secretarial Letter informing EDCs, the Office of Consumer Advocate and the
4 Office of Small Business Advocate of a proposed Rulemaking to amend existing
5 Regulations at 52 Pa. Code, Chapter 57. The Rulemaking directed EDCs to take
6 the necessary steps to permit retail customers to switch suppliers within three days
7 or less. The Commission recognized the proposed changes were significant and
8 provided for a comment period.

9 **Q. What was the outcome of the Commission's Rulemaking at Docket No. L-**
10 **2014-2409383?**

11 A. The Commission revised its regulations to facilitate accelerated customer
12 switching in its Order at Docket No. L-2014-2409383, entered April 3, 2014. The
13 Rulemaking Order ensures customers may easily and quickly switch electric
14 suppliers in an effort to mitigate potential price impacts related to variable priced
15 contracts and fluctuations in the wholesale and retail energy markets. The
16 Rulemaking Order also allows for the recovery in an EDC's next base rate
17 proceeding of the cost incurred to comply with the accelerated switching
18 requirements.

19 **Q. What is contained in the Companies' respective Exhibits RAD-64?**

20 A. Exhibits RAD-64 identify the incremental O&M expenses and capital
21 expenditures to be incurred by each Company to comply with the Commission's
22 three-day switching requirement. Those costs are then added to each Company's

1 revenue requirement through an adjustment to Administrative and General
2 expense on page 18 of Exhibits RAD-2. As indicated on page 1 of Exhibits RAD-
3 64, the Companies are proposing that the additional capital expenditures be
4 amortized over five years.

5 **VII. OTHER FILING REQUIREMENTS**

6 **Q. Would you briefly describe Met-Ed, Penelec, Penn Power and West Penn**
7 **Exhibits RAD-7 through RAD-62?**

8 A. Yes. 52 Pa. Code § 53.53 contains the data requirements to be filed in a major
9 rate case. Met-Ed, Penelec, Penn Power and West Penn Exhibits RAD-7 through
10 RAD-60 contain the Companies' responses to various data requests assigned to
11 me. Each exhibit cites the specific filing requirement to which it is responding
12 and is followed by the Companies' response.

13 Met-Ed, Penelec, Penn Power, and West Penn Exhibits RAD-61 list the types of
14 advertising included in expenses for the test year and the immediately preceding
15 year, in accordance with Section 1316(c) of the Public Utility Code, 66 Pa. Code
16 Sec. § 1316(c). Met-Ed, Penelec, Penn Power and West Penn Exhibits RAD-62
17 respond to the PUC Statement of Policy at 52 Pa. Code § 69.36, entitled
18 "Performance criteria regarding energy supply alternatives." This Statement of
19 Policy identifies six areas for review in rate proceedings pertaining to an electric
20 utility's efforts to encourage the development of cost effective energy supply
21 alternatives. Met-Ed, Penelec, Penn Power and West Penn Exhibits RAD-62

1 address five of the six identified areas. Mr. Siedt addresses the remaining area in
2 Met-Ed/Penelec/Penn Power/West Penn Statement No. 4.

3 **VIII. CONCLUSION**

4 **Q. Please summarize your testimony and recommendations.**

5 A. Inclusive of the roll-in of smart meter costs, Met-Ed has supported an increase in
6 base rate revenue requirements of \$152,643,000; Penelec an increase of
7 \$120,316,000; Penn Power an increase of \$29,557,000; and West Penn an
8 increase of \$78,620,000 (including the separate USC Rider).

9 In addition, West Penn is proposing a separate reconciling cost recovery rider for
10 universal service costs as explained by Ms. Bortz in Met-Ed/Penelec/Penn
11 Power/West Penn Statement No. 3. If the USC Rider is not adopted by the
12 Commission, an additional revenue requirement of \$29,565,000 (see West Penn
13 Exhibit RAD-2, page 7) would need to be reflected in West Penn's base
14 distribution rates.

15 Finally, and as previously discussed, the Companies are proposing to implement
16 Storm Damage Recovery Riders to provide for the recovery of storm damage
17 expenses in excess of – or the crediting of storm damage expenses falling below –
18 a normalized level of storm damage costs reflected in base distribution rates. Ms.
19 Bortz describes these Riders in Met-Ed/Penelec/Penn Power/West Penn Statement
20 No. 3.

21

1 Q. Mr. D'Angelo, does this complete your direct testimony?

2 A. Yes, it does.

Resume: Education and Experience of Richard A. D'Angelo

Education:

1972 Bachelor of Science Degree in Economics - Brooklyn College
1976 Master of Business Administration Degree in Finance - Pace University

Experience:

9/72 - 11/76 Accountant and Supervisor - Bankers Trust Company
11/76 - 2/81 Employed as Accountant within Regulatory Accounting Area -
Metropolitan Edison Company ("Met-Ed")
2/81 - 2/82 Senior Accountant within Regulatory Accounting Area with special
emphasis on rate-related matters (Met-Ed)
2/82 - 2/83 Supervisor - Rates and Financing (Met-Ed)
2/83 - 3/95 Manager - Rate Revenue Requirements within the Rate Department
(Met-Ed)
3/95 - 8/96 Manager - Regulatory Liaison within the Regulatory Affairs and
Pricing Department (Met-Ed/Penelec)
8/96 - 11/01 Manager - Rate Activity within the Rate Department (GPU Energy)
11/01 - Present Manager - Rates & Regulatory Affairs- Pennsylvania (FirstEnergy
Service Company)

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

Pa. P.U.C. Cases: Docket Nos. P-2011-2273650
P-2011-2273668
P-2011-2273669
P-2011-2273670
A-2010-2176520
A-2010-2176732
P-2010-2157862
P-2009-2093053
P-2009-2093054
P-00072305
P-00072259
P-00062235
R-00061366
R-00061367
P-00062213

P-00062214
P-00052149
P-00062214
P-00052188
A-110550F0160
R-00016851C0001
R-00016852C0001
R-00016853C0001
A-110300F.0095
A-110400F.0040
P-00001860
P-00001861
P-00001837 (Phase 2)
P-00001838 (Phase 2)
R-00974008 (Phase 1)
R-00974009 (Phase 1)
P-00971215
P-00971216
P-00971217
P-00971223
P-00971278
P-00961015
P-00950968
A-110300 F0067
R-922314
P-0092087
P-00900450
R-860384
R-842770
R-832549
R-822249
I-900005
P-890366
M-FACE 8707
M-FACE 8602
M-FACE 8506
M-FACE 8404
M-FACE 8203

Met-Ed/Penelec/Penn Power/West Penn Statement No. 2

Witness: R. A. D'Angelo

Appendix A

Page 3 of 3

M-FACE 8104
M-870171 C001

NJ B.P.U Case: Docket No. EO03121014
Docket No. ER12111052

FERC Cases: Docket Nos. ER-90-388-000 and ER-90-522-000
ER-87-34-001
ER-83-173

Assisted in development and preparation in the following rate cases:

Pa. P.U.C. Cases: Docket Nos. R-811601
R-80051196
R.I.D. 626

FERC Case: Docket No. ER-79-58

PENNSYLVANIA POWER COMPANY
Rate Base At Original Cost
Normalized To Year-End Conditions at April 30, 2016
(\$000)

Line No.	Description	Adjustments and Normalizations			Pa Jurisdictional Normalized Rate Base			
		Per Budget (1)	(2)	Adj No.	Total (3)	Distribution (4)	Smart Meter Costs (5)	PA Jurisdictional Total (6) = (4) + (5)
Electric Plant:								
1	Plant in service	\$ 638,327	\$ (25,998)	1	\$ 612,329	\$ 581,864	\$ 30,465	\$ 612,329
2	Plant held for future use	880	(880)	2	-	-	-	-
3	Construction work in progress - pollution control and safety	-	-		-	-	-	-
4	Total electric plant	<u>\$ 639,207</u>	<u>\$ (26,878)</u>		<u>\$ 612,329</u>	<u>\$ 581,864</u>	<u>\$ 30,465</u>	<u>\$ 612,329</u>
Depreciation & Amortization Reserve:								
5	Plant in service	\$ 208,372	\$ (16,149)	3	\$ 192,223	\$ 192,614	\$ (391)	\$ 192,223
6	Plant held for future use	-	-		-	-	-	-
7	Total depreciation & amortization reserve	<u>\$ 208,372</u>	<u>\$ (16,149)</u>		<u>\$ 192,223</u>	<u>\$ 192,614</u>	<u>\$ (391)</u>	<u>\$ 192,223</u>
8	Net Electric Plant	<u>\$ 430,835</u>	<u>\$ (10,729)</u>		<u>\$ 420,106</u>	<u>\$ 389,250</u>	<u>\$ 30,856</u>	<u>\$ 420,106</u>
Additions:								
9	Cash working capital	\$ -	\$ 27,636	4	\$ 27,636	\$ 27,636	\$ -	\$ 27,636
10	M&S inventories	-	3,193	5	3,193	3,193	-	3,193
11	Deferred storm damage	-	-		-	-	-	-
12	Legacy meters	-	10,797	6	10,797	10,797	-	10,797
13	Total additions	<u>\$ -</u>	<u>\$ 41,626</u>		<u>\$ 41,626</u>	<u>\$ 41,626</u>	<u>\$ -</u>	<u>\$ 41,626</u>
Deductions:								
14	Customer deposits	\$ 3,992	\$ -		\$ 3,992	\$ 3,992	\$ -	\$ 3,992
15	Customer advances for construction	33	-		33	33	-	33
16	Accum. Deferred income taxes - Liberalized depreciation	116,564	(19,226)	7	97,338	90,808	6,530	97,338
17	Operating reserves (net of taxes)	1,440	-		1,440	1,440	-	1,440
18	Total deductions	<u>\$ 122,029</u>	<u>\$ (19,226)</u>		<u>\$ 102,803</u>	<u>\$ 96,273</u>	<u>\$ 6,530</u>	<u>\$ 102,803</u>
19	Total Rate Base	<u>\$ 308,806</u>	<u>\$ 50,123</u>		<u>\$ 358,929</u>	<u>\$ 334,603</u>	<u>\$ 24,326</u>	<u>\$ 358,929</u>
20	Pro forma return at present rates (PA Distribution)	\$ 14,278	Dollars					
21		3.98%	Percent					
22	Pro forma return at proposed rates (PA Distribution)	\$ 30,550	Dollars					
23		8.51%	Percent					

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 (\$000)

Adjustment of Electric Plant in Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

Line No.	Adjustments (1)	Plant in Service (2)
1	Budgeted Plant in Service at 4/30/2016 (Exhibit RAD-46, Attach. A, p. 1 and 2)	\$ 638,327
2	Normalizing adjustment:	
3	Eliminate ARC (Exhibit RAD-46, Attach. A, p. 1 and 2)	(37)
4	Remove legacy meters (Exhibit RAD-46, Attach. A, p. 1 and 2)	(25,183)
5	Eliminate ATSI Plant from 1999 Agreement (Exhibit RAD-46, Attach. A, p. 1 and 2)	<u>(778)</u>
6	Normalization Adjustment	<u>(25,998)</u>
7	Plant in Service at 4/30/2016, as adjusted	\$ <u>612,329</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
(\$000)

Adjustment of Plant Held for Future Use

To adjust Plant Held for Future Use. As an alternative to rate base treatment, the Company is requesting the allowance of deferred carrying charges on any current or future investments in Plant Held for Future Use with definitive plans of utilization within a ten-year period. This is consistent with long-standing Commission policy.

<u>Line No.</u>		<u>Amount</u> (1)
1	Per budget Plant Held for Future Use at 4/30/2016	\$ 880
2	Normalizing adjustment:	
3	Eliminate Plant Held for Future Use	<u>(880)</u>
4	Plant Held for Future Use at 4/30/2016, as adjusted	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 3
 (\$000)

Adjustment of Depreciation Reserves - Plant In Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

<u>Line No.</u>	<u>Adjustments</u>	<u>Depreciation Reserves</u> <u>Plant in Service</u>
	(1)	(2)
1	Plant in Service depreciation reserves at 4/30/2016 (Exhibit RAD-46, Attach. A, p. 3 and 4)	\$ 208,372
2	Normalizing adjustment:	
3	Eliminate ARC (Exhibit RAD-46, Attach. A, p. 3 and 4)	(24)
4	Remove legacy meters (Exhibit RAD-46, Attach. A, p. 3 and 4)	\$ (15,479)
5	Eliminate ATSI reserve per 1999 Agreement (Exhibit RAD-46, Attach. A, p. 3 and 4)	<u>(646)</u>
6	Normalization Adjustment	<u>(16,149)</u>
7	Plant in Service depreciation reserves at 4/30/2016, as adjusted	\$ <u>192,223</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 4
 (\$000)

Adjustment of Cash Working Capital

To recognize cash working capital at year-end level. This adjustment is supported by Penn Power Witness P. M. Larkin Statement No. 6.

Line No.		Cash Working Capital	
		(1)	(2)
1	Cash working capital per budget at 4/30/2016		\$ -
2	Normalizing adjustment:		
3	Cash working capital normalized to year-end	\$ 27,636	
4	Cash working capital per budget	<u>-</u>	
5	Normalization Adjustment		<u>27,636</u>
6	Cash working capital at 4/30/2016, as adjusted		<u>\$ 27,636</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 (\$000)

Adjustment of Material and Supplies Inventories

To recognize the Company's distribution portion of FE Service material and services ("M&S") inventory levels projected at 4/30/2016.

<u>Line No.</u>		<u>M&S Inventories</u>	
		<u>(1)</u>	<u>(2)</u>
1	M&S Inventory per budget at 4/30/2016		\$ -
2	Normalizing adjustment:		
3	Distribution component of projected FE Service M&S Inventory allocated to the company at 4/30/2016 (Exhibit RAD-13)	\$ 3,193	
4	M&S Inventory per budget at 04/30/2016	<u>-</u>	
5	Normalization Adjustment		<u>3,193</u>
6	M&S inventory at 4/30/2016, as adjusted		<u>\$ 3,193</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 6
(\$000)

Adjustment of Storm Expenses

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 (\$000)

Adjustment to Include Legacy Meters in Regulatory Asset

To include legacy meters in a regulatory asset as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993.

<u>Line No.</u>		<u>Legacy Meters</u>	
		(1)	(2)
1	Net legacy meters in regulatory asset at 4/30/2016		\$ -
2	Legacy meters at 4/30/2016	\$ 25,183	
3	Net estimated cost of removal and salvage	1,093	
4	Depreciation reserve for legacy meters at 4/30/2016	<u>(15,479)</u>	
5	Normalization adjustment		<u>10,797</u>
6	Net legacy meters in regulatory asset as adjusted at 4/30/2016		<u>\$ 10,797</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 (\$000)

Adjustment of Accumulated Deferred Income Taxes - Liberalized Depreciation

This adjustment adjusts the budgeted deferred tax balances for liberalized depreciation (excluding the impact of SFAS No. 109 deferrals) to (1) eliminate remaining state deferred taxes - liberalized depreciation balances including the federal benefit of those taxes; and (2) Eliminate Other excludable items.

Line No.		<u>Adjustments</u>	<u>Accum Reserve for Deferred Taxes - Liberalized Depreciation</u>
1	Deferred taxes per budget - liberalized depreciation at 4/30/2016		\$ 116,564
2	Normalizing adjustments:		
3	Eliminate remaining state deferred taxes - liberalized depreciation including the federal benefit of those taxes	\$ (14,182)	
4	Eliminate Other Excludable Items (Leases)	<u>(5,044)</u>	
5	Normalization Adjustment		<u>(19,226)</u>
6	Deferred taxes - liberalized depreciation at 4/30/2016, as adjusted		<u>\$ 97,338</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 9
(\$000)

Adjustment of Operating Reserves

Not Applicable

PENNSYLVANIA POWER COMPANY

Rate of Return at April 30, 2016

Line No.	Exhibit SRS-22 Capital Amounts (1)	Capital Ratios (2)	Cost Rate (3)	Weighted Cost Rate (3) = (2) X (3)	
1	Total long-term debt	\$ 138,929	49.93%	6.12%	3.05%
2	Total preferred stock	-	0.00%	0.00%	0.00%
3	Total common equity	<u>139,338</u>	<u>50.07%</u>	10.90%	<u>5.46%</u>
4	Total capitalization	<u>\$ 278,267</u>	<u>100.00%</u>		<u>8.51%</u>

PENNSYLVANIA POWER COMPANY
Statement of Operating Income, 12 Months Ending April 30, 2016, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
 (\$000)

Line No.	Description	Normalized PaPUC Jurisdictional													
		Per Budget (1)	Normalizations & Adjustments (2)	Adj. No.	Budget as Adjusted (3)=(1)+(2)	Distribution (4)	Riders							PAPUC Total Distribution (13) = (4) + (8)	
							PTC (5)	Universal Service (6)	Energy Efficiency (7)	Smart Meters (8)	Default Service Support (9)	Solar (10)	NUG (11)		Storm Rider (12)
Operating revenues															
1	Retail sales	\$ 178,103	\$ 483	1	\$ 178,586	\$ 70,588	\$ 83,942	\$ 4,657	\$ 7,117	\$ 8,461	\$ 2,963	\$ 858	\$ -	\$ -	\$ 79,048
2	STAS revenue	-	-	2	-	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other operating revenue	3,018	-	3	3,018	2,923	95	-	-	-	-	-	-	-	2,923
5	Total operating revenue	\$ 181,121	\$ 483.00		\$ 181,604	\$ 73,511	\$ 84,038	\$ 4,657	\$ 7,117	\$ 8,461	\$ 2,963	\$ 858	\$ -	\$ -	\$ 81,971
Operating expenses															
6	Price To Compare	\$ 77,454	\$ -		\$ 77,454	\$ -	\$ 76,623	\$ -	\$ -	\$ -	\$ -	\$ 831	\$ -	\$ -	\$ -
7	Distribution	18,306	441	4	18,747	14,845	-	-	-	-	3,902	-	-	-	14,845
8	Customer accounts	4,823	274	5	5,096	4,065	-	-	-	1,031	-	-	-	-	4,065
9	Customer service & info	11,592	2	6	11,593	4,757	-	6,781	-	-	55	-	-	-	4,757
10	Admin & gen expense	11,385	3,892	7	15,277	3,139	-	-	6,209	5,928	-	-	-	-	9,068
11	Depreciation - accrual	15,364	4,567	8	19,931	17,377	-	-	-	2,554	-	-	-	-	19,931
12	Amortization and Accretion	(2,114)	732	9	(1,382)	-	3,733	(2,615)	595	(382)	(2,715)	3	-	-	(382)
13	Taxes other than income	12,216	35	10	12,251	5,878	4,953	275	420	499	175	51	-	-	6,377
14	Operating expense before tax	\$ 149,025	\$ 9,943		\$ 158,967	\$ 50,061	\$ 85,309	\$ 4,441	\$ 7,224	\$ 8,599	\$ 2,449	\$ 885	\$ -	\$ -	\$ 58,661
15	Operating income before income tax	32,095	(9,460)		22,636	23,449	(1,271)	216	(107)	(138)	514	(26)	-	-	23,311
Income taxes															
16	Federal income tax - current	\$ 7,956	(2,686)	11	\$ 5,270	\$ 7,149	(400)	68	(34)	(1,666)	162	(8)	\$ -	\$ -	\$ 5,483
17	State income tax - current	-	1,671	11	1,671	2,267	(127)	22	(11)	(528)	51	(3)	-	-	1,739
18	Deferred income tax - federal	1,486	355	12	1,841	(444)	-	-	-	2,285	-	-	-	-	1,841
19	Deferred income tax - state	-	-	12	-	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	(29)	-		(29)	(29)	-	-	-	-	-	-	-	-	(29)
21	Total tax expense	\$ 9,413	(659)		\$ 8,753	\$ 8,942	(527)	90	(45)	91	213	(11)	-	-	9,033
22	Total operating expenses	\$ 158,438	\$ 9,284		\$ 167,721	\$ 59,004	\$ 84,781	\$ 4,531	\$ 7,180	\$ 8,690	\$ 2,662	\$ 874	\$ -	\$ -	\$ 67,694
23	Operating income	\$ 22,683	(8,801)		\$ 13,883	\$ 14,507	(744)	\$ 126	(63)	(230)	\$ 301	(15)	\$ -	\$ -	\$ 14,277

PENNSYLVANIA POWER COMPANY
Statement of Operating Income, 12 Months Ending April 30, 2016, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
 (\$000)

Line No.	Description	Riders								PAPUC Total Distribution (23) = (14) + (18)	
		Distribution (14)	Price to Compare (15)	Universal Service (16)	Energy Efficiency (17)	Smart Meters (18)	Default Service Support (19)	Solar (20)	NUG (21)		Storm Rider (22)
<u>Operating revenues</u>											
1	Retail sales	\$ 25,379	\$ 1,339	\$ 74	\$ 114	\$ 4,178	\$ 48	\$ 13	\$ -	\$ -	\$ 29,557
2	STAS revenue	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	-	-	-	-	-	-	-	-	-
4	Other operating revenue	-	-	-	-	-	-	-	-	-	-
5	Total operating revenue	\$ 25,379	\$ 1,339	\$ 74	\$ 114	\$ 4,178	\$ 48	\$ 13	\$ -	\$ -	29,557
<u>Operating expenses</u>											
6	PTC	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7	Distribution	-	-	-	-	-	-	-	-	-	-
8	Customer accounts	-	-	-	-	-	-	-	-	-	-
9	Customer service & info	-	-	-	-	-	-	-	-	-	-
10	Admin & gen expense	-	-	-	-	-	-	-	-	-	-
11	Depreciation - accrual	-	-	-	-	-	-	-	-	-	-
12	Amortization	-	-	-	-	-	-	-	-	-	-
13	Taxes other than income	1,497	79	4	7	246	3	1	-	-	1,744
14	Operating expense before tax	\$ 1,497	\$ 79	\$ 4	\$ 7	\$ 246	\$ 3	\$ 1	\$ -	\$ -	1,744
15	Operating income before income taxes	\$ 23,882	\$ 1,260	\$ 70	\$ 107	\$ 3,931	\$ 45	\$ 12	\$ -	\$ -	27,813
<u>Income taxes</u>											
16	Federal income tax - current	\$ 7,524	\$ 397	\$ 22	\$ 34	\$ 1,238	\$ 14	\$ 4	\$ -	\$ -	\$ 8,762
17	State income tax - current	2,386	126	7	11	393	4	1	-	-	2,779
18	Deferred income tax - federal	-	-	-	-	-	-	-	-	-	-
19	Deferred income tax - state	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	-	-	-	-	-	-	-	-	-	-
21	Total tax expense	\$ 9,909	\$ 523	\$ 29	\$ 44	\$ 1,631	\$ 19	\$ 5	\$ -	\$ -	11,541
22	Total operating expenses	\$ 11,407	\$ 602	\$ 33	\$ 51	\$ 1,878	\$ 22	\$ 6	\$ -	\$ -	13,285
23	Operating income	\$ 13,972	\$ 737	\$ 41	\$ 63	\$ 2,300	\$ 26	\$ 7	\$ -	\$ -	16,272

PENNSYLVANIA POWER COMPANY
Statement of operating income, 12 Months Ending April 30, 2016, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
(\$000)

Line No.	Description	Riders										PaPUC Total Distribution (33) = (24) + (28)
		Distribution	Price to Compare	Universal Service	Energy Efficiency	Smart Meters	Default Service Support	Solar	NUG	Storm Rider		
		(24) = (4) + (14)	(25) = (5) + (15)	(26) = (6) + (15)	(27) = (7) + (17)	(28) = (8) + (18)	(29) = (9) + (19)	(30) = (10) + (20)	(31) = (11) + (21)	(32) = (12) + (22)		
Operating revenues												
1	Retail sales	\$ 95,967	\$ 85,281	\$ 4,731	\$ 7,231	\$ 12,638	\$ 3,011	\$ 871	\$ -	\$ -	\$ -	\$ 108,605
2	STAS revenue	-	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	-	-	-	-	-	-	-	-	-	-
4	Other operating revenue	2,923	95	-	-	-	-	-	-	-	-	2,923
5	Total operating revenue	\$ 98,890	\$ 85,377	\$ 4,731	\$ 7,231	\$ 12,638	\$ 3,011	\$ 871	\$ -	\$ -	\$ -	\$ 111,528
Operating expenses												
6	PTC	\$ -	\$ 76,623	\$ -	\$ -	\$ -	\$ -	\$ 831	\$ -	\$ -	\$ -	\$ -
7	Distribution	14,845	-	-	-	-	3,902	-	-	-	-	14,845
8	Customer accounts	4,065	-	-	-	-	1,031	-	-	-	-	4,065
9	Customer service & info	4,757	-	6,781	-	-	55	-	-	-	-	4,757
10	Admin & gen expense	3,139	-	-	6,209	5,928	-	-	-	-	-	9,068
11	Depreciation - accrual	17,377	-	-	-	2,554	-	-	-	-	-	19,931
12	Amortization	-	3,733	(2,615)	595	(382)	(2,715)	3	-	-	-	(382)
13	Taxes other than income	7,375	5,032	279	427	745	178	52	-	-	-	8,120
14	Operating expense before tax	\$ 51,559	\$ 85,309	\$ 4,441	\$ 7,224	\$ 8,845	\$ 2,449	\$ 885	\$ -	\$ -	\$ -	\$ 60,404
15	Operating income before tax	\$ 47,331	\$ (11)	\$ 286	\$ (0)	\$ 3,793	\$ 559	\$ (14)	\$ -	\$ -	\$ -	\$ 51,124
Income taxes												
16	Federal income tax - current	\$ 14,672	\$ (3)	\$ 90	\$ (0)	\$ (427)	\$ 176	\$ (5)	\$ -	\$ -	\$ -	\$ 14,245
17	State income tax - current	4,653	(1)	29	(0)	(136)	56	(1)	-	-	-	4,517
18	Deferred income tax - federal	(444)	-	-	-	2,285	-	-	-	-	-	1,841
19	Deferred income tax - state	-	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	(29)	-	-	-	-	-	-	-	-	-	(29)
21	Total tax expense	\$ 18,852	\$ (5)	\$ 119	\$ (0)	\$ 1,722	\$ 232	\$ (6)	\$ -	\$ -	\$ -	\$ 20,574
22	Total operating expenses	\$ 70,410	\$ 85,383	\$ 4,564	\$ 7,231	\$ 10,568	\$ 2,684	\$ 880	\$ -	\$ -	\$ -	\$ 80,978
23	Operating income	\$ 28,479	\$ (6)	\$ 167	\$ (0)	\$ 2,070	\$ 327	\$ (8)	\$ -	\$ -	\$ -	\$ 30,550
24	Rate Base	\$ 334,603	\$ -	\$ -	\$ -	\$ 24,326	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 358,929
25	Rate of Return overall	8.51%	NA	NA	NA	8.51%	NA	NA	NA	NA	NA	8.51%
26	Return on Equity	10.90%	NA	NA	NA	10.90%	NA	NA	NA	NA	NA	10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u> (1)	<u>Revenue Adjustment Required</u> (2)	<u>Allowable Revenue</u> (3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 70,588	\$ 25,379	\$ 95,967
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	2,923	-	2,923
5	Total operating revenue	\$ 73,511	\$ 25,379	\$ 98,890
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	14,845	-	14,845
8	Customer accounts	4,065	-	4,065
9	Customer service & info	4,757	-	4,757
10	Admin & gen expense	3,139	-	3,139
11	Depreciation - accrual	17,377	-	17,377
12	Amortization	-	-	-
13	Taxes other than income	5,878	1,497	7,375
14	Operating expense before tax	\$ 50,061	\$ 1,497	\$ 51,559
15	Operating income before tax	\$ 23,449	\$ 23,882	\$ 47,331
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 7,149	\$ 7,524	\$ 14,672
17	State income tax - current	2,267	2,386	4,653
18	Deferred income tax - federal	(444)	-	(444)
19	Deferred income tax - state	-	-	-
20	Investment tax credit	(29)	-	(29)
21	Total tax expense	\$ 8,942	\$ 9,909	\$ 18,852
22	Total operating expenses	\$ 59,004	\$ 11,407	\$ 70,410
23	Operating income	\$ 14,507	\$ 13,972	\$ 28,479
24	Rate Base	\$ 334,603		\$ 334,603
25	Rate of Return overall	4.34%		8.51%
26	Return on Equity	2.56%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Smart Meter
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 8,461	\$ 4,178	\$ 12,638
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 8,461	\$ 4,178	\$ 12,638
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	5,928	-	5,928
11	Depreciation - accrual	2,554	-	2,554
12	Amortization	(382)	-	(382)
13	Taxes other than income	499	246	745
14	Operating expense before tax	\$ 8,599	\$ 246	\$ 8,845
15	Operating income before tax	(138)	3,931	3,793
	<u>Income taxes</u>			
16	Federal income tax - current	\$ (1,666)	\$ 1,238	\$ (427)
17	State income tax - current	(528)	393	(136)
18	Deferred income tax - federal	2,285	-	2,285
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ 91	\$ 1,631	\$ 1,722
22	Total operating expenses	\$ 8,690	\$ 1,878	\$ 10,568
23	Operating income	\$ (230)	\$ 2,300	\$ 2,070
24	Rate Base	\$ 24,326		\$ 24,326
25	Rate of Return overall	-0.94%		8.51%
26	Return on Equity	-7.98%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Total Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 79,048	\$ 29,557	\$ 108,605
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	<u>2,923</u>	<u>-</u>	<u>2,923</u>
5	Total operating revenue	81,971	29,557	111,528
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	14,845	-	14,845
8	Customer accounts	4,065	-	4,065
9	Customer service & info	4,757	-	4,757
10	Admin & gen expense	9,068	-	9,068
11	Depreciation - accrual	19,931	-	19,931
12	Amortization	(382)	-	(382)
13	Taxes other than income	<u>6,377</u>	<u>1,744</u>	<u>8,120</u>
14	Operating expense before tax	\$ 58,661	\$ 1,744	\$ 60,404
		-		
15	Operating income before tax	\$ 23,311	\$ 27,813	\$ 51,124
		-		
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 5,483	\$ 8,762	\$ 14,245
17	State income tax - current	1,739	2,779	4,517
18	Deferred income tax - federal	1,841	-	1,841
19	Deferred income tax - state	-	-	-
20	Investment tax credit	<u>(29)</u>	<u>-</u>	<u>(29)</u>
21	Total tax expense	\$ 9,033	\$ 11,541	\$ 20,574
22	Total operating expenses	\$ 67,694	\$ 13,284	\$ 80,978
23	Operating income	\$ 14,277	\$ 16,272	\$ 30,550
24	Rate Base	\$ 358,929		\$ 358,929
25	Rate of Return overall	3.98%		8.51%
26	Return on Equity	2.56%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Universal Service Cost Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 4,657	\$ 74	\$ 4,731
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 4,657	\$ 74	\$ 4,731
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	6,781	-	6,781
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	(2,615)	-	(2,615)
13	Taxes other than income	275	4	279
14	Operating expense before tax	\$ 4,441	\$ 4	\$ 4,446
15	Operating income before tax	216	70	286
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 68	\$ 22	\$ 90
17	State income tax - current	22	7	29
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ 90	\$ 29	\$ 119
22	Total operating expenses	\$ 4,531	\$ 33	\$ 4,564
23	Operating income	\$ 126	\$ 41	\$ 167

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Storm Damage Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u> (1)	<u>Revenue Adjustment Required</u> (2)	<u>Allowable Revenue</u> (3)
<u>Operating revenues</u>				
1	Retail sales	\$ -	\$ -	\$ -
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ -	\$ -	\$ -
<u>Operating expenses</u>				
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	-	-	-
13	Taxes other than income	-	-	-
14	Operating expense before tax	\$ -	\$ -	\$ -
15	Operating income before tax	-	-	-
<u>Income taxes</u>				
16	Federal income tax - current	\$ -	\$ -	\$ -
17	State income tax - current	-	-	-
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ -	\$ -	\$ -
22	Total operating expenses	\$ -	\$ -	\$ -
23	Operating income	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 \$000

Adjustment of Base Operating Revenues

To adjust base operating revenues (1) for changes in number of customers, (2) to roll in State Tax Adjustment Surcharge (STAS) revenues into base rates, (3) adjust for Energy Efficiency/ Behind Meter Generation, (4) to adjust Other revenues, (5) and to eliminate unbilled revenues. The adjustment for unbilled revenues is supported by Mr. R.A. D'Angelo. Adjustments (1) through (4) are supported Mr. K. M. Siedt.

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Base revenues per budget for the 12 months ending 4/30/16		\$ 178,103
	Normalizing adjustments:		
2	Customers - increase to yr end level	\$ 117	
	Specific adjustments		
3	Roll-in of STAS	\$ -	
4	Adjust for Energy Efficiency and Behind the Meter Generation	(171)	
5	Adjust for Other Revenues	545	
6	Eliminate unbilled revenues	<u>(8)</u>	
7	Total	\$ 366	
8	Normalizing adjustment (Lines 2 + 7)		<u>483</u>
9	Base revenues per budget for the 12 months ending 4/30/16, as adjusted		<u>\$ 178,586</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
\$000

Adjustment of State Tax Adjustment Surcharge Revenues

To remove state tax adjustment surcharge ("STAS") revenues. Normalized STAS revenues are being rolled into base rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	STAS revenue per budget for the 12 months ending 4/30/16	\$ -
2	Eliminate per budget STAS	<u>-</u>
3	Other operating revenue per budget for the 12 months ending 4/30/16, as adjusted	<u><u>\$ -</u></u>

PENNSYLVANIA POWER COMPANY

Normalization Adjustment No. 3

\$000

Adjustment of Other Operating Revenues

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 4
 \$000

Adjustment of Distribution Expense

To adjust distribution payroll expense to reflect year end wage and employee levels, to adjust service company payroll expenses to reflect year end and wage and employee levels, and to include the amortization of gains or losses to reacquired debt. The labor allocation factors used on Schedule 1 attached to this normalization are supported by Ms. H. E. Stewart.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Distribution expense per budget for the 12 months ending 4/30/16		\$ 18,306
2	Distribution payroll expense adjustment to reflect year end employee levels, and ongoing wage and salary rate (Supporting Schedule No. 1, Line 10, Col 2).	\$ 12	
3	Service Company Distribution payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage and salary rate (Supporting Schedule 1, Line 19, Col. 2)	17	
4	Amortization of (gain) or loss on reacquired debt	<u>412</u>	
5	Total normalizing adjustment (Lines 2 + 3 + 4)		<u>441</u>
6	Distribution expense per budget for the 12 months ending 4/30/16, as adjusted		<u>\$ 18,747</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 4
 (\$000)

Adjustment to Payroll Expense to Reflect Year End Employee Levels and Wage Rates

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Total company payroll (Exhibit RAD 27)		\$ 17,607
	<u>Non-Bargaining</u>		
2	Straight time per budget for May 1, 2015 through February 28, 2016	\$ 3,386	
3	Straight time 3% increase effective 3/1/2016 (Line 2 x 3%)	102	
4	Total company payroll adjustment		<u>102</u>
5	Total Payroll adjustment (Line 1 + Line 4)		<u>17,709</u>
6	O&M allocation %	33.26%	
7	O&M payroll adjustment (Line 3 x Line 5)	\$ 34	
	<u>Allocation of payroll adjustment:</u>		
8	Price to Compare	0.00%	\$ -
9	Transmission	0.00%	-
10	Distribution	36.80%	12
11	Customer accounts	13.78%	5
12	Customer service	6.79%	2
13	Administrative and general	<u>42.73%</u>	<u>14</u>
14	Total	<u>100%</u>	<u>\$ 34</u>
	<u>Service Company</u>		
15	Straight time per budget for May 1, 2015 through February 28, 2016	\$ 2,911	
16	Straight time 3% increase effective 3/1/2016 (Exhibit RAD 25) (Line 15 x 3%)	\$ 87	
	<u>Allocation of Service Company payroll adjustment (Exhibit Rad-25)</u>		
17	Price to Compare	0.00%	\$ -
18	Transmission	0.00%	-
19	Distribution	19.07%	17
20	Customer accounts	31.15%	27
21	Administrative and general	<u>49.78%</u>	<u>43</u>
22	Total	<u>100%</u>	<u>\$ 87</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 \$000

Adjustment of Customer Accounts Expense

To adjust customer account expense to reflect year end wage and employee levels, service company year end wage and employee levels, increased costs associated with added customers, and interest on customer deposits.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Account expense per budget for the 12 months ending 4/30/16		\$ 4,823
2	Customer Account payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalizing Adjustment No. 4, Supporting Schedule No. 1, Line 11, Column 1)	\$ 5	
3	Service Company customer account payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage and salary rates, (Normalizing Adjustment No. 4, Supporting Schedule 1, Line 20, Col. 1)		27
4	Increased O&M costs associated with increased number of customers in normalized revenue levels (Supporting Schedule 1, Line 10)		2
5	Interest on customer deposits, (Supporting Schedule 2, Line 3)		<u>240</u>
6	Total normalizing adjustment (Lines 2 + 3 + 4 + 5)		<u>274</u>
7	Customer Account expense per budget for the 12 months ending 4/30/16, as adjusted		<u>\$ 5,096</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 5
 (\$000)

Adjustment of Other O&M Costs Associated with Serving New Customers

In association with the additional revenues from added customers reflected in Adjustment No. 1, there is also a cost associated with serving those customers. The Commission has previously recognized this and approved an adjustment to customer accounts expense for this increased cost. This cost is estimated by determining the ratio of non-payroll customer account expense to total tariff revenues from customers and applying this ratio to the additional revenue received from increased customers. The Distribution revenues are supported by Mr. K. M. Siedt.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
		(1)
	<u>Customer Account Expense Excluding Labor and Uncollectible</u>	
1	Customer Account expense per budget for the 12 months ending 4/30/16	\$ 4,823
2	Less: Uncollectible expense	(1,610)
3	Less: Labor expense	<u>(1,729)</u>
4	Customer Account expense excluding labor and uncollectible expense	<u>\$ 1,484</u>
	 <u>Total Base Revenue</u>	
5	Distribution revenues per budget	\$ 70,096
6	Late payment charges per budget	<u>1,291</u>
7	Total	<u>\$ 71,387</u>
8	Ratio of customer account expense to total revenue (Line 4 / Line 7)	2.08%
9	Revenue from added customers (Adjustment No. 1, Line 2)	\$ 117
10	Additional expense from added customers (Line 8 X Line 9)	<u>\$ 2</u>

PENNSYLVANIA POWER COMPANY
Supporting Schedule No.2 to Normalizing Adjustment No. 5
(\$000)

Adjustment to Allow for Interest Expense on Customer Deposits

Customer deposits are included in rate base as a deduction, since these are funds supplied by customers to the company. Interest paid to customers on these deposits correspondingly has been recognized by the Commission as a expense when setting rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Customer deposits included in rate base (Exhibit RAD-1, Column 1, Line 14)	\$ 3,992
2	Interest rate on deposits	<u>6%</u>
3	Interest expense on customer deposits	<u>\$ 240</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 6
 \$000

Adjustment of Customer Service and Information Expense

To adjust customer service and information expense to reflect year end wage and employee levels.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Service expense per budget for the 12 months ending 4/30/16		\$ 11,592
2	Customer Service payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 12, Column 1)	\$ <u>2</u>	
3	Total normalizing adjustment		<u>2</u>
4	Customer Service expense per budget for the 12 months ending 4/30/16, as adjusted		<u>\$ 11,594</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 \$000

Adjustment of Administrative and General Expense

To adjust Administrative and General expenses to reflect year end wage and employee levels, service company year end wage and employee levels, OPEB expense at the service cost level, pension expense to the ten year cash level, employee benefits expenses at year end personnel and wage levels, amortization of rate case expenses, costs to update computer system to allow accelerated (3 day) switching from one supplier to another.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Administrative & general expense per budget for the 12 months ending 4/30/16	\$	11,385
2	Administrative & general payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 13, Column 1)		14
3	Service Company Administrative & general payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage & salary rates, (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 21, Column 1)		43
4	Adjust OPEB expense to service cost level, (Normalization Adjustment No. 7, Supporting Schedule No. 1, Line 12, Col. 1)		778
5	Adjust pension expense to ten year cash level, (Supporting Schedule No. 2, Line 18, Col. 3)		3,624
6	Adjust employee benefit costs (Supporting Schedule No. 3, Line 8, Column 3)		20
7	Rate case expenses to be incurred during current rate proceeding (Exhibit RAD-23)	\$	144
8	Recovery period - years		<u>2</u>
9	Annual amount (Line 7 / Line 8)	\$	72
10	Less rate case expense per budget		<u>(750)</u>
11	Adjusted rate case expenses (Line 9 + Line 10)		(678)
12	Increase in O&M for accelerated (3 day) switching for customers moving to a new supplier (Exhibit RAD-64)		<u>90</u>
13	Total normalizing adjustment (Lines 2+3+4+5+6+11+12)	\$	<u>3,892</u>
14	Administrative and general expense per budget for the 12 months ending 4/30/16, as adjusted	\$	<u>15,277</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 7
 \$000

Adjustment for OPEB Expense

Budgeted OPEB expense consists of the current service cost, adjustments to prior years' service costs, and the financing component. This schedule adjusts the total budgeted expense amounts to the service cost. The service cost represents the actuarial present value of benefit liabilities accrued under the plan benefit formula for services rendered during the test year. Inclusion of the service cost in rates provides for recovery of the current cost of benefits earned by plan participants. Any excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service. The adjustment for OPEB expense to the current service cost amount was adopted by the Commission at Docket Nos. R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>O&M</u> (1)	<u>Capital</u> (2)	<u>Total</u> (3)
1	O&M - Capital allocation ratios	33.26%	66.74%	100.00%
2	Company OPEB expense included in budget	\$ (572)	\$ (1,147)	\$ (1,719)
3	FirstEnergy Service Corp. OPEB expense	\$ (9,278)	\$ (18,618)	\$ (27,896)
4	Allocation ratio	<u>1.67%</u>	<u>1.67%</u>	<u>1.67%</u>
5	Allocated FirstEnergy Service Corp. OPEB expense included in budget (Line 3 X Line 4)	\$ (155)	\$ (311)	\$ (466)
6	Total OPEB expense included in budget (Line 2 + Line 5)	\$ (727)	\$ (1,458)	\$ (2,185)
7	Service cost for company OPEB expense	\$ 47	\$ 95	\$ 142
8	Service cost for FirstEnergy Service Corp. OPEB expense	\$ 254	\$ 510	\$ 764
9	Allocation ratio	<u>1.67%</u>	<u>1.67%</u>	<u>1.67%</u>
10	Allocated FirstEnergy Service Corp. service cost (Line 8 X Line 9)	\$ 4	\$ 9	\$ 13
11	Total OPEB service cost (Line 7 + Line 10)	\$ 51	\$ 104	\$ 155
12	Adjustment to set OPEB expense at ongoing service cost level (Line 11 - Line 6)	\$ 778	\$ 1,562	\$ 2,340

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 2 to Normalizing Adjustment No. 7
 \$000

Adjustment for Pension Expense

To adjust budget pension expense to a ten year historical average level of actual cash contributions under the methodology that was adopted by the Commission at Docket Numbers R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1) Total	(2) O&M %	(3) O&M
<u>Company Cash Contributions</u>				
1	2004 Cash Pension Contribution	\$ 12,934	50.72%	\$ 6,560
2	2005 Cash Pension Contribution	18,791	50.72%	9,531
3	2007 Cash Pension Contribution	3,751	46.13%	1,730
4	2009 Cash Pension Contribution	21,359	33.35%	7,123
5	2011 Cash Pension Contribution	12,000	41.69%	5,003
6	Total Company Cash Pension Contributions	\$ 68,835		\$ 29,947
<u>FirstEnergy Service Company Cash Contributions</u>				
7	2004 Pension Contribution	91,633		
8	Company Allocation Factor	<u>4.34%</u>		
9	2004 Service Company Pension Contribution allocated to the Company	\$ 3,977	50.72%	2,017
10	2007 Pension Contribution	27,468		
11	Company Allocation Factor	<u>3.02%</u>		
12	2007 Service Company Pension Contribution allocated to the Company	\$ 830	46.13%	<u>383</u>
13	Total FirstEnergy Service Company Cash Pension Contributions allocated to the Company (Line 9 + Line 12)	\$ 4,806		\$ 2,400
14	Total Pension cash contributions (Line 6 + Line 13)	\$ 68,835		\$ 32,347
15	Number of years average	<u>10</u>		<u>10</u>
16	Pension expense cash contribution, averaged over 10 years	\$ 6,884		\$ 3,235
17	O&M Pension Expense included in budget			<u>(389)</u>
18	Adjustment to Pension Expense (Line 16 - Line 17)			\$ <u>3,624</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 3 to Normalizing Adjustment No. 7
 \$000

Adjustment to Employee Benefit Expense to Reflect Year End Employee Levels and Ongoing Wage Rates

Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 6 increases the O&M payroll expense. Associated with that increase are employee benefits charged to Administrative and General expense. This adjustment computes the added benefit costs on a normalized basis.

Employee benefits applicable to operating expenses:

<u>Line No.</u>		<u>Effective Rate (a)</u>	<u>Payroll Adjustment</u>		<u>Benefit Adjustment</u>
		(1)	(2)		(3) = (1) x (2)
1	Workers compensation	0.744%	\$ 34 (b)	\$	-
2	Pension costs	39.095%	\$ 34 (b)		13
3	OPEB costs	0.806%	\$ 34 (b)		-
4	Life insurance	0.159%	\$ 34 (b)		-
5	Medical insurance	10.081%	\$ 34 (b)		3
6	Savings plan	3.101%	\$ 34 (b)		1
7	Other (Exhibit RAD-27)	8.605%	\$ 34 (b)		3
8	Total increase due to payroll adjustment			\$	<u>20</u>

(a) Summary of effective employee benefit rates based on total payroll for the 12 months ending 4/30/16

	<u>Total Amount</u>	<u>Total Payroll</u>	<u>Effective Rate</u>
Workers compensation	\$ 131	\$ 17,607	0.744%
Pension costs - normalized basis	6,884	\$ 17,607	39.095%
OPEB costs - service cost	142	\$ 17,607	0.806%
Life insurance	28	\$ 17,607	0.159%
Medical insurance	1,775	\$ 17,607	10.081%
Savings plan	546	\$ 17,607	3.101%
Other (Exhibit RAD 27)	1,515	\$ 17,607	8.605%

(b) Adjustment No.4, Supporting Schedule No. 1, Line 7.

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 \$000

Adjustment of Depreciation Expense

To adjust budgeted depreciation expense to reflect average remaining life rates on adjusted rate base, to eliminate non-jurisdictional expense, to adjust cost of removal/ salvage expense to a five year average amount, according to prior Commission practice and to acceleration recovery of legacy meters.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>			
		(1)	(2)	(3)	(4)
1	Depreciation expense per budget for the 12 months ending 4/30/16				\$ 15,364
2	Cost of removal/salvage expense per budget for the 12 months ending 4/30/16 (Exhibit RAD-30)		\$ -		
3	Depreciation accrual per budget (Line 1 - Line 2)		\$ 15,364		
4	Jurisdictional depreciation expense accrual on adjusted rate base at average remaining life rate (Exhibit RAD-53, page 2)		\$ 15,130		
5	Adjustment for average remaining life accrual for jurisdictional plant (Line 4 - Line 3)			\$ (234)	
6	Cost of removal/salvage expense per budget for the 12 months ending 4/30/16 (Exhibit RAD-30)		\$ -		
	Cost of removal and salvage 2009 - 2014 (Exhibit RAD-30)				
7	2010	\$ 2,874			
8	2011	1,689			
9	2012	1,620			
10	2013	3,752			
11	2014	<u>3,275</u>			
12	Total	\$ 13,210			
13	Five year average (Line 12 / 5)	\$ 2,642			
14	Cost of removal/salvage expense at a five year average		\$ <u>2,642</u>		
15	Adjustment of cost of removal/salvage expense to a five year average (Line 14 - Line 6)			2,642	
16	Adjustment for amortization of legacy meters (Adj. 8 Sched 1, Line 6)			<u>2,159</u>	
17	Total normalizing adjustment (Lines 5 + 15 + 16)			<u>4,567</u>	
18	Depreciation expense per budget for the 12 months ending 4/30/16, as adjusted				\$ <u>19,931</u>

PENNSYLVANIA POWER COMPANY
Supporting Schedule No. 1 to Normalizing Adjustment No. 8
\$000

Adjustment for Amortization of Legacy Meters

To amortize recovery of legacy meters to fully recover all legacy meter costs over five years.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Legacy meters per budget for the 12 months ending 4/30/2016 (Exhibit RAD-46, Page. 1)	\$ 25,183	
2	Depreciation reserve per budget for the 12 months ending 4/30/2016 (Exhibit RAD-46, Page. 3)	<u>15,479</u>	
3	Net legacy meters per budget for the 12 months ending 4/30/2016	\$ 9,704	
4	Net cost of removal and salvage	<u>1,093</u>	
5	Net legacy meters	<u>\$ 10,797</u>	
6	Annual amortization over a 5 year amortization period		<u>\$ 2,159</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 9
 \$000

Adjustment of Amortization Expense

To remove rate case expenses and accretion expenses in the budget.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		<u>(1)</u>	<u>(2)</u>
1	Amortization expense per budget for the 12 months ending 4/30/2016		\$ (2,114)
2	Remove amortization of rate case expenses in budget	750	
3	Remove Accretion expense	<u>(18)</u>	
4	Total normalizing adjustment		<u>732</u>
5	Amortization expense per budget for the 12 months ending 4/30/16, as adjusted		<u>\$ (1,382)</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 10
 \$000

Adjustment of Taxes Other Than Income

To adjust gross receipts tax expense to reflect normalized sales revenues, to adjust payroll tax expenses for normalized payroll and employee expenses.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1)	(2)	(3)
1	Taxes Other Than Income per budget for the 12 months ending 4/30/16			\$ 12,216
	Gross Receipts Tax			
2	Normalized sales revenues (Exhibit RAD-2, page 1, Col. 3)	\$ 178,586		
3	Gross receipts tax @ 5.9%	10,537		
4	Gross receipts tax included in budget (Exhibit RAD-32, page 1)	<u>10,505</u>		
5	Adjustment for gross receipts tax at normalized revenue level (Line 3 - Line 4)		\$ 32	
6	Adjustment for payroll taxes on normalized payroll (Supporting Schedule No. 1, Line 8)		<u>3</u>	
7	Total normalizing adjustment (Lines 4+5+6)			<u>35</u>
8	Taxes other than income per budget for the 12 months ending 4/30/16, as adjusted			<u>\$ 12,251</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No.1 to Normalizing Adjustment No. 10
 \$000

Adjustment to Taxes Other Than Income to reflect changes in payroll taxes.

Normalization adjustments have been made to normalize O&M payroll expense. Associated with those payroll normalizations are changes in FICA tax amounts.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Total payroll per budget for the 12 months ending 4/30/2016 (Normalization Adjustment No. 4, Schedule 1, Line 1, Col 3)	\$ 17,607
2	Total payroll tax included in budget, (Exhibit RAD-32, page 1)	<u>1,329</u>
3	Effective payroll tax rate (Line 2 / Line 1)	<u>7.548%</u>
4	Total payroll as adjusted (Normalization Adjustment No. 4 Schedule 1, Line 5, Col. 2)	\$ <u>17,709</u>
5	Payroll tax on normalized payroll (Line 3 X Line 4)	\$ 1,337
6	Total Company payroll tax adjustment (Line 5 - Line 2)	\$ 8
7	O&M Allocation percentage	33.26%
8	Adjustment for payroll tax (Line 6 x Line 7)	<u>\$ 3</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 11
 \$000

Computation of Federal & State Income Taxes - Normalized (Col 3 of Income Statement)

Line No.	Description	Total Company Calculated Taxes (1)	Distribution Calculated Taxes (2)	PTC Calculated Taxes (3)	Universal Service Calculated Taxes (4)	Energy Efficiency Calculated Taxes (5)	Smart Meter Rider Calculated Taxes (6)	DSS Calculated Taxes (7)	Solar Calculated Taxes (8)	NUG Charge Calculated Taxes (9)	Storm Rider Calculated Taxes (10)
1	Total operating revenue	\$ 181,604	\$ 73,511	84,038	\$ 4,657	\$ 7,117	\$ 8,461	\$ 2,963	\$ 858	\$ -	\$ -
2	Less: Total O & M Expense	128,167	26,807	76,623	6,781	6,209	5,928	4,989	831	\$ -	\$ -
3	Depreciation - accrual	17,289	14,735	-	-	-	2,554	-	-	-	-
4	Average net salvage	2,642	2,642	-	-	-	-	-	-	-	-
5	Amortization	(1,382)	-	3,733	(2,615)	595	(382)	(2,715)	3	-	-
6	Taxes other than income taxes	12,251	5,878	4,953	275	420	499	175	51	-	-
7	Total deductions	\$ 158,967	\$ 50,061	85,309	\$ 4,441	\$ 7,224	\$ 8,599	\$ 2,449	\$ 885	\$ -	\$ -
8	Net operating income before income taxes	\$ 22,636	\$ 23,449	\$ (1,271)	\$ 216	\$ (107)	\$ (138)	\$ 514	\$ (26)	\$ -	\$ -
9	Less: Interest Charges (A)	10,961	10,218	-	-	-	743	-	-	-	-
10	Net income before income taxes	\$ 11,676	\$ 13,231	\$ (1,271)	\$ 216	\$ (107)	\$ (881)	\$ 514	\$ (26)	\$ -	\$ -
Adjustments to taxable income:											
11	Book Average net salvage	\$ 2,642	\$ 2,642	-	-	-	-	-	-	-	-
12	Adj. of book depreciation to tax basis (B)	(685)	3,722	\$ -	\$ -	\$ -	\$ (4,407)	\$ -	\$ -	\$ -	\$ -
13	Tax cost of removal/salvage	(527)	(527)	-	-	-	-	-	-	-	-
14	Adjust cash pension	3,624	3,624	-	-	-	-	-	-	-	-
15	Net adjustment	5,054	9,461	-	-	-	(4,407)	-	-	-	-
16	Income subject to state income tax	16,730	22,692	(1,271)	216	(107)	(5,288)	514	(26)	-	-
17	State income tax @ 9.99%	\$ 1,671	\$ 2,267	\$ (127)	\$ 22	\$ (11)	\$ (528)	\$ 51	\$ (3)	\$ -	\$ -
18	Taxes as budgeted	-	-	-	-	-	-	-	-	-	-
19	Adjustment to state income tax	\$ 1,671	\$ 2,267	\$ (127)	\$ 22	\$ (11)	\$ (528)	\$ 51	\$ (3)	\$ -	\$ -
20	Income subject to federal income tax	\$ 15,058	\$ 20,425	\$ (1,144)	\$ 194	\$ (97)	\$ (4,760)	\$ 463	\$ (24)	\$ -	\$ -
21	Federal income tax @ 35%	\$ 5,270	\$ 7,149	\$ (400)	\$ 68	\$ (34)	\$ (1,666)	\$ 162	\$ (8)	\$ -	\$ -
22	Taxes as budgeted	7,956	7,956	-	-	-	-	-	-	-	-
23	Adjustment to federal income tax	\$ (2,686)	\$ (807)	\$ (400)	\$ 68	\$ (34)	\$ (1,666)	\$ 162	\$ (8)	\$ -	\$ -
<hr/>											
(A) Computation of Interest charges											
	Total rate base	\$ 358,929	\$ 334,603		\$ -	\$ -	\$ 24,326	\$ -	\$ -	\$ -	\$ -
	Debt ratio	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%
	Cost of debt	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%
	Interest expense	\$ 10,961	\$ 10,218	\$ -	\$ -	\$ -	\$ 743	\$ -	\$ -	\$ -	\$ -
(B) Adjustment of book depreciation to tax basis:											
	Tax depreciation	\$ 17,974	\$ 11,013	\$ -	\$ -	\$ -	\$ 6,961	\$ -	\$ -	\$ -	\$ -
	Book depreciation	17,289	14,735	-	-	-	2,554	-	-	-	-
	Depreciation adjustment	\$ 685	\$ (3,722)	\$ -	\$ -	\$ -	\$ 4,407	\$ -	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY
Supporting Schedule No. 1 to Normalization Adjustment No. 11
\$000

To split the tax depreciation into cost of removal, smart meter and distribution components.

<u>Line No.</u>	<u>Description</u>	Total <u>Exhibit RAD-33</u> (1)
1	Tax depreciation expense per budget	\$ 18,501
2	Cost of removal salvage in tax depreciation	<u>527</u>
3	Net Tax depreciation (Line 1 - Line 2)	17,974
4	Smart Meter tax depreciation	<u>6,961</u>
5	Distribution tax depreciation (Line 3 - Line 4)	<u>\$ 11,013</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 12
 \$000

Adjustment of Provision for Deferred Income Taxes

This adjustment to the Provision for Deferred Income Taxes reflects (1) the adjustment of Federal deferrals to reflect year-end plant and (2) miscellaneous federal deferred taxes not associated with liberalized depreciation. All state deferred taxes associated with liberalized depreciation have been eliminated.

<u>Line No.</u>	<u>Description</u>	<u>Provision for Deferred Taxes - Net</u>	
		<u>Federal</u>	<u>State</u>
		(1)	(2)
1	Deferred taxes per budget, 12 months ending 4/30/2016	\$ 1,486	\$ -
2	Deferred taxes - liberalized depreciation, (Exhibit RAD-41, page 17)	<u>1,841</u>	<u>-</u>
3	Adjustment to deferred tax expense (Line 2 - Line 1)	\$ 355	\$ -
4	Deferred tax expense per budget for the 12 months ending 4/30/16, as adjusted	<u>\$ 1,841</u>	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 13
\$000

Adjustment of Investment Tax Credit

Not Applicable

PENNSYLVANIA POWER COMPANY
Rate Base At Original Cost
Normalized To Year-End Conditions at March 31, 2015
(\$000)

Line No.	Description	Per Budget (1)	Adjustments and Normalizations (2)	Adj No.	Total (3)	Pa Jurisdictional Normalized Rate Base		PA Jurisdictional Total (6) = (4) + (5)
						Distribution (4)	Smart Meter Costs (5)	
Electric Plant:								
1	Plant in service	\$ 604,049	\$ (25,998)	1	\$ 578,051	\$ 564,132	\$ 13,919	\$ 578,051
2	Plant held for future use	880	(880)	2	-	-	-	-
3	Construction work in progress - pollution control and safety	-	-	-	-	-	-	-
4	Total electric plant	<u>\$ 604,929</u>	<u>\$ (26,878)</u>		<u>\$ 578,051</u>	<u>\$ 564,132</u>	<u>\$ 13,919</u>	<u>\$ 578,051</u>
Depreciation & Amortization Reserve:								
5	Plant in service	\$ 195,426	\$ (15,523)	3	\$ 179,903	\$ 180,725	\$ (822)	\$ 179,903
6	Plant held for future use	-	-	-	-	-	-	-
7	Total depreciation & amortization reserve	<u>\$ 195,426</u>	<u>\$ (15,523)</u>		<u>\$ 179,903</u>	<u>\$ 180,725</u>	<u>\$ (822)</u>	<u>\$ 179,903</u>
8	Net Electric Plant	<u>\$ 409,503</u>	<u>\$ (11,355)</u>		<u>\$ 398,148</u>	<u>\$ 383,407</u>	<u>\$ 14,741</u>	<u>\$ 398,148</u>
Additions:								
9	Cash working capital	\$ -	\$ 27,636	4	\$ 27,636	\$ 27,636	\$ -	\$ 27,636
10	M&S inventories	-	3,193	5	3,193	3,193	-	3,193
11	Deferred storm damage	-	-	6	-	-	-	-
12	Legacy meters	-	11,407	7	11,407	11,407	-	11,407
13	Total additions	<u>\$ -</u>	<u>\$ 42,236</u>		<u>\$ 42,236</u>	<u>\$ 42,236</u>	<u>\$ -</u>	<u>\$ 42,236</u>
Deductions:								
14	Customer deposits	\$ 3,992	\$ -	-	\$ 3,992	\$ 3,992	\$ -	\$ 3,992
15	Customer advances for construction	33	-	-	33	33	-	33
16	Accum. Deferred income taxes - Liberalized depreciation	115,792	(19,105)	8	96,687	88,737	7,950	96,687
17	Operating reserves (net of taxes)	1,440	-	9	1,440	1,440	-	1,440
18	Total deductions	<u>\$ 121,257</u>	<u>\$ (19,105)</u>		<u>\$ 102,152</u>	<u>\$ 94,202</u>	<u>\$ 7,950</u>	<u>\$ 102,152</u>
19	Total Rate Base	<u>\$ 288,246</u>	<u>\$ 49,986</u>		<u>\$ 338,232</u>	<u>\$ 331,441</u>	<u>\$ 6,791</u>	<u>\$ 338,232</u>
20	Pro forma return at present rates (PA Distribution)	\$ 9,955	Dollars					
21		2.94%	Percent					
22	Pro forma return at proposed rates (PA Distribution)	\$ 28,788	Dollars					
23		8.51%	Percent					

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 (\$000)

Adjustment of Electric Plant in Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993.; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

Line No.	Adjustments (1)	Plant in Service (2)
1	Budgeted Plant in Service at 3/31/2015 (Exhibit RAD-47, Attach. A, p. 1 and 2)	\$ 604,049
2	Normalizing adjustment:	
3	Remove retired legacy meters (Exhibit RAD-47, Attach. A, p. 1 and 2)	(25,183)
4	Eliminate ARC (Exhibit RAD-47, Attach. A, p. 1 and 2)	(37)
5	Eliminate ATSI Plant from 1999 Agreement (Exhibit RAD-47, Attach. A, p. 1 and 2)	<u>(778)</u>
6	Normalization Adjustment	<u>(25,998)</u>
7	Plant in Service at 3/31/2015, as adjusted	\$ <u>578,051</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
(\$000)

Adjustment of Plant Held for Future Use

To adjust Plant Held for Future Use. As an alternative to rate base treatment, the Company is requesting the allowance of deferred carrying charges on any current or future investments in Plant Held for Future Use with definitive plans of utilization within a ten-year period. This is consistent with long-standing Commission policy.

<u>Line</u> <u>No.</u>		<u>Amount</u> (1)
1	Per budget Plant Held for Future Use at 3/31/2015	\$ 880
2	Normalizing adjustment:	
3	Eliminate Plant Held for Future Use	<u>(880)</u>
4	Plant Held for Future Use at 3/31/2015, as adjusted	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 3
 (\$000)

Adjustment of Depreciation Reserves - Plant In Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

Line No.	Adjustments (1)	Depreciation Reserves Plant in Service (2)
1		\$ 195,426
2		
3		(23)
4	\$ (14,869)	
5		(631)
6		(15,523)
7		\$ 179,903

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 4
 (\$000)

Adjustment of Cash Working Capital

To recognize cash working capital at year-end level. This adjustment is supported by Penn Power Witness P. M. Larkin Statement No. 6.

Line No.		Cash Working Capital	
		(1)	(2)
1	Cash working capital per budget at 3/31/2015		\$ -
2	Normalizing adjustment:		
3	Cash working capital normalized to year-end	\$ 27,636	
4	Cash working capital per budget	<u>-</u>	
5	Normalization Adjustment		<u>27,636</u>
6	Cash working capital at 3/31/2015, as adjusted		<u>\$ 27,636</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 (\$000)

Adjustment of Material and Supplies Inventories

To recognize the Company's distribution portion of FE Service material and services ("M&S") inventory levels projected at 4/30/2016.

Line No.		M&S Inventories	
		(1)	(2)
1	M&S Inventory per budget at 3/31/2015		\$ -
2	Normalizing adjustment:		
3	Distribution component of projected FE Service M&S Inventory allocated to the company at 3/31/2015 (Exhibit RAD-13)	\$ 3,193	
4	M&S Inventory per budget at 3/31/2015	<u>-</u>	
5	Normalization Adjustment		<u>3,193</u>
6	M&S inventory at 3/31/2015, as adjusted		<u>\$ 3,193</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 6
(\$000)

Adjustment of Storm Expenses

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 (\$000)

Adjustment to Include Legacy Meters in Regulatory Asset

To include legacy meters in a regulatory asset as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993.

<u>Line No.</u>		<u>Retired Legacy Meters</u>	
		(1)	(2)
1	Net legacy meters in regulatory asset at 3/31/2015		\$ -
2	Legacy meters at 3/31/2015	\$ 25,183	
3	Net estimated cost of removal and salvage	1,093	
4	Depreciation reserve for legacy meters at 3/31/2015	<u>(14,869)</u>	
5	Normalization adjustment		<u>11,407</u>
6	Net legacy meters in regulatory asset as adjusted at 3/31/2015		<u>\$ 11,407</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 (\$000)

Adjustment of Accumulated Deferred Income Taxes - Liberalized Depreciation

This adjustment adjusts the budgeted deferred tax balances for liberalized depreciation (excluding the impact of SFAS No. 109 deferrals) to (1) eliminate remaining state deferred taxes - liberalized depreciation balances including the federal benefit of those taxes; and (2) Eliminate Other excludable items.

Line No.		<u>Adjustments</u>	<u>Accum Reserve for Deferred Taxes - Liberalized Depreciation</u>
1	Deferred taxes per budget - liberalized depreciation at 3/31/2015		\$ 115,792
2	Normalizing adjustments:		
3	Eliminate remaining state deferred taxes - liberalized depreciation including the federal benefit of those taxes	(14,062)	
4	Eliminate Other Excludable Items (Leases)	<u>(5,043)</u>	
5	Normalization Adjustment		<u>(19,105)</u>
6	Deferred taxes - liberalized depreciation at 3/31/2015, as adjusted		<u>\$ 96,687</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 9
(\$000)

Adjustment of Operating Reserves

Not Applicable

PENNSYLVANIA POWER COMPANY

Rate of Return at March 31, 2015

Line No.	Exhibit SRS-24 Capital Amounts (1)	Capital Ratios (2)	Cost Rate (3)	Weighted Cost Rate (3) = (2) X (3)	
1	Total long-term debt	\$ 138,929	49.93%	6.12%	3.05%
2	Total preferred stock	-	0.00%	0.00%	0.00%
3	Total common equity	<u>139,338</u>	<u>50.07%</u>	10.90%	<u>5.46%</u>
4	Total capitalization	<u>\$ 278,267</u>	<u>100.00%</u>		<u>8.51%</u>

PENNSYLVANIA POWER COMPANY
Statement of Operating Income, 12 Months Ending March 31, 2015, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
 (\$000)

Line No.	Description	Normalized PaPUC Jurisdictional													
		Per Budget (1)	Normalizations & Adjustments (2)	Adj. No.	Budget as Adjusted (3)=(1)+(2)	Distribution (4)	Riders								PAPUC Total Distribution (13) = (4) + (8)
							PTC (5)	Universal Service (6)	Energy Efficiency (7)	Smart Meters (8)	Default Service Support (9)	Solar (10)	NUG (11)	Storm Rider (12)	
Operating revenues															
1	Retail sales	\$ 181,652	\$ (1,171)	1	\$ 180,481	\$ 70,245	\$ 92,807	\$ 3,087	\$ 5,285	\$ 5,224	\$ 2,983	\$ 850	\$ -	\$ -	\$ 75,469
2	STAS revenue	-	-	2	-	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Other operating revenue	3,021	-	3	3,021	2,923	98	-	-	-	-	-	-	-	2,923
5	Total operating revenue	\$ 184,673	\$ (1,171.00)		\$ 183,502	\$ 73,168	\$ 92,905	\$ 3,087	\$ 5,285	\$ 5,224	\$ 2,983	\$ 850	\$ -	\$ -	\$ 78,392
Operating expenses															
6	Price To Compare	\$ 87,182	\$ -		\$ 87,182	\$ -	\$ 86,578	\$ -	\$ -	\$ -	\$ -	\$ 604	\$ -	\$ -	\$ -
7	Distribution	15,396	466	4	15,862	11,614	-	-	-	-	4,248	-	-	-	11,614
8	Customer accounts	5,586	253	5	5,839	3,783	-	-	-	-	2,056	-	-	-	3,783
9	Customer service & info	13,269	5	6	13,273	5,553	-	7,912	-	-	(192)	-	-	-	5,553
10	Admin & gen expense	11,537	4,577	7	16,114	3,915	-	-	7,261	4,938	-	-	-	-	8,853
11	Depreciation - accrual	13,179	4,841	8	18,020	17,253	-	-	-	767	-	-	-	-	18,020
12	Amortization and Accretion	(10,451)	746	9	(9,705)	-	1,485	(5,111)	(2,209)	(636)	(3,449)	215	-	-	(636)
13	Taxes other than income	12,448	(60)	10	12,388	7,537	4,084	136	233	230	131	37	-	-	7,767
14	Operating expense before tax	\$ 148,146	\$ 10,829		\$ 158,975	\$ 49,656	\$ 92,147	\$ 2,937	\$ 5,285	\$ 5,299	\$ 2,794	\$ 856	\$ -	\$ -	\$ 54,955
15	Operating income before income tax	36,527	(12,000)		24,527	23,512	758	150	-	(75)	189	(6)	-	-	23,437
Income taxes															
16	Federal income tax - current	\$ 4,874	\$ 3,152	11	\$ 8,026	\$ 8,673	\$ 239	\$ 47	\$ -	\$ (991)	\$ 60	\$ (2)	\$ -	\$ -	\$ 7,683
17	State income tax - current	-	2,545	11	2,545	2,750	76	15	-	(314)	19	(1)	-	-	2,436
18	Deferred income tax - federal	6,624	(3,180)	12	3,444	2,332	-	-	-	1,112	-	-	-	-	3,444
19	Deferred income tax - state	-	-	12	-	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	(79)	-	13	(79)	(79)	-	-	-	-	-	-	-	-	(79)
21	Total tax expense	\$ 11,419	\$ 2,518		\$ 13,937	\$ 13,677	\$ 314	\$ 62	\$ -	\$ (193)	\$ 78	\$ (2)	\$ -	\$ -	\$ 13,484
22	Total operating expenses	\$ 159,565	\$ 13,347		\$ 172,911	\$ 63,333	\$ 92,462	\$ 2,999	\$ 5,285	\$ 5,106	\$ 2,872	\$ 854	\$ -	\$ -	\$ 68,439
23	Operating income	\$ 25,108	\$ (14,518)		\$ 10,591	\$ 9,835	\$ 443	\$ 88	\$ -	\$ 118	\$ 111	\$ (4)	\$ -	\$ -	\$ 9,953

PENNSYLVANIA POWER COMPANY
Statement of operating income, 12 Months Ending April 30, 2015, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
 (\$000)

Line No.	Description	Riders								PaPUC Total Distribution (33) = (24) + (28)	
		Distribution (24)	Price to Compare (25)	Universal Service (26)	Energy Efficiency (27)	Smart Meters (28)	Default Service Support (29)	Solar (30)	NUG (31)		Storm Rider (32)
<u>Operating revenues</u>											
1	Retail sales	\$ 103,621	\$ 92,807	\$ 3,087	\$ 5,285	\$ 6,060	\$ 2,983	\$ 850	\$ -	\$ -	\$ 109,682
2	STAS revenue	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	-	-	-	-	-	-	-	-	-
4	Other operating revenue	2,923	98	-	-	-	-	-	-	-	2,923
5	Total operating revenue	\$ 106,544	\$ 92,905	\$ 3,087	\$ 5,285	\$ 6,060	\$ 2,983	\$ 850	\$ -	\$ -	\$ 112,605
<u>Operating expenses</u>											
6	PTC	\$ -	\$ 86,578	\$ -	\$ -	\$ -	\$ -	\$ 604	\$ -	\$ -	\$ -
7	Distribution	11,614	-	-	-	-	4,248	-	-	-	11,614
8	Customer accounts	3,783	-	-	-	-	2,056	-	-	-	3,783
9	Customer service & info	5,553	-	7,912	-	-	(192)	-	-	-	5,553
10	Admin & gen expense	3,915	-	-	7,261	4,938	-	-	-	-	8,853
11	Depreciation - accrual	17,253	-	-	-	767	-	-	-	-	18,020
12	Amortization	-	1,485	(5,111)	(2,209)	(636)	(3,449)	215	-	-	(636)
13	Taxes other than income	9,506	4,084	136	233	279	131	37	-	-	9,785
14	Operating expense before tax	\$ 51,626	\$ 92,147	\$ 2,937	\$ 5,285	\$ 5,348	\$ 2,794	\$ 856	\$ -	\$ -	\$ 56,974
15	Operating income before tax	\$ 54,919	\$ 758	\$ 150	\$ -	\$ 712	\$ 189	\$ (6)	\$ -	\$ -	\$ 55,631
<u>Income taxes</u>											
16	Federal income tax - current	\$ 18,568	\$ 239	\$ 47	\$ -	\$ (743)	\$ 60	\$ (2)	\$ -	\$ -	\$ 17,825
17	State income tax - current	5,888	76	15	-	(235)	19	(1)	-	-	5,652
18	Deferred income tax - federal	2,332	-	-	-	1,112	-	-	-	-	3,444
19	Deferred income tax - state	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	(79)	-	-	-	-	-	-	-	-	(79)
21	Total tax expense	\$ 26,709	\$ 314	\$ 62	\$ -	\$ 134	\$ 78	\$ (2)	\$ -	\$ -	\$ 26,842
22	Total operating expenses	\$ 78,334	\$ 92,462	\$ 2,999	\$ 5,285	\$ 5,482	\$ 2,872	\$ 854	\$ -	\$ -	\$ 83,816
23	Operating income	\$ 28,210	\$ 443	\$ 88	\$ -	\$ 578	\$ 111	\$ (4)	\$ -	\$ -	\$ 28,788
24	Rate Base	\$ 331,441	\$ -	\$ -	\$ -	\$ 6,791	\$ -	\$ -	\$ -	\$ -	\$ 338,232
25	Rate of Return overall	8.51%	NA	NA	NA	8.51%	NA	NA	NA	NA	8.51%
26	Return on Equity	10.90%	NA	NA	NA	10.90%	NA	NA	NA	NA	10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 70,245	\$ 33,376	\$ 103,621
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	2,923	-	2,923
5	Total operating revenue	\$ 73,168	\$ 33,376	\$ 106,544
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	11,614	-	11,614
8	Customer accounts	3,783	-	3,783
9	Customer service & info	5,553	-	5,553
10	Admin & gen expense	3,915	-	3,915
11	Depreciation - accrual	17,253	-	17,253
12	Amortization	-	-	-
13	Taxes other than income	7,537	1,969	9,506
14	Operating expense before tax	\$ 49,656	\$ 1,969	\$ 51,626
15	Operating income before tax	\$ 23,512	\$ 31,407	\$ 54,919
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 8,673	\$ 9,894	\$ 18,568
17	State income tax - current	2,750	3,138	5,888
18	Deferred income tax - federal	2,332	-	2,332
19	Deferred income tax - state	-	-	-
20	Investment tax credit	(79)	-	(79)
21	Total tax expense	\$ 13,677	\$ 13,032	\$ 26,709
22	Total operating expenses	\$ 63,333	\$ 15,001	\$ 78,334
23	Operating income	\$ 9,835	\$ 18,375	\$ 28,210
24	Rate Base	\$ 331,441		\$ 331,441
25	Rate of Return overall	2.97%		8.51%
26	Return on Equity	-0.17%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Smart Meter
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 5,224	\$ 836	\$ 6,060
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 5,224	\$ 836	\$ 6,060
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	4,938	-	4,938
11	Depreciation - accrual	767	-	767
12	Amortization	(636)	-	(636)
13	Taxes other than income	230	49	279
14	Operating expense before tax	\$ 5,299	\$ 49	\$ 5,348
15	Operating income before tax	(75)	787	712
	<u>Income taxes</u>			
16	Federal income tax - current	\$ (991)	\$ 248	\$ (743)
17	State income tax - current	(314)	79	(235)
18	Deferred income tax - federal	1,112	-	1,112
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ (193)	\$ 327	\$ 134
22	Total operating expenses	\$ 5,106	\$ 376	\$ 5,482
23	Operating income	\$ 118	\$ -	\$ 578
24	Rate Base	\$ 6,791		\$ 6,791
25	Rate of Return overall	1.73%		8.51%
26	Return on Equity	-2.6%		10.9%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Total Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 75,469	\$ 34,213	\$ 109,682
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	<u>2,923</u>	<u>-</u>	<u>2,923</u>
5	Total operating revenue	78,392	34,213	112,605
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	11,614	-	11,614
8	Customer accounts	3,783	-	3,783
9	Customer service & info	5,553	-	5,553
10	Admin & gen expense	8,853	-	8,853
11	Depreciation - accrual	18,020	-	18,020
12	Amortization	(636)	-	(636)
13	Taxes other than income	<u>7,767</u>	<u>2,019</u>	<u>9,785</u>
14	Operating expense before tax	\$ 54,955	\$ 2,019	\$ 56,974
		-		
15	Operating income before tax	\$ 23,437	\$ 32,194	\$ 55,631
		-		
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 7,683	\$ 10,142	\$ 17,825
17	State income tax - current	2,436	3,216	5,652
18	Deferred income tax - federal	3,444	-	3,444
19	Deferred income tax - state	-	-	-
20	Investment tax credit	<u>(79)</u>	<u>-</u>	<u>(79)</u>
21	Total tax expense	\$ 13,484	\$ 13,358	\$ 26,842
		-		
22	Total operating expenses	\$ 68,439	\$ 15,377	\$ 83,816
		-		
23	Operating income	\$ 9,953	\$ 18,836	\$ 28,788
24	Rate Base	\$ 338,232		\$ 338,232
25	Rate of Return overall	2.94%		8.51%
26	Return on Equity	-0.17%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Universal Service Cost Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 3,087	\$ -	\$ 3,087
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 3,087	\$ -	\$ 3,087
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	7,912	-	7,912
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	(5,111)	-	(5,111)
13	Taxes other than income	136	-	136
14	Operating expense before tax	\$ 2,937	\$ -	\$ 2,937
15	Operating income before tax	150	-	150
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 47	\$ -	\$ 47
17	State income tax - current	15	-	15
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ 62	\$ -	\$ 62
22	Total operating expenses	\$ 2,999	\$ -	\$ 2,999
23	Operating income	\$ 88	\$ -	\$ 88

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Storm Damage Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ -	\$ -	\$ -
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ -	\$ -	\$ -
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	-	-	-
13	Taxes other than income	-	-	-
14	Operating expense before tax	\$ -	\$ -	\$ -
15	Operating income before tax	-	-	-
	<u>Income taxes</u>			
16	Federal income tax - current	\$ -	\$ -	\$ -
17	State income tax - current	-	-	-
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ -	\$ -	\$ -
22	Total operating expenses	\$ -	\$ -	\$ -
23	Operating income	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 \$000

Adjustment of Base Operating Revenues

To adjust base operating revenues (1) for changes in customer use, (2) to roll in State Tax Adjustment Surcharge (STAS) revenues into base rates, (3) adjust for Energy Efficiency/ Behind Meter Generation, (4) to adjust Other revenues, (5) and to eliminate unbilled revenues. The adjustment for unbilled revenues is supported by Mr. R.A. D'Angelo. Adjustments (1) through (4) are supported Mr. K. M. Siedt.

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Base revenues per budget for the 12 months ending 3/31/15		\$ 181,652
	Normalizing adjustments:		
2	Customers - increase to yr end level	\$ (82)	
	Specific adjustments		
3	Roll-in of STAS	\$ -	
4	Adjust for Energy Efficiency and Behind the Meter Generation	(499)	
5	Adjust for Other Revenues	550	
6	Eliminate unbilled revenues	<u>(1,140)</u>	
7	Total	\$ (1,089)	
8	Normalizing adjustment (Lines 2 + 7)		<u>(1,171)</u>
9	Base revenues per budget for the 12 months ending 3/31/15, as adjusted		<u>\$ 180,481</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
\$000

Adjustment of State Tax Adjustment Surcharge Revenues

To remove state tax adjustment surcharge ("STAS") revenues. Normalized STAS revenues are being rolled into base rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	STAS revenue per budget for the 12 months ending 3/31/15	\$ -
2	Eliminate per budget STAS	<u>-</u>
3	Other operating revenue per budget for the 12 months ending 3/31/15, as adjusted	<u><u>\$ -</u></u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 3
\$000

Adjustment of Other Operating Revenues

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 4
 \$000

Adjustment of Distribution Expense

To adjust distribution payroll expense to reflect year end wage and employee levels, to adjust service company payroll expenses to reflect year end and wage and employee levels, and to include the amortization of gains or losses to reacquired debt. The labor allocation factors used on Schedule 1 attached to this normalization are supported by Ms. H. E. Stewart.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Distribution expense per budget for the 12 months ending 3/31/15		\$ 15,396
2	Distribution payroll expense adjustment to reflect year end employee levels, and ongoing wage and salary rate (Supporting Schedule No. 1, Line 10, Col 2).	\$ 28	
3	Service Company Distribution payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage and salary rate (Supporting Schedule 1, Line 19, Col. 2)	26	
4	Amortization of (gain) or loss on reacquired debt	<u>412</u>	
5	Total normalizing adjustment (Lines 2 + 3 + 4)		<u>466</u>
6	Distribution expense per budget for the 12 months ending 3/31/15, as adjusted		<u>\$ 15,862</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 4
 (\$000)

Adjustment to Payroll Expense to Reflect Year End Employee Levels and Wage Rates

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Total company payroll (Exhibit RAD 27)		\$ 16,791
	<u>Bargaining</u>		
2	Straight time per budget for April 1, 2014 through June 30, 2014	\$	2,485
3	Straight time 3% increase effective 7/1/2014		75
	<u>Non-Bargaining</u>		
4	Straight time per budget for April 1, 2014 through August 31, 2014	\$	1,600
5	Straight time 3% increase effective 9/1/2014		48
6	Straight time per budget for April 1, 2014 through February 28, 2015		3,599
7	Straight time 3% increase effective 3/1/2015		108
8	Total company payroll adjustment (Line 2 + 3 + 7)		<u>231</u>
9	Total Payroll adjustment (Line 1 + Line 4)		<u>17,022</u>
10	O&M allocation %		33.26%
11	O&M payroll adjustment (Line 3 x Line 5)	\$	77
	<u>Allocation of payroll adjustment:</u>		
12	Price to Compare	0.00%	\$ -
13	Transmission	0.00%	-
14	Distribution	36.80%	28
15	Customer accounts	13.78%	11
16	Customer service	6.79%	5
17	Administrative and general	<u>42.73%</u>	<u>33</u>
18	Total	<u>100%</u>	<u>\$ 77</u>
	<u>Service Company (Exhibit RAD 25)</u>		
19	Straight time per budget for April 1, 2014 through August 31, 2014	\$	661
20	Straight time 3% increase effective 9/1/2014		20
21	Straight time per budget for April 1, 2014 through February 28, 2015		1,475
22	Straight time 3% increase effective 3/1/2015		44
23	Total Service Company payroll adjustment		64
	<u>Allocation of Service Company payroll adjustment:</u>		
24	Price to Compare	0.00%	\$ -
25	Transmission	0.00%	-
26	Distribution	40.43%	26
27	Customer accounts	23.96%	15
28	Administrative and general	<u>35.61%</u>	<u>23</u>
29	Total	<u>100%</u>	<u>\$ 64</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 \$000

Adjustment of Customer Accounts Expense

To adjust customer account expense to reflect year end wage and employee levels, service company year end wage and employee levels, increased costs associated with added customers, and interest on customer deposits.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Account expense per budget for the 12 months ending 3/31/15		\$ 5,586
2	Customer Account payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalizing Adjustment No. 4, Supporting Schedule No. 1, Line 14, Column 1)	\$ 11	
3	Service Company customer account payroll expense adjustment allocated to Penn Power to reflect year end employee levvels and ongoing wage and salary rates, (Normalizing Adjustment No. 4, Supporting Schedule 1, Line 26, Col. 1)		15
4	Increased O&M costs associated with increased number of customers in normalized revenue levels (Supporting Schedule 1, Line 10)		(2)
5	Interest on customer deposits, (Supporting Schedule 2, Line 3)	<u>240</u>	
6	Total normalizing adjustment (Lines 2 + 3 + 4 + 5)		<u>253</u>
7	Customer Account expense per budget for the 12 months ending 3/31/15, as adjusted		<u>\$ 5,839</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 5
 (\$000)

Adjustment of Other O&M Costs Associated with Serving New Customers

In association with the additional revenues from added customers reflected in Adjustment No. 1, there is also a cost associated with serving those customers. The Commission has previously recognized this and approved an adjustment to customer accounts expense for this increased cost. This cost is estimated by determining the ratio of non-payroll customer account expense to total tariff revenues from customers and applying this ratio to the additional revenue received from increased customers. The Distribution revenues are supported by Mr. K. M. Siedt.

Line No.	Description	Amount
		(1)
	<u>Customer Account Expense Excluding Labor and Uncollectible</u>	
1	Customer Account expense per budget for the 12 months ending 3/31/15	\$ 5,586
2	Less: Uncollectible expense	(2,317)
3	Less: Labor expense	(1,729)
4	Customer Account expense excluding labor and uncollectible expense	<u>\$ 1,540</u>
	<u>Total Base Revenue</u>	
5	Distribution revenues per budget	\$ 70,245
6	Late payment charges per budget	<u>1,291</u>
7	Total	<u>\$ 71,536</u>
8	Ratio of customer account expense to total revenue (Line 4 / Line 7).	2.15%
9	Revenue from added customers (Adjustment No. 1, Line 2)	\$ (82)
10	Additional expense from added customers (Line 8 X Line 9)	\$ (2)

PENNSYLVANIA POWER COMPANY
Supporting Schedule No.2 to Normalizing Adjustment No. 5
(\$000)

Adjustment to Allow for Interest Expense on Customer Deposits

Customer deposits are included in rate base as a deduction, since these are funds supplied by customers to the company. Interest paid to customers on these deposits correspondingly has been recognized by the Commission as a expense when setting rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Customer deposits included in rate base (Exhibit RAD-1, Column 1, Line 15)	\$ 3,992
2	Interest rate on deposits	<u>6%</u>
3	Interest expense on customer deposits	<u>\$ 240</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 6
\$000

Adjustment of Customer Service and Information Expense

To adjust customer service and information expense to reflect year end wage and employee levels.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Service expense per budget for the 12 months ending 3/31/15		\$ 13,269
2	Customer Service payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 14, Column 1)	\$ <u>5</u>	
3	Total normalizing adjustment		<u>5</u>
4	Customer Service expense per budget for the 12 months ending 3/31/15, as adjusted		<u>\$ 13,274</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 \$000

Adjustment of Administrative and General Expense

To adjust Administrative and General expenses to reflect year end wage and employee levels, service company year end wage and employee levels, OPEB expense at the service cost level, pension expense to the ten year cash level, employee benefits expenses at year end personnel and wage levels, amortization of rate case expenses, costs to update computer system to allow accelerated (3 day) switching from one supplier to another.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Administrative & general expense per budget for the 12 months ending 3/31/15	\$	11,537
2	Administrative & general payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 17, Column 1)		33
3	Service Company Administrative & general payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage & salary rates, (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 28, Column 1)		23
4	Adjust OPEB expense to service cost level, (Normalization Adjustment No. 7, Supporting Schedule No. 1, Line 12, Col. 1)		1,410
5	Adjust pension expense to ten year cash level, (Supporting Schedule No. 2, Line 18, Col. 3)		3,660
6	Adjust employee benefit costs (Supporting Schedule No. 3, Line 8, Column 3)		41
7	Rate case expenses to be incurred during current rate proceeding	\$	144
8	Recovery period - years		<u>2</u>
9	Annual amount (Line 7 / Line 8)	\$	72
10	Less Rate case expense per budget		<u>(750)</u>
11	Adjusted rate case expenses (Line 9 + Line 10)		(678)
12	Increase in O&M for accelerated (3 day) switching for customers moving to a new supplier (Exhibit RAD-64)		<u>90</u>
13	Total normalizing adjustment (Lines 2+3+4+5+6+11+12)	\$	<u>4,577</u>
14	Administrative and general expense per budget for the 12 months ending 3/31/15, as adjusted	\$	<u>16,114</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 7
 \$000

Adjustment for OPEB Expense

Budgeted OPEB expense consists of the current service cost, adjustments to prior years' service costs, and the financing component. This schedule adjusts the total budgeted expense amounts to the service cost. The service cost represents the actuarial present value of benefit liabilities accrued under the plan benefit formula for services rendered during the test year. Inclusion of the service cost in rates provides for recovery of the current cost of benefits earned by plan participants. Any excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service. The adjustment for OPEB expense to the current service cost amount was adopted by the Commission at Docket Nos. R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>O&M</u>	<u>Capital</u>	<u>Total</u>
		(1)	(2)	(3)
1	O&M - Capital allocation ratios	33.26%	66.74%	100.00%
2	Company OPEB expense included in budget	\$ (1,139)	\$ (2,286)	\$ (3,425)
3	FirstEnergy Service Corp. OPEB expense	\$ (12,817)	\$ (25,720)	\$ (38,537)
4	Allocation ratio	<u>1.67%</u>	<u>1.67%</u>	<u>1.67%</u>
5	Allocated FirstEnergy Service Corp. OPEB expense included in budget (Line 3 X Line 4)	\$ (214)	\$ (430)	\$ (644)
6	Total OPEB expense included in budget (Line 2 + Line 5)	\$ (1,353)	\$ (2,716)	\$ (4,069)
7	Service cost for company OPEB expense	\$ 52	\$ 105	\$ 157
8	Service cost for FirstEnergy Service Corp. OPEB expense	\$ 281	\$ 564	\$ 845
9	Allocation ratio	<u>1.67%</u>	<u>1.67%</u>	<u>1.67%</u>
10	Allocated FirstEnergy Service Corp. service cost (Line 8 X Line 9)	\$ 5	\$ 9	\$ 14
11	Total OPEB service cost (Lines 7 + 10)	\$ 57	\$ 114	\$ 171
12	Adjustment to set OPEB expense at ongoing service cost level (Lines 11 - 6)	\$ 1,410	\$ 2,830	\$ 4,240

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 2 to Normalizing Adjustment No. 7
 \$000

Adjustment for Pension Expense

To adjust budget pension expense to a ten year historical average level of actual cash contributions under the methodology that was adopted by the Commission at Docket Numbers R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1) Total	(2) O&M %	(3) O&M
<u>Company Cash Contributions</u>				
1	2004 Cash Pension Contribution	\$ 12,934	50.72%	\$ 6,560
2	2005 Cash Pension Contribution	18,791	50.72%	9,531
3	2007 Cash Pension Contribution	3,751	46.13%	1,730
4	2009 Cash Pension Contribution	21,359	33.35%	7,123
5	2011 Cash Pension Contribution	12,000	41.69%	5,003
6	Total Company Cash Pension Contributions	\$ 68,835		\$ 29,947
<u>FirstEnergy Service Company Cash Contributions</u>				
7	2004 Pension Contribution	91,633		
8	Company Allocation Factor	<u>4.34%</u>		
9	2004 Service Company Pension Contribution allocated to the Company	\$ 3,977	50.72%	2,017
10	2007 Pension Contribution	27,468		
11	Company Allocation Factor	<u>3.02%</u>		
12	2007 Service Company Pension Contribution allocated to the Company	\$ 830	46.13%	<u>383</u>
13	Total FirstEnergy Service Company Cash Pension Contributions allocated to the Company (Line 9 + Line 12)	\$ 4,806		\$ 2,400
14	Total Pension cash contributions (Line 6 + Line 13)	\$ 68,835		\$ 32,347
15	Number of years average	<u>10</u>		<u>10</u>
16	Pension expense cash contribution, averaged over 10 years	\$ 6,884		\$ 3,235
17	O&M Pension Expense included in budget			<u>(425)</u>
18	Adjustment to Pension Expense (Line 16 - Line 17)			\$ <u>3,660</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 3 to Normalizing Adjustment No. 7
 \$000

Adjustment to Employee Benefit Expense to Reflect Year End Employee Levels and Ongoing Wage Rates

Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 6 increases the O&M payroll expense. Associated with that increase are employee benefits charged to Administrative and General expense. This adjustment computes the added benefit costs on a normalized basis.

Employee benefits applicable to operating expenses:

<u>Line No.</u>	<u>Effective Rate (a)</u>	<u>Payroll Adjustment</u>	<u>Benefit Adjustment</u>
	(1)	(2)	(3) = (1) x (2)
1	Workers compensation	0.780% \$ 77 (b)	\$ 1
2	Pension costs	40.995% \$ 77 (b)	31
3	OPEB costs	0.935% \$ 77 (b)	1
4	Life insurance	0.179% \$ 77 (b)	-
5	Medical insurance	0.179% \$ 77 (b)	-
6	Savings plan	2.227% \$ 77 (b)	2
7	Other (Exhibit RAD-27)	8.427% \$ 77 (b)	6
8	Total increase due to payroll adjustment		<u>\$ 41</u>

(a) Summary of effective employee benefit rates based on total payroll for the 12 months ending 3/31/15

	<u>Total Amount</u>	<u>Total Payroll</u>	<u>Effective Rate</u>
Workers compensation	\$ 131	\$ 16,791	0.780%
Pension costs - normalized basis	6,884	\$ 16,791	40.995%
OPEB costs - service cost	157	\$ 16,791	0.935%
Life insurance	30	\$ 16,791	0.179%
Medical insurance	30	\$ 16,791	0.179%
Savings plan	374	\$ 16,791	2.227%
Other (Exhibit RAD-27)	1,415	\$ 16,791	8.427%

(b) Adjustment No.4, Supporting Schedule No. 1, Line 11.

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 \$000

Adjustment of Depreciation Expense

To adjust budgeted depreciation expense to reflect average remaining life rates on adjusted rate base, to eliminate non-jurisdictional expense, to adjust cost of removal/ salvage expense to a five year average amount, according to prior Commission practice and to accleration recovery of legacy meters.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>			
		(1)	(2)	(3)	(4)
1	Depreciation expense per budget for the 12 months ending 3/31/15				\$ 13,179
2	Cost of removal/salvage expense per budget for the 12 months ending 3/31/15 (Exhibit RAD-30)		\$ -		
3	Depreciation accrual per budget (Line 1 - Line 2)		\$ 13,179		
4	Jurisdictional depreciation expense accrual on adjusted rate base at average remaining life rate (Exhibit RAD-53 page 2)		\$ 13,297		
5	Adjustment for average remaining life accrual for jurisdictional plant (Line 4 - Line 3)			\$ 118	
6	Cost of removal/salvage expense per budget for the 12 months ending 3/31/15 (Exhibit RAD-30)		\$ -		
	Cost of removal and salvage 2009 - 2014 (Exhibit RAD-30)				
7	2010	\$ 2,874			
8	2011	1,689			
9	2012	1,620			
10	2013	3,752			
11	2014	<u>3,275</u>			
12	Total	\$ 13,210			
13	Five year average (Line 12 / 5)	2,642			
14	Cost of removal/salvage expense at a five year average		\$ <u>2,642</u>		
15	Adjustment of cost of removal/salvage expense to a five year average (Line 14 - Line 6)			2,642	
16	Adjustment for acceleration of legacy meters (Adj. 8 Sched 1, Line 6)			<u>2,081</u>	
17	Total normalizing adjustment (Lines 5 + 15 + 16)			<u>4,841</u>	
18	Depreciation expense per budget for the 12 months ending 3/31/15, as adjusted				\$ <u>18,020</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 8
 \$000

Adjustment for Amortization of Legacy Meters

To amortize recovery of legacy meters to fully recover all legacy meter costs over five years.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Legacy meters per budget for the 12 months ending 3/31/2015 (Exhibit RAD-47, Page. 1)	\$ 25,183	
2	Depreciation reserve per budget for the 12 months ending 3/31/2015 (Exhibit RAD-47, Page. 3)	<u>15,869</u>	
3	Net legacy meters per budget for the 12 months ending 3/31/2015	\$ 9,314	
4	Net cost of removal and salvage	<u>1,093</u>	
5	Net legacy meters	\$ 10,407	
6	Annual amortization over a 5 year amortization period		<u>\$ 2,081</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 9
\$000

Adjustment of Amortization Expense

To remove rate case expenses and accretion expenses in the budget.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Amortization expense per budget for the 12 months ending 3/31/2015		\$ (10,451)
2	Remove amortization of rate case expenses in budget	750	
3	Remove Accretion expense	<u>(4)</u>	
4	Total normalizing adjustment		<u>746</u>
5	Amortization expense per budget for the 12 months ending 3/31/15, as adjusted		<u>\$ (9,705)</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 10
 \$000

Adjustment of Taxes Other Than Income

To adjust gross receipts tax expense to reflect normalized sales revenues, to adjust payroll tax expenses for normalized payroll and employee expenses.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1)	(2)	(3)
1	Taxes Other Than Income per budget for the 12 months ending 3/31/15			\$ 12,448
	Gross Receipts Tax			
2	Normalized sales revenues (Exhibit RAD-2, page 1, Col. 3)	\$ 180,481		
3	Gross receipts tax @ 5.9%	10,648		
4	Gross receipts tax included in budget	<u>10,714</u>		
5	Adjustment for gross receipts tax at normalized revenue level (Line 12 - Line 13)		\$ (66)	
6	Adjustment for payroll taxes on normalized payroll (Supporting Schedule No. 1, Line 8)		<u>6</u>	
7	Total normalizing adjustment (Lines 5+6)			<u>(60)</u>
8	Taxes other than income per budget for the 12 months ending 3/31/15, as adjusted			<u>\$ 12,388</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No.1 to Normalizing Adjustment No. 10
 \$000

Adjustment to Taxes Other Than Income to reflect changes in payroll taxes.

Normalization adjustments have been made to normalize O&M payroll expense. Associated with those payroll normalizations are changes in FICA tax amounts.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Total payroll per budget for the 12 months ending 3/31/2015 (Normalization Adjustment No. 4, Schedule 1, Line 1, Col 3)	\$ 16,791
2	Total payroll tax included in budget	<u>1,302</u>
3	Effective payroll tax rate (Line 2 / Line 1)	<u>7.75%</u>
4	Total payroll as adjusted, Normalization Adjustment No. 4 (Normalization Adjustment No. 4, Schedule 1, Line 5, Col. 2)	<u>\$ 17,022</u>
5	Payroll tax on normalized payroll (Line 3 X Line 4)	\$ 1,320
6	Total Company payroll tax adjustment (Line 5 - Line 2)	\$ 18
7	O&M Allocation percentage	33.26%
8	Adjustment for payroll tax (Line 6 x Line 7)	<u>\$ 6</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 11
 \$000

Computation of Federal & State Income Taxes - Normalized (Col 3 of Income Statement)

Line No.	Description	Total Company Calculated Taxes (1)	Distribution Calculated Taxes (2)	PTC Calculated Taxes (3)	Universal Service Calculated Taxes (4)	Energy Efficiency Calculated Taxes (5)	Smart Meter Rider Calculated Taxes (6)	DSS Calculated Taxes (7)	Solar Calculated Taxes (8)	NUG Charge Calculated Taxes (9)	Storm Rider Calculated Taxes (10)
1	Total operating revenue	\$ 183,502	\$ 73,168	92,905	\$ 3,087	\$ 5,285	\$ 5,224	\$ 2,983	\$ 850	\$ -	\$ -
2	Less: Total O&M Expense	138,271	24,866	86,578	7,912	7,261	4,938	6,112	604	\$ -	\$ -
3	Depreciation - accrual	15,378	14,611	-	-	-	767	-	-	-	-
4	Average net salvage	2,642	2,642	-	-	-	-	-	-	-	-
5	Amorization	(9,705)	-	1,485	(5,111)	(2,209)	(636)	(3,449)	215	-	-
6	Taxes other than income taxes	12,388	7,537	4,084	136	233	230	131	37	-	-
7	Total deductions	\$ 158,975	\$ 49,656	92,147	\$ 2,937	\$ 5,285	\$ 5,299	\$ 2,794	\$ 856	\$ -	\$ -
8	Net operating income before income taxes	\$ 24,527	\$ 23,512	\$ 758	\$ 150	\$ -	\$ (75)	\$ 189	\$ (6)	\$ -	\$ -
9	Less: Interest Charges (A)	10,329	10,121	-	-	-	207	-	-	-	-
10	Net income before income taxes	\$ 14,198	\$ 13,391	\$ 758	\$ 150	\$ -	\$ (282)	\$ 189	\$ (6)	\$ -	\$ -
Adjustments to taxable income:											
11	Book Average net salvage	\$ 2,642	\$ 2,642	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Adj. of book depreciation to tax basis (B)	5,555	8,416	-	-	-	(2,862)	-	-	-	-
13	Tax cost of removal/salvage	(577)	(577)	-	-	-	-	-	-	-	-
14	Adjust cash pension	3,660	3,660	-	-	-	-	-	-	-	-
15	Net adjustment	11,279	14,141	-	-	-	(2,862)	-	-	-	-
16	Income subject to state income tax	25,478	27,531	758	150	-	(3,144)	189	(6)	-	-
17	State income tax @ 9.99%	\$ 2,545	\$ 2,750	\$ 76	\$ 15	\$ -	\$ (314)	\$ 19	\$ (1)	\$ -	\$ -
18	Taxes as budgeted	-	-	-	-	-	-	-	-	-	-
19	Adjustment to state income tax	\$ 2,545	\$ 2,750	\$ 76	\$ 15	\$ -	\$ (314)	\$ 19	\$ (1)	\$ -	\$ -
20	Income subject to federal income tax	\$ 22,932	\$ 24,781	\$ 682	\$ 135	\$ -	\$ (2,830)	\$ 170	\$ (5)	\$ -	\$ -
21	Federal income tax @ 35%	\$ 8,026	\$ 8,673	\$ 239	\$ 47	\$ -	\$ (991)	\$ 60	\$ (2)	\$ -	\$ -
22	Taxes as budgeted	4,874	4,874	-	-	-	-	-	-	-	-
23	Adjustment to federal income tax	\$ 3,152	\$ 3,799	\$ 239	\$ 47	\$ -	\$ (991)	\$ 60	\$ (2)	\$ -	\$ -
(A) Computation of Interest charges											
	Total rate base	\$ 338,232	\$ 331,441		\$ -	\$ -	\$ 6,791	\$ -	\$ -	\$ -	\$ -
	Debt ratio	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%
	Cost of debt	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%
	Interest expense	\$ 10,329	\$ 10,121	\$ -	\$ -	\$ -	\$ 207	\$ -	\$ -	\$ -	\$ -
(B) Adjustment of book depreciation to tax basis:											
	Tax depreciation	9,824	6,195	-	-	-	3,629	-	-	-	-
	Book depreciation	15,378	14,611	-	-	-	767	-	-	-	-
	Depreciation adjustment	(5,555)	(8,416)	-	-	-	(2,862)	-	-	-	-

PENNSYLVANIA POWER COMPANY
Supporting Schedule No. 1 to Normalization Adjustment No. 11
\$000

To split the tax depreciation into cost of removal, smart meter and distribution components.

<u>Line No.</u>	<u>Description</u>	<u>Total Exhibit RAD-33 (1)</u>
1	Tax depreciation expense per budget	\$ 10,401
2	Cost of removal salvage in tax depreciation	<u>577</u>
3	Net Tax depreciation (Line 1 - Line 2)	9,824
4	Smart Meter tax depreciation	<u>3,629</u>
5	Distribution tax depreciation (Lines 3-4)	<u>\$ 6,195</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 12
 \$000

Adjustment of Provision for Deferred Income Taxes

This adjustment to the Provision for Deferred Income Taxes reflects (1) the adjustment of Federal deferrals to reflect year-end plant and (2) miscellaneous federal deferred taxes not associated with liberalized depreciation. All state deferred taxes associated with liberalized depreciation have been eliminated.

<u>Line No.</u>	<u>Description</u>	<u>Provision for Deferred Taxes - Net</u>	
		<u>Federal</u>	<u>State</u>
		(1)	(2)
1	Deferred taxes per budget, 12 months ending 3/31/15	\$ 6,624	\$ -
2	Deferred taxes - liberalized depreciation, (Exhibit RAD-41, page 17).	<u>3,444</u>	<u>-</u>
3	Adjustment to deferred tax expense (Line 2 - Line 1)	\$ (3,180)	-
4	Deferred tax expense per budget for the 12 months ending 3/31/15, as adjusted	<u>\$ 3,444</u>	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 13
\$000

Adjustment of Investment Tax Credit

Not Applicable

PENNSYLVANIA POWER COMPANY
Rate Base At Original Cost
Normalized To Year-End Conditions at March 31, 2014
(\$000)

Line No.	Description	Adjustments and Normalizations			Pa Jurisdictional Normalized Rate Base			
		Per Book	and Normalizations	Adj No.	Total	Distribution	Smart Meter Costs	PA Jurisdictional Total
		(1)	(2)		(3)	(4)	(5)	(6) = (4) + (5)
Electric Plant:								
1	Plant in service	\$ 561,923	\$ (25,998)	1	\$ 535,925	\$ 535,091	\$ 834	\$ 535,925
2	Plant held for future use	880	(880)	2	-	-	-	-
3	Construction work in progress - pollution control and safety	-	-		-	-	-	-
4	Total electric plant	<u>\$ 562,803</u>	<u>\$ (26,878)</u>		<u>\$ 535,925</u>	<u>\$ 535,091</u>	<u>\$ 834</u>	<u>\$ 535,925</u>
Depreciation & Amortization Reserve:								
5	Plant in service	\$ 186,875	\$ (14,943)	3	\$ 171,932	\$ 171,895	\$ 37	\$ 171,932
6	Plant held for future use	-	-		-	-	-	-
7	Total depreciation & amortization reserve	<u>\$ 186,875</u>	<u>\$ (14,943)</u>		<u>\$ 171,932</u>	<u>\$ 171,895</u>	<u>\$ 37</u>	<u>\$ 171,932</u>
8	Net Electric Plant	<u>\$ 375,928</u>	<u>\$ (11,935)</u>		<u>\$ 363,993</u>	<u>\$ 363,196</u>	<u>\$ 797</u>	<u>\$ 363,993</u>
Additions:								
9	Cash working capital	\$ -	\$ 27,636	4	\$ 27,636	\$ 27,636	\$ -	\$ 27,636
10	M&S inventories	-	3,193	5	3,193	3,193	-	3,193
11	Deferred storm damage	-	-	6	-	-	-	-
12	Legacy meters	-	11,971	7	11,971	11,971	-	11,971
13	Total additions	<u>\$ -</u>	<u>\$ 42,800</u>		<u>\$ 42,800</u>	<u>\$ 42,800</u>	<u>\$ -</u>	<u>\$ 42,800</u>
Deductions:								
14	Customer deposits	\$ 4,203	\$ -		\$ 4,203	\$ 4,203	\$ -	\$ 4,203
15	Customer advances for construction	33	-		33	33	-	33
16	Accum. Deferred income taxes - Liberalized depreciation	115,174	(19,007)	8	96,167	95,605	562	96,167
17	Operating reserves (net of taxes)	1,440	-	9	1,440	1,440	-	1,440
18	Total deductions	<u>\$ 120,850</u>	<u>\$ (19,007)</u>		<u>\$ 101,843</u>	<u>\$ 101,281</u>	<u>\$ 562</u>	<u>\$ 101,843</u>
19	Total Rate Base	<u>\$ 255,078</u>	<u>\$ 49,872</u>		<u>\$ 304,950</u>	<u>\$ 304,715</u>	<u>\$ 235</u>	<u>\$ 304,950</u>
20	Pro forma return at present rates (PA Distribution)	\$ 14,586	Dollars					
21		4.78%	Percent					
22	Pro forma return at proposed rates (PA Distribution)	\$ 25,956	Dollars					
23		8.51%	Percent					

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 (\$000)

Adjustment of Electric Plant in Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993.; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

<u>Line No.</u>	<u>Adjustments</u>	<u>Plant in Service</u>
	(1)	(2)
1	Plant in Service at 3/31/2014 (Exhibit RAD-48, Attach. A, p. 1 and 2)	\$ 561,923
2	Normalizing adjustment:	
3	Eliminate ARC (Exhibit RAD-48, Attach. A, p. 1 and 2)	(37)
4	Remove legacy meters (Exhibit RAD-48, Attach. A, p. 1 and 2)	\$ (25,183)
5	Eliminate ATSI Plant from 1999 Agreement (Exhibit RAD-48, Attach. A, p. 1 and 2)	<u>(778)</u>
6	Normalization Adjustment	<u>(25,998)</u>
7	Plant in Service at 3/31/2014, as adjusted	<u>\$ 535,925</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
(\$000)

Adjustment of Plant Held for Future Use

To adjust Plant Held for Future Use. As an alternative to rate base treatment, the Company is requesting the allowance of deferred carrying charges on any current or future investments in Plant Held for Future Use with definitive plans of utilization within a ten-year period. This is consistent with long-standing Commission policy.

<u>Line</u> <u>No.</u>		<u>Amount</u> (1)
1	Plant Held for Future Use at 3/31/2014	\$ 880
2	Normalizing adjustment:	
3	Eliminate Plant Held for Future Use	<u>(880)</u>
4	Plant Held for Future Use at 3/31/2014, as adjusted	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 3
 (\$000)

Adjustment of Depreciation Reserves - Plant In Service

To adjust the budgeted gross plant in service to (1) eliminate the Asset Retirement Cost ("ARC"); (2) to remove legacy meters as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993; and (3) eliminate American Transmission Systems, Inc. ("ATSI") plant in accordance with the settlement agreement at Docket A-110450F0016. An asset retirement cost ("ARC") increases the carrying amount of a long-lived asset when a liability for an asset retirement obligation ("ARO") is recognized. The ARC is depreciated over the life of the asset. The ARC and related reserve are excluded from Rate Base, while the associated depreciation expense is excluded from the Income Statement. This treatment is in accordance with 18 CFR Chapter 1 § 35.18 Asset retirement obligations.

Line No.		Depreciation Reserves	
		Adjustments (1)	Plant in Service (2)
1	Plant in Service depreciation reserves at 3/31/2014 (Exhibit RAD-48, Attach. A, p. 1 and 2)		\$ 186,875
2	Normalizing adjustment:		
4	Eliminate ARC (Exhibit RAD-48, Attach. A, p. 3 and 4)	(22)	
3	Remove legacy meters (Exhibit RAD-48, Attach. A, p. 3 and 4)	\$ (14,305)	
5	Eliminate ATSI reserve per 1999 Agreement (Exhibit RAD-48, Attach. A, p. 3 and 4)	(616)	
6	Normalization Adjustment		(14,943)
7	Plant in Service depreciation reserves at 3/31/2014, as adjusted		\$ 171,932

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 4
(\$000)

Adjustment of Cash Working Capital

To recognize cash working capital at year-end level. This adjustment is supported by Penn Power Witness P. M. Larkin Statement No. 6.

<u>Line No.</u>		<u>Cash Working Capital</u>	
		(1)	(2)
1	Cash working capital per book at 3/31/2014		\$ -
2	Normalizing adjustment:		
3	Cash working capital normalized to year-end	\$ 27,636	
4	Cash working capital per book	<u>-</u>	
5	Normalization Adjustment		<u>27,636</u>
6	Cash working capital at 3/31/2014, as adjusted		<u>\$ 27,636</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 (\$000)

Adjustment of Material and Supplies Inventories

To recognize the Company's distribution portion of FE Service material and services ("M&S") inventory levels projected at 3/31/2014.

<u>Line No.</u>		<u>M&S Inventories</u>	
		(1)	(2)
1	M&S Inventory per book at 3/31/2014		\$ -
2	Normalizing adjustment:		
3	Distribution component of projected FE Service M&S Inventory allocated to the company at 3/31/2014 (Exhibit RAD-13)	\$ 3,193	
4	M&S Inventory per book at 3/31/2014	<u>-</u>	
5	Normalization Adjustment		<u>3,193</u>
6	M&S inventory at 3/31/2014, as adjusted		<u>\$ 3,193</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 6
(\$000)

Adjustment of Storm Expenses

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 (\$000)

Adjustment to Include Legacy Meters in Regulatory Asset

To include legacy meters in a regulatory asset as ordered in the Final Order on the Smart Meter Deployment Plan at Docket No. M-2013-2341993.

<u>Line No.</u>		<u>Legacy Meters</u>	
		(1)	(2)
1	Net legacy meters in regulatory asset at 3/31/2014		\$ -
2	Legacy meters per book at 3/31/2014	\$ 25,183	
3	Net estimated cost of removal and salvage	1,093	
4	Depreciation reserve for legacy meters per book at 3/31/2014	<u>(14,305)</u>	
5	Normalization adjustment		<u>11,971</u>
6	Net legacy meters in regulatory asset as adjusted at 3/31/2014		<u>\$ 11,971</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 (\$000)

Adjustment of Accumulated Deferred Income Taxes - Liberalized Depreciation

This adjustment adjusts the budgeted deferred tax balances for liberalized depreciation (excluding the impact of SFAS No. 109 deferrals) to (1) eliminate remaining state deferred taxes - liberalized depreciation balances including the federal benefit of those taxes; and (2) Eliminate Other excludable items.

Line No.		<u>Adjustments</u>	<u>Accum Reserve for Deferred Taxes - Liberalized Depreciation</u>
1	Deferred taxes per book - liberalized depreciation at 3/31/2014		\$ 115,174
2	Normalizing adjustments:		
3	Eliminate remaining state deferred taxes - liberalized depreciation including the federal benefit of those taxes	(13,963)	
4	Eliminate Other Excludable Items (Leases)	<u>(5,044)</u>	
5	Normalization Adjustment		<u>(19,007)</u>
6	Deferred taxes - liberalized depreciation at 3/31/2014, as adjusted		<u>\$ 96,167</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 9
(\$000)

Adjustment of Operating Reserves

Not Applicable

PENNSYLVANIA POWER COMPANY

Rate of Return at March 31, 2014

Line No.	Exhibit SRS-24 Capital Amounts (1)	Capital Ratios (2)	Cost Rate (3)	Weighted Cost Rate (3) = (2) X (3)	
1	Total long-term debt	\$ 138,929	49.93%	6.12%	3.05%
2	Total preferred stock	-	0.00%	0.00%	0.00%
3	Total common equity	<u>139,338</u>	<u>50.07%</u>	10.90%	<u>5.46%</u>
4	Total capitalization	<u>\$ 278,267</u>	<u>100.00%</u>		<u>8.51%</u>

PENNSYLVANIA POWER COMPANY
Statement of Operating Income, 12 Months Ended March 31, 2014, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
 (\$000)

Line No.	Description	Normalized PaPUC Jurisdictional															
		Per Budget (1)	Normalizations & Adjustments (2)	Adj. No.	Budget as Adjusted (3)=(1)+(2)	Distribution (4)	Riders										PAPUC Total Distribution (13) = (4) + (8)
							PTC (5)	Universal Service (6)	Energy Efficiency (7)	Smart Meters (8)	Default Service Support (9)	Solar (10)	CEC (11)	NUG (11)	Storm Rider (12)		
Operating revenues																	
1	Retail sales	\$ 185,447	\$ (1,724)	1	\$ 183,723	\$ 71,730	\$ 95,572	\$ 5,839	\$ 4,576	\$ 2,195	\$ 3,023	\$ 671	\$ 117	\$ -	\$ -	\$ 73,925	
2	STAS revenue	1,473	(1,473)	2	-	-	-	-	-	-	-	-	-	-	-	-	
3	Sales for resale	43	-	-	43	-	5	-	38	-	-	-	-	-	-	-	
4	Other operating revenue	4,132	-	3	4,132	4,019	113	-	-	-	-	-	-	-	-	4,019	
5	Total operating revenue	\$ 191,095	\$ (3,196.85)		\$ 187,898	\$ 75,748	\$ 95,691	\$ 5,839	\$ 4,614	\$ 2,195	\$ 3,023	\$ 671	\$ 117	\$ -	\$ -	\$ 77,944	
Operating expenses																	
6	Price To Compare	\$ 93,733	\$ -		\$ 93,733	\$ 420	\$ 92,810	\$ -	\$ -	\$ -	\$ -	\$ 503	\$ -	\$ -	\$ -	\$ 420	
7	Distribution	15,478	465	4	15,943	13,584	-	-	-	2,359	-	-	-	-	-	13,584	
8	Customer accounts	4,947	308	5	5,255	3,106	-	-	-	2,149	-	-	-	-	-	3,106	
9	Customer service & info	11,683	4	6	11,686	4,594	6,964	-	-	108	-	20	-	-	-	4,594	
10	Admin & gen expense	82	7,816	7	7,898	(788)	-	6,340	2,346	-	-	-	-	-	-	1,558	
11	Depreciation - accrual	12,242	5,503	8	17,745	17,711	-	-	34	-	-	-	-	-	-	17,745	
12	Amortization and Accretion	(6,161)	-	9	(6,161)	(0)	(1,265)	(1,207)	(1,957)	(225)	(1,762)	165	92	-	-	(225)	
13	Taxes other than income	12,873	(214)	10	12,659	7,708	4,185	275	231	94	131	30	5	-	-	7,802	
14	Operating expense before tax	\$ 144,876	\$ 13,883		\$ 158,759	\$ 46,336	\$ 95,730	\$ 6,032	\$ 4,614	\$ 2,249	\$ 2,985	\$ 698	\$ 117	\$ -	\$ -	\$ 48,585	
15	Operating income before income tax	46,219	(17,080)		29,139	29,413	(39)	(193)	0	(54)	39	(27)	0	-	-	29,359	
Income taxes																	
16	Federal income tax - current	\$ 5,834	\$ 2,544	11	\$ 8,378	\$ 8,660	\$ (12)	\$ (61)	\$ 0	\$ (213)	\$ 12	\$ (8)	\$ 0	\$ -	\$ -	\$ 8,447	
17	State income tax - current	2,075	582	11	2,657	2,746	(4)	(19)	0	(68)	4	(3)	0	-	-	2,679	
18	Deferred income tax - federal	10,010	(6,157)	12	3,853	3,656	-	-	-	197	-	-	-	-	-	3,853	
19	Deferred income tax - state	-	-	12	-	-	-	-	-	-	-	-	-	-	-	-	
20	Investment tax credit	(142)	-	13	(142)	(142)	-	-	-	-	-	-	-	-	-	(142)	
21	Total tax expense	\$ 17,778	\$ (3,032)		\$ 14,745	\$ 14,920	\$ (16)	\$ (80)	\$ 0	\$ (84)	\$ 16	\$ (11)	\$ 0	\$ -	\$ -	\$ 14,836	
22	Total operating expenses	\$ 162,654	\$ 10,851		\$ 173,504	\$ 61,256	\$ 95,714	\$ 5,952	\$ 4,614	\$ 2,165	\$ 3,001	\$ 687	\$ 117	\$ -	\$ -	\$ 63,421	
23	Operating income	\$ 28,441	\$ (14,048)		\$ 14,394	\$ 14,492	\$ (23)	\$ (113)	\$ 0	\$ 30	\$ 23	\$ (16)	\$ 0	\$ -	\$ -	\$ 14,522	

PENNSYLVANIA POWER COMPANY
Statement of operating income, 12 Months Ended April 30, 2016, Normalized and Adjusted
to Reflect Revenue Necessary to Achieve Allowable Return
(\$000)

Line No.	Description	Riders									PaPUC Total Distribution (33) = (24) + (28)
		Distribution (24)	Price to Compare (25)	Universal Service (26)	Energy Efficiency (27)	Smart Meters (28)	Default Service Support (29)	Solar (30)	NUG (31)	Storm Rider (32)	
Operating revenues											
1	Retail sales	\$ 92,515	\$ 95,572	\$ 5,839	\$ 4,576	\$ 2,177	\$ 3,023	\$ 671	\$ -	\$ -	\$ 94,692
2	STAS revenue	-	-	-	-	-	-	-	-	-	-
3	Sales for resale	-	5	-	38	-	-	-	-	-	-
4	Other operating revenue	4,019	113	-	-	-	-	-	-	-	4,019
5	Total operating revenue	\$ 96,534	\$ 95,691	\$ 5,839	\$ 4,614	\$ 2,177	\$ 3,023	\$ 671	\$ -	\$ -	\$ 98,710
Operating expenses											
6	PTC	\$ 420	\$ 92,810	\$ -	\$ -	\$ -	\$ -	\$ 503	\$ -	\$ -	\$ 420
7	Distribution	13,584	-	-	-	-	2,359	-	-	-	13,584
8	Customer accounts	3,106	-	-	-	-	2,149	-	-	-	3,106
9	Customer service & info	4,594	-	6,964	-	-	108	-	-	-	4,594
10	Admin & gen expense	(788)	-	-	6,340	2,346	-	-	-	-	1,558
11	Depreciation - accrual	17,711	-	-	-	34	-	-	-	-	17,745
12	Amortization	(0)	(1,265)	(1,207)	(1,957)	(225)	(1,762)	165	-	-	(225)
13	Taxes other than income	8,935	4,185	275	231	93	131	30	-	-	9,028
14	Operating expense before tax	\$ 47,562	\$ 95,730	\$ 6,032	\$ 4,614	\$ 2,248	\$ 2,985	\$ 698	\$ -	\$ -	\$ 49,810
15	Operating income before tax	\$ 48,972	\$ (39)	\$ (193)	\$ 0	\$ (71)	\$ 39	\$ (27)	\$ -	\$ -	\$ 48,900
Income taxes											
16	Federal income tax - current	\$ 14,822	\$ (12)	\$ (61)	\$ 0	\$ (219)	\$ 12	\$ (8)	\$ -	\$ -	\$ 14,603
17	State income tax - current	4,700	(4)	(19)	0	(69)	4	(3)	-	-	4,631
18	Deferred income tax - federal	3,656	-	-	-	197	-	-	-	-	3,853
19	Deferred income tax - state	-	-	-	-	-	-	-	-	-	-
20	Investment tax credit	(142)	-	-	-	-	-	-	-	-	(142)
21	Total tax expense	\$ 23,036	\$ (16)	\$ (80)	\$ 0	\$ (91)	\$ 16	\$ (11)	\$ -	\$ -	\$ 22,945
22	Total operating expenses	\$ 70,598	\$ 95,714	\$ 5,952	\$ 4,614	\$ 2,157	\$ 3,001	\$ 687	\$ -	\$ -	\$ 72,755
23	Operating income	\$ 25,936	\$ (23)	\$ (113)	\$ 0	\$ 20	\$ 23	\$ (16)	\$ -	\$ -	\$ 25,956
24	Rate Base	\$ 304,715	\$ -	\$ -	\$ -	\$ 235	\$ -	\$ -	\$ -	\$ -	\$ 304,950
25	Rate of Return overall	8.51%	NA	NA	NA	8.51%	NA	NA	NA	NA	8.51%
26	Return on Equity	10.90%	NA	NA	NA	10.90%	NA	NA	NA	NA	10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 71,730	\$ 20,785	\$ 92,515
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	4,019	-	4,019
5	Total operating revenue	\$ 75,748	\$ 20,785	\$ 96,534
	<u>Operating expenses</u>			
6	PTC	\$ 420	\$ -	\$ 420
7	Distribution	13,584	-	13,584
8	Customer accounts	3,106	-	3,106
9	Customer service & info	4,594	-	4,594
10	Admin & gen expense	(788)	-	(788)
11	Depreciation - accrual	17,711	-	17,711
12	Amortization	(0)	-	(0)
13	Taxes other than income	7,708	1,226	8,935
14	Operating expense before tax	\$ 46,336	\$ 1,226	\$ 47,562
15	Operating income before tax	\$ 29,413	\$ 19,559	\$ 48,972
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 8,660	\$ 6,162	\$ 14,822
17	State income tax - current	2,746	1,954	4,700
18	Deferred income tax - federal	3,656	-	3,656
19	Deferred income tax - state	-	-	-
20	Investment tax credit	(142)	-	(142)
21	Total tax expense	\$ 14,920	\$ 8,116	\$ 23,036
22	Total operating expenses	\$ 61,256	\$ 9,342	\$ 70,598
23	Operating income	\$ 14,492	\$ 11,443	\$ 25,936
24	Rate Base	\$ 304,715		\$ 304,715
25	Rate of Return overall	4.76%		8.51%
26	Return on Equity	3.4%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Smart Meter
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 2,195	\$ (18)	\$ 2,177
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 2,195	\$ (18)	\$ 2,177
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	2,346	-	2,346
11	Depreciation - accrual	34	-	34
12	Amortization	(225)	-	(225)
13	Taxes other than income	94	(1)	93
14	Operating expense before tax	\$ 2,249	\$ (1)	\$ 2,248
15	Operating income before tax	(54)	(17)	(71)
	<u>Income taxes</u>			
16	Federal income tax - current	\$ (213)	\$ (5)	\$ (219)
17	State income tax - current	(68)	(2)	(69)
18	Deferred income tax - federal	197	-	197
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ (84)	\$ (7)	\$ (91)
22	Total operating expenses	\$ 2,165	\$ (8)	\$ 2,157
23	Operating income	\$ 30	\$ -	\$ 20
24	Rate Base	\$ 235		\$ 235
25	Rate of Return overall	12.8%		8.5%
26	Return on Equity	19.6%		10.9%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Total Distribution
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 73,925	\$ 20,767	\$ 94,692
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	4,019	-	4,019
5	Total operating revenue	77,944	20,767	98,710
	<u>Operating expenses</u>			
6	PTC	\$ 420	\$ -	\$ 420
7	Distribution	13,584	-	13,584
8	Customer accounts	3,106	-	3,106
9	Customer service & info	4,594	-	4,594
10	Admin & gen expense	1,558	-	1,558
11	Depreciation - accrual	17,745	-	17,745
12	Amortization	(225)	-	(225)
13	Taxes other than income	7,802	1,225	9,028
14	Operating expense before tax	\$ 48,585	\$ 1,225	\$ 49,810
		-		
15	Operating income before tax	\$ 29,359	\$ 19,542	\$ 48,900
		-		
	<u>Income taxes</u>			
16	Federal income tax - current	\$ 8,447	\$ 6,156	\$ 14,603
17	State income tax - current	2,679	1,952	4,631
18	Deferred income tax - federal	3,853	-	3,853
19	Deferred income tax - state	-	-	-
20	Investment tax credit	(142)	-	(142)
21	Total tax expense	\$ 14,836	\$ 8,109	\$ 22,945
		-		
22	Total operating expenses	\$ 63,421	\$ 9,334	\$ 72,755
		-		
23	Operating income	\$ 14,522	\$ 11,433	\$ 25,956
24	Rate Base	\$ 304,950		\$ 304,950
25	Rate of Return overall	4.76%		8.51%
26	Return on Equity	3.4%		10.90%

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Universal Service Cost Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u>	<u>Revenue Adjustment Required</u>	<u>Allowable Revenue</u>
		(1)	(2)	(3)
	<u>Operating revenues</u>			
1	Retail sales	\$ 5,839	\$ -	\$ 5,839
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ 5,839	\$ -	\$ 5,839
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	6,964	-	6,964
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	(1,207)	-	(1,207)
13	Taxes other than income	275	-	275
14	Operating expense before tax	\$ 6,032	\$ -	\$ 6,032
15	Operating income before tax	(193)	-	(193)
	<u>Income taxes</u>			
16	Federal income tax - current	\$ (61)	\$ -	\$ (61)
17	State income tax - current	(19)	-	(19)
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ (80)	\$ -	\$ (80)
22	Total operating expenses	\$ 5,952	\$ -	\$ 5,952
23	Operating income	\$ (113)	\$ -	\$ (113)

PENNSYLVANIA POWER COMPANY
Summary of Revenue Requirements
Storm Damage Rider
 \$000

<u>Line No.</u>	<u>Description</u>	<u>Budget as Adjusted</u> (1)	<u>Revenue Adjustment Required</u> (2)	<u>Allowable Revenue</u> (3)
	<u>Operating revenues</u>			
1	Retail sales	\$ -	\$ -	\$ -
2	STAS revenue	-	-	-
3	Sales for resale	-	-	-
4	Other operating revenue	-	-	-
5	Total operating revenue	\$ -	\$ -	\$ -
	<u>Operating expenses</u>			
6	PTC	\$ -	\$ -	\$ -
7	Distribution	-	-	-
8	Customer accounts	-	-	-
9	Customer service & info	-	-	-
10	Admin & gen expense	-	-	-
11	Depreciation - accrual	-	-	-
12	Amortization	-	-	-
13	Taxes other than income	-	-	-
14	Operating expense before tax	\$ -	\$ -	\$ -
15	Operating income before tax	-	-	-
	<u>Income taxes</u>			
16	Federal income tax - current	\$ -	\$ -	\$ -
17	State income tax - current	-	-	-
18	Deferred income tax - federal	-	-	-
19	Deferred income tax - state	-	-	-
20	Investment tax credit	-	-	-
21	Total tax expense	\$ -	\$ -	\$ -
22	Total operating expenses	\$ -	\$ -	\$ -
23	Operating income	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 1
 \$000

Adjustment of Base Operating Revenues

To adjust base operating revenues (1) for changes in number of customers, (2) to roll in State Tax Adjustment Surcharge (STAS) revenues into base rates, (3) adjust for Energy Efficiency/ Behind Meter Generation, (4) to adjust Other revenues, (5) and to eliminate unbilled revenues. The adjustment for unbilled revenues is supported by Mr. R.A. D'Angelo. Adjustments (1) through (4) are supported Mr. K. M. Siedt.

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Base revenues per budget for the 12 months ended 3/31/14		\$ 185,447
	Normalizing adjustments:		
2	Customers - increase to yr. end level	\$ 260	
	Specific adjustments		
3	Roll-in of STAS	\$ 1,473	
4	Adjust for Energy Efficiency and Behind the Meter Generation	(2,196)	
5	Adjust for Other Revenues	(1,936)	
6	Eliminate unbilled revenues	<u>675</u>	
7	Total	\$ (1,984)	
8	Normalizing adjustment (Lines 2 + 7)		<u>(1,724)</u>
9	Base revenues per budget for the 12 months ended 3/31/14, as adjusted		<u>\$ 183,723</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 2
\$000

Adjustment of State Tax Adjustment Surcharge Revenues

To remove state tax adjustment surcharge ("STAS") revenues. Normalized STAS revenues are being rolled into base rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
		(1)
1	STAS revenue per book for the 12 months ended 3/31/14	\$ 1,473
2	Eliminate per book STAS	<u>(1,473)</u>
3	Other operating revenue per book for the 12 months ended 3/31/14, as adjusted	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY

Normalization Adjustment No. 3

\$000

Adjustment of Other Operating Revenues

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 4
 \$000

Adjustment of Distribution Expense

To adjust distribution payroll expense to reflect year end wage and employee levels, to adjust service company payroll expenses to reflect year end and wage and employee levels, and to include the distribution portion of the amortization of gains or losses to reacquired debt. The labor allocation factors used on Schedule 1 attached to this normalization are supported by Ms. H. E. Stewart.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Distribution expense per book for the 12 months ended 3/31/14		\$ 15,478
2	Distribution payroll expense adjustment to reflect year end employee levels, and ongoing wage and salary rate (Supporting Schedule No. 1, Line 10, Col 2)	\$ 22	
3	Service Company Distribution payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage and salary rate (Supporting Schedule 1, Line 19, Col. 2)	32	
4	Amortization of (gain) or loss on reacquired debt	<u>412</u>	
5	Total normalizing adjustment (Lines 2 + 3 + 4)		<u>465</u>
6	Distribution expense per book for the 12 months ended 3/31/14, as adjusted		<u>\$ 15,943</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 4
 (\$000)

Adjustment to Payroll Expense to Reflect Year End Employee Levels and Wage Rates

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Total company payroll (Exhibit RAD 27)		\$ 18,685
	<u>Bargaining</u>		
2	Straight time per book for April 1, 2013 through June 30, 2013	\$ 2,600	
3	Straight time 3% increase effective 7/1/2014	78	
	<u>Non-Bargaining</u>		
4	Straight time per book for April 1, 2013 through February 28, 2013	3,281	
5	Straight time 3% increase effective 9/1/2013	98	
6	Total company payroll adjustment (Line 3 + Line 5)		<u>176</u>
7	Total Payroll adjustment (Line 1 + Line 6)		<u>18,861</u>
8	O&M allocation %	33.26%	
9	O&M payroll adjustment (Line 3 x Line 5)	\$ 59	
	<u>Allocation of payroll adjustment:</u>		
10	Price to Compare	0.00%	\$ -
11	Transmission	0.00%	-
12	Distribution	36.80%	22
13	Customer accounts	13.78%	8
14	Customer service	6.79%	4
15	Administrative and general	<u>42.73%</u>	<u>25</u>
16	Total	<u>100%</u>	<u>\$ 59</u>
	<u>Service Company (Exhibit RAD-25)</u>		
17	Straight time per book for April 1, 2013 through February 28, 2013	\$ 4,544	
18	Straight time 3% increase effective 9/1/2013	136	
	<u>Allocation of Service Company payroll adjustment:</u>		
19	Price to Compare	0.00%	\$ 0
20	Transmission	0.00%	-
21	Distribution	23.20%	32
22	Customer accounts	31.65%	43
23	Administrative and general	<u>44.83%</u>	<u>61</u>
24	Total	<u>100%</u>	<u>\$ 136</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 5
 \$000

Adjustment of Customer Accounts Expense

To adjust customer account expense to reflect year end wage and employee levels, service company year end wage and employee levels, increased costs associated with added customers, and interest on customer deposits.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Account expense per book for the 12 months ended 3/31/14		\$ 4,947
2	Customer Account payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalizing Adjustment No. 4, Supporting Schedule No. 1, Line 11, Column 1)	\$ 8	
3	Service Company customer account payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage and salary rates, (Normalizing Adjustment No. 4, Supporting Schedule 1, Line 20, Col. 1)		43
4	Increased O&M costs associated with increased number of customers in normalized revenue levels (Supporting Schedule 1, Line 10)		5
5	Interest on customer deposits, (Supporting Schedule 2, Line 3)	<u>252</u>	
6	Total normalizing adjustment (Lines 2 + 3 + 4 + 5)		<u>308</u>
7	Customer Account expense per book for the 12 months ended 3/31/14, as adjusted.		<u>\$ 5,255</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 5
 (\$000)

Adjustment of Other O&M Costs Associated with Serving New Customers

In association with the additional revenues from added customers reflected in Adjustment No. 1, there is also a cost associated with serving those customers. The Commission has previously recognized this and approved an adjustment to customer accounts expense for this increased cost. This cost is estimated by determining the ratio of non-payroll customer account expense to total tariff revenues from customers and applying this ratio to the additional revenue received from increased customers. The Distribution revenues are supported by Mr. K. M. Siedt.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
		(1)
	<u>Customer Account Expense Excluding Labor and Uncollectible</u>	
1	Customer Account expense per book for the 12 months ended 3/31/14	\$ 4,947
2	Less: Uncollectible expense	(1,788)
3	Less: Labor expense	<u>(1,729)</u>
4	Customer Account expense excluding labor and uncollectible expense	<u>\$ 1,430</u>
	 <u>Total Base Revenue</u>	
5	Distribution revenues per book	\$ 71,730
6	Late payment charges per book	<u>724</u>
7	Total	<u>\$ 72,454</u>
8	Ratio of customer account expense to total revenue (Line 4 / Line 7)	1.97%
9	Revenue from added customers (Adjustment No. 1, Line 2)	\$ 260
10	Additional expense from added customers (Line 8 X Line 9)	<u>\$ 5</u>

PENNSYLVANIA POWER COMPANY
Supporting Schedule No.2 to Normalizing Adjustment No. 5
(\$000)

Adjustment to Allow for Interest Expense on Customer Deposits

Customer deposits are included in rate base as a deduction, since these are funds supplied by customers to the company. Interest paid to customers on these deposits correspondingly has been recognized by the Commission as a expense when setting rates.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Customer deposits included in rate base (Exhibit RAD-1, Column 1, Line 15)	\$ 4,203
2	Interest rate on deposits	<u>6%</u>
3	Interest expense on customer deposits	<u>\$ 252</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 6
 \$000

Adjustment of Customer Service and Information Expense

To adjust customer service and information expense to reflect year end wage and employee levels.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Customer Service expense per budget for the 12 months ended 3/31/14		\$ 11,683
2	Customer Service payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 12, Column 1)	\$ <u>4</u>	
3	Total normalizing adjustment		<u>4</u>
4	Customer Service expense per budget for the 12 months ended 3/31/14, as adjusted		<u>\$ 11,687</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 7
 \$000

Adjustment of Administrative and General Expense

To adjust Administrative and General expenses to reflect year end wage and employee levels, service company year end wage and employee levels, OPEB expense at the service cost level, pension expense to the ten year cash level, employee benefits expenses at year end personnel and wage levels, amortization of rate case expenses, costs to update computer system to allow accelerated (3 day) switching from one supplier to another.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Administrative & general expense per book for the 12 months ended 3/31/14	\$	82
2	Administrative & general payroll expense adjustment to reflect year end employee levels and ongoing wage & salary rates (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 13, Column 1)		25
3	Service Company Administrative & general payroll expense adjustment allocated to Penn Power to reflect year end employee levels and ongoing wage & salary rates, (Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 21, Column 1)		61
4	Adjust OPEB expense to service cost level, (Normalization Adjustment No. 7, Supporting Schedule No. 1, Line 12, Col. 1)		2,522
5	Adjust pension expense to ten year cash level, (Supporting Schedule No. 2, Line 18, Col. 3)		5,017
6	Adjust employee benefit costs (Supporting Schedule No. 3, Line 8, Column 3)		29
7	Rate case expenses to be incurred during current rate proceeding	\$	144
8	Recovery period - years		<u>2</u>
9	Annual amount (Line 7 / Line 8)	\$	72
10	Adjusted rate case expenses (Line 9 + Line 10)		72
11	Increase in O&M for accelerated (3 day) switching for customers moving to a new supplier (Exhibit RAD-64)		<u>90</u>
12	Total normalizing adjustment (Lines 2+3+4+5+6+11+12)	\$	<u>7,816</u>
13	Administrative and general expense per book for the 12 months ended 3/31/14, as adjusted	\$	<u>7,898</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 7
 \$000

Adjustment for OPEB Expense

Budgeted OPEB expense consists of the current service cost, adjustments to prior years' service costs, and the financing component. This schedule adjusts the total budgeted expense amounts to the service cost. The service cost represents the actuarial present value of benefit liabilities accrued under the plan benefit formula for services rendered during the test year. Inclusion of the service cost in rates provides for recovery of the current cost of benefits earned by plan participants. Any excess or shortfall related to the expected return on plan assets are not included because their inclusion would artificially reduce or increase total costs and result in the recovery of more or less than the actual normal cost of service. The adjustment for OPEB expense to the current service cost amount was adopted by the Commission at Docket Nos. R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>O&M</u>	<u>Capital</u>	<u>Total</u>
		(1)	(2)	(3)
1	O&M - Capital allocation ratios	33.26%	66.74%	100.00%
2	Company OPEB expense included in budget	\$ (2,258)	\$ (4,530)	\$ (6,788)
3	FirstEnergy Service Corp. OPEB expense	\$ (13,729)	\$ (27,550)	\$ (41,279)
4	Allocation ratio	<u>1.46%</u>	<u>1.46%</u>	<u>1.46%</u>
5	Allocated FirstEnergy Service Corp. OPEB expense included in budget (Line 3 X Line 4)	\$ (201)	\$ (402)	\$ (603)
6	Total OPEB expense included in budget (Line 2 + Line 5)	\$ (2,459)	\$ (4,932)	\$ (7,391)
7	Service cost for company OPEB expense	\$ 57	\$ 113	\$ 170
8	Service cost for FirstEnergy Service Corp. OPEB expense	\$ 368	\$ 739	\$ 1,107
9	Allocation ratio	<u>1.67%</u>	<u>1.67%</u>	<u>1.67%</u>
10	Allocated FirstEnergy Service Corp. service cost (Line 8 X Line 9)	\$ 6	\$ 12	\$ 18
11	Total OPEB service cost (Lines 7 + 10)	\$ 63	\$ 125	\$ 188
12	Adjustment to set OPEB expense at ongoing service cost level (Lines 11 - 6)	\$ 2,522	\$ 5,057	\$ 7,579

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 2 to Normalizing Adjustment No. 7
 \$000

Adjustment for Pension Expense

To adjust budget pension expense to a ten year historical average level of actual cash contributions under the methodology that was adopted by the Commission at Docket Numbers R-00061366 and R-00061367.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1) Total	(2) O&M %	(3) O&M
<u>Company Cash Contributions</u>				
1	2004 Cash Pension Contribution	\$ 12,934	50.72%	\$ 6,560
2	2005 Cash Pension Contribution	18,791	50.72%	9,531
3	2007 Cash Pension Contribution	3,751	46.13%	1,730
4	2009 Cash Pension Contribution	21,359	33.35%	7,123
5	2011 Cash Pension Contribution	12,000	41.69%	5,003
6	Total Company Cash Pension Contributions	\$ 68,835		\$ 29,947
<u>FirstEnergy Service Company Cash Contributions</u>				
7	2004 Pension Contribution	91,633		
8	Company Allocation Factor	<u>4.34%</u>		
9	2004 Service Company Pension Contribution allocated to the Company	\$ 3,977	50.72%	2,017
10	2007 Pension Contribution	27,468		
11	Company Allocation Factor	<u>3.02%</u>		
12	2007 Service Company Pension Contribution allocated to the Company	\$ 830	46.13%	<u>383</u>
13	Total FirstEnergy Service Company Cash Pension Contributions allocated to the Company (Line 9 + Line 12)	\$ 4,806		\$ 2,400
14	Total Pension cash contributions (Line 6 + Line 13)	\$ 68,835		\$ 32,347
15	Number of years	<u>10</u>		<u>10</u>
16	Pension expense cash contribution, (Line 14 / Line15)	\$ 6,884		\$ 3,235
17	O&M Pension Expense per book			<u>(1,782)</u>
18	Adjustment to Pension Expense (Line 16 - Line 17)			\$ <u>5,017</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 3 to Normalizing Adjustment No. 7
 \$000

Adjustment to Employee Benefit Expense to Reflect Year End Employee Levels and Ongoing Wage Rates

Normalization Adjustment No. 4, Supporting Schedule No. 1, Line 6 increases the O&M payroll expense. Associated with that increase are employee benefits charged to Administrative and General expense. This adjustment computes the added benefit costs on a normalized basis.

Employee benefits applicable to operating expenses:

<u>Line No.</u>	<u>Effective Rate (a)</u>	<u>Payroll Adjustment</u>	<u>Benefit Adjustment</u>
	(1)	(2)	(3) = (1) x (2)
1	Workers compensation	1.054% \$ 59 (b)	\$ 1
2	Pension costs	36.840% \$ 59 (b)	22
3	OPEB costs	0.910% \$ 59 (b)	1
4	Life insurance	0.123% \$ 59 (b)	-
5	Medical insurance	6.053% \$ 59 (b)	4
6	Savings plan	1.761% \$ 59 (b)	1
7	Other (Exhibit RAD-27)	-0.032% \$ 59 (b)	-
8	Total increase due to payroll adjustment		<u>\$ 29</u>

(a) Summary of effective employee benefit rates based on total payroll for the 12 months ended 3/31/14

	<u>Total Amount</u>	<u>Total Payroll</u>	<u>Effective Rate</u>
Workers compensation	\$ 197	\$ 18,685	1.054%
Pension costs - normalized basis	6,884	\$ 18,685	36.840%
OPEB costs - service cost	170	\$ 18,685	0.910%
Life insurance	23	\$ 18,685	0.123%
Medical insurance	1,131	\$ 18,685	6.053%
Savings plan	329	\$ 18,685	1.761%
Other (Exhibit RAD 27)	(6)	\$ 18,685	-0.032%

(b) Adjustment No.4, Supporting Schedule No. 1, Line 9.

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 8
 \$000

Adjustment of Depreciation Expense

To adjust budgeted depreciation expense to reflect average remaining life rates on adjusted rate base, to eliminate non-jurisdictional expense, to adjust cost of removal/ salvage expense to a five year average amount, according to prior Commission practice and to acceleration recovery of legacy meters.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>			
		(1)	(2)	(3)	(4)
1	Depreciation expense per book for the 12 months ended 3/31/14				\$ 12,242
2	Cost of removal/salvage expense per book for the 12 months ended 3/31/14 (Exhibit RAD-30)		\$ 3,275		
3	Depreciation accrual per book (Line 1 - Line 2)		\$ 8,967		
4	Jurisdictional depreciation expense accrual on adjusted rate base at average remaining life rate (Exhibit RAD-53, page 2)		\$ 12,822		
5	Adjustment for average remaining life accrual for jurisdictional plant (Line 4 - Line 3)			\$ 3,855	
6	Cost of removal/salvage expense per book for the 12 months ended 3/31/14 (Exhibit RAD-30)		\$ 3,275		
	Cost of removal and salvage 2009 - 2014 (Exhibit RAD-30)				
7	2010	\$ 2,874			
8	2011	1,689			
9	2012	1,620			
10	2013	3,752			
11	2014	3,275			
12	Total	\$ 13,210			
13	Five year average (Line 12 / 5)	\$ 2,642			
14	Cost of removal/salvage expense at a five year average		\$ 2,642		
15	Adjustment of cost of removal/salvage expense to a five year average (Line 14 - Line 6)			(633)	
16	Adjustment for acceleration of legacy meters (Adj. 8 Sched 1, Line 6)			2,281	
17	Total normalizing adjustment (Lines 5 + 15 + 16)			5,503	
18	Depreciation expense per book for the 12 months ended 3/31/14, as adjusted				\$ 17,745

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No. 1 to Normalizing Adjustment No. 8
 \$000

Adjustment for Amortization of Legacy Meters

To amortize recovery of legacy meters to fully recover all legacy meter costs over five years.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>	
		(1)	(2)
1	Legacy meters per book for the 12 months ended 4/30/2016 (Exhibit RAD-48, Page. 1)	\$ 25,183	
2	Depreciation reserve per book for the 12 months ended 4/30/2016 (Exhibit RAD-48, Page. 3)	<u>14,869</u>	
3	Net legacy meters per book for the 12 months ended 4/30/2016	\$ 10,314	
4	Net cost of removal and salvage	<u>1,093</u>	
5	Net legacy meters	\$ 11,407	
6	Annual amortization over a 5 year amortization period		<u>\$ 2,281</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 9
\$000

Adjustment of Amortization Expense

Not Applicable

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 10
 \$000

Adjustment of Taxes Other Than Income

To adjust gross receipts tax expense to reflect normalized sales revenues, to adjust payroll tax expenses for normalized payroll and employee expenses.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u>		
		(1)	(2)	(3)
1	Taxes Other Than Income per book for the 12 months ended 3/31/14			\$ 12,873
	Gross Receipts Tax			
2	Normalized sales revenues (Exhibit RAD-2, page 1, Col. 3)	\$ 183,723		
3	Gross receipts tax @ 5.9%	10,840		
4	Gross receipts tax included in budget (Exhibit RAD-32, page 1)	<u>11,058</u>		
5	Adjustment for gross receipts tax at normalized revenue level (Line 12 - Line 13)		\$ (218)	
6	Adjustment for payroll taxes on normalized payroll (Supporting Schedule No. 1, Line 8)		<u>4</u>	
7	Total normalizing adjustment (Lines 5+6)			<u>(214)</u>
8	Taxes other than income per book for the 12 months ended 3/31/14, as adjusted			<u>\$ 12,659</u>

PENNSYLVANIA POWER COMPANY
 Supporting Schedule No.1 to Normalizing Adjustment No. 10
 \$000

Adjustment to Taxes Other Than Income to reflect changes in payroll taxes.

Normalization adjustments have been made to normalize O&M payroll expense. Associated with those payroll normalizations are changes in FICA tax amounts.

<u>Line No.</u>	<u>Description</u>	<u>Amount</u> (1)
1	Total payroll per book for the 12 months ended 3/31/2014 (Normalization Adjustment No. 4, Schedule 1, Line 1, Col 3)	\$ 18,685
2	Total payroll tax included in books	<u>1,373</u>
3	Effective payroll tax rate (Line 2 / Line 1)	<u>7.348%</u>
4	Total payroll as adjusted, Normalization Adjustment No. 4 (Normalization Adjustment No. 4, Schedule 1, Line 5, Col. 2)	<u>\$ 18,861</u>
5	Payroll tax on normalized payroll (Line 3 X Line 4)	\$ 1,386
6	Total Company payroll tax adjustment (Line 5 - Line 2)	\$ 13
7	O&M Allocation percentage	33.26%
8	Adjustment for payroll tax (Line 6 x Line 7)	<u>\$ 4</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 11
 \$000

Computation of Federal & State Income Taxes - Normalized (Col 3 of Income Statement)

Line No.	Description	Total Company Calculated Taxes (1)	Distribution Calculated Taxes (2)	PTC Calculated Taxes (3)	Universal Service Calculated Taxes (4)	Energy Efficiency Calculated Taxes (5)	Smart Meter Rider Calculated Taxes (6)	DSS Calculated Taxes (7)	Solar Calculated Taxes (8)	CEC Calculated Taxes (6)	NUG Charge Calculated Taxes (9)	Storm Rider Calculated Taxes (10)
1	Total operating revenue	\$ 187,898	\$ 75,748	\$ 95,691	\$ 5,839	\$ 4,614	\$ 2,195	\$ 3,023	\$ 671	\$ 117	\$ -	\$ -
2	Less: Total O&M Expense	134,515	20,916	92,810	6,964	6,340	2,346	4,616	503	20	\$ -	\$ -
3	Depreciation - accrual	15,103	15,069	-	-	-	34	-	-	-	-	-
4	Average net salvage	2,642	2,642	-	-	-	-	-	-	-	-	-
5	Amortization	(6,161)	(0)	(1,265)	(1,207)	(1,957)	(225)	(1,762)	165	92	-	-
6	Taxes other than income taxes	12,659	7,708	4,185	275	231	94	131	30	5	-	-
7	Total deductions	\$ 158,759	\$ 46,336	\$ 95,730	\$ 6,032	\$ 4,614	\$ 2,249	\$ 2,985	\$ 698	\$ 117	\$ -	\$ -
8	Net operating income before income taxes	\$ 29,139	\$ 29,413	\$ (39)	\$ (193)	\$ 0	\$ (54)	\$ 39	\$ (27)	\$ 0	\$ -	\$ -
9	Less: Interest Charges (A)	9,312	9,305	-	-	-	7	-	-	-	-	-
10	Net income before income taxes	\$ 19,827	\$ 20,107	\$ (39)	\$ (193)	\$ 0	\$ (61)	\$ 39	\$ (27)	\$ 0	\$ -	\$ -
Adjustments to taxable income:												
11	Book Average net salvage	\$ 2,642	\$ 2,642	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12	Adj. of book depreciation to tax basis (B)	3,085	3,701	-	-	-	(615)	-	-	-	-	-
13	Tax cost of removal/salvage	(3,978)	(3,978)	-	-	-	-	-	-	-	-	-
14	Adjust cash pension	5,017	5,017	-	-	-	-	-	-	-	-	-
15	Net adjustment	6,766	7,381	-	-	-	(615)	-	-	-	-	-
16	Income subject to state income tax	26,593	27,489	(39)	(193)	0	(676)	39	(27)	0	-	-
17	State income tax @ 9.99%	\$ 2,657	\$ 2,746	\$ (4)	\$ (19)	\$ 0	\$ (68)	\$ 4	\$ (3)	\$ 0	\$ -	\$ -
18	Taxes as budgeted	2,075	2,075	-	-	-	-	-	-	-	-	-
19	Adjustment to state income tax	\$ 582	\$ 671	\$ (4)	\$ (19)	\$ 0	\$ (68)	\$ 4	\$ (3)	\$ 0	\$ -	\$ -
20	Income subject to federal income tax	\$ 23,936	\$ 24,743	\$ (35)	\$ (174)	\$ 0	\$ (609)	\$ 35	\$ (24)	\$ 0	\$ -	\$ -
21	Federal income tax @ 35%	\$ 8,378	\$ 8,660	\$ (12)	\$ (61)	\$ 0	\$ (213)	\$ 12	\$ (8)	\$ 0	\$ -	\$ -
22	Taxes as budgeted	5,834	5,834	-	-	-	-	-	-	-	-	-
23	Adjustment to federal income tax	\$ 2,544	\$ 2,826	\$ (12)	\$ (61)	\$ 0	\$ (213)	\$ 12	\$ (8)	\$ 0	\$ -	\$ -
<hr/>												
(A)	Computation of Interest charges											
	Total rate base	\$ 304,950	\$ 304,715		\$ -	\$ -	\$ 235	\$ -	\$ -	\$ -	\$ -	\$ -
	Debt ratio	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%	49.93%
	Cost of debt	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%	6.12%
	Interest expense	\$ 9,312	\$ 9,305	\$ -	\$ -	\$ -	\$ 7	\$ -	\$ -	\$ -	\$ -	\$ -
(B)	Adjustment of book depreciation to tax basis:											
	Tax depreciation	12,018	11,369	-	-	-	649	-	-	-	-	-
	Book depreciation	15,103	15,069	-	-	-	34	-	-	-	-	-
	Depreciation adjustment	(3,085)	(3,701)	-	-	-	615	-	-	-	-	-

PENNSYLVANIA POWER COMPANY
Supporting Schedule No. 1 to Normalization Adjustment No. 11
\$000

To split the tax depreciation into cost of removal, smart meter and distribution components.

<u>Line No.</u>	<u>Description</u>	<u>Total Exhibit RAD-33 (1)</u>
1	Tax depreciation expense per book	\$ 15,996
2	Cost of removal salvage in tax depreciation	<u>3,978</u>
3	Net Tax depreciation (Line 1 - Line 2)	12,018
4	Smart Meter tax depreciation	<u>649</u>
5	Distribution tax depreciation (Lines 2-3)	<u>\$ 11,369</u>

PENNSYLVANIA POWER COMPANY
 Normalization Adjustment No. 12
 \$000

Adjustment of Provision for Deferred Income Taxes

This adjustment to the Provision for Deferred Income Taxes reflects (1) the adjustment of Federal deferrals to reflect year-end plant and (2) miscellaneous federal deferred taxes not associated with liberalized depreciation. All state deferred taxes associated with liberalized depreciation have been eliminated.

<u>Line No.</u>	<u>Description</u>	<u>Provision for Deferred Taxes - Net</u>	
		<u>Federal</u>	<u>State</u>
		(1)	(2)
1	Deferred taxes per book, 12 months ended 3/31/2014	\$ 10,010	\$ -
2	Deferred taxes - liberalized depreciation, (Exhibit RAD-41, page 17).	<u>3,853</u>	<u>-</u>
3	Adjustment to deferred tax expense (Line 2 - Line 1)	\$ (6,157)	-
4	Deferred tax expense per book for the 12 months ended 3/31/14, as adjusted	<u>\$ 3,853</u>	<u>\$ -</u>

PENNSYLVANIA POWER COMPANY
Normalization Adjustment No. 13
\$000

Adjustment of Investment Tax Credit

Not Applicable

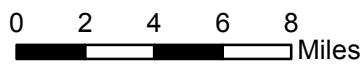
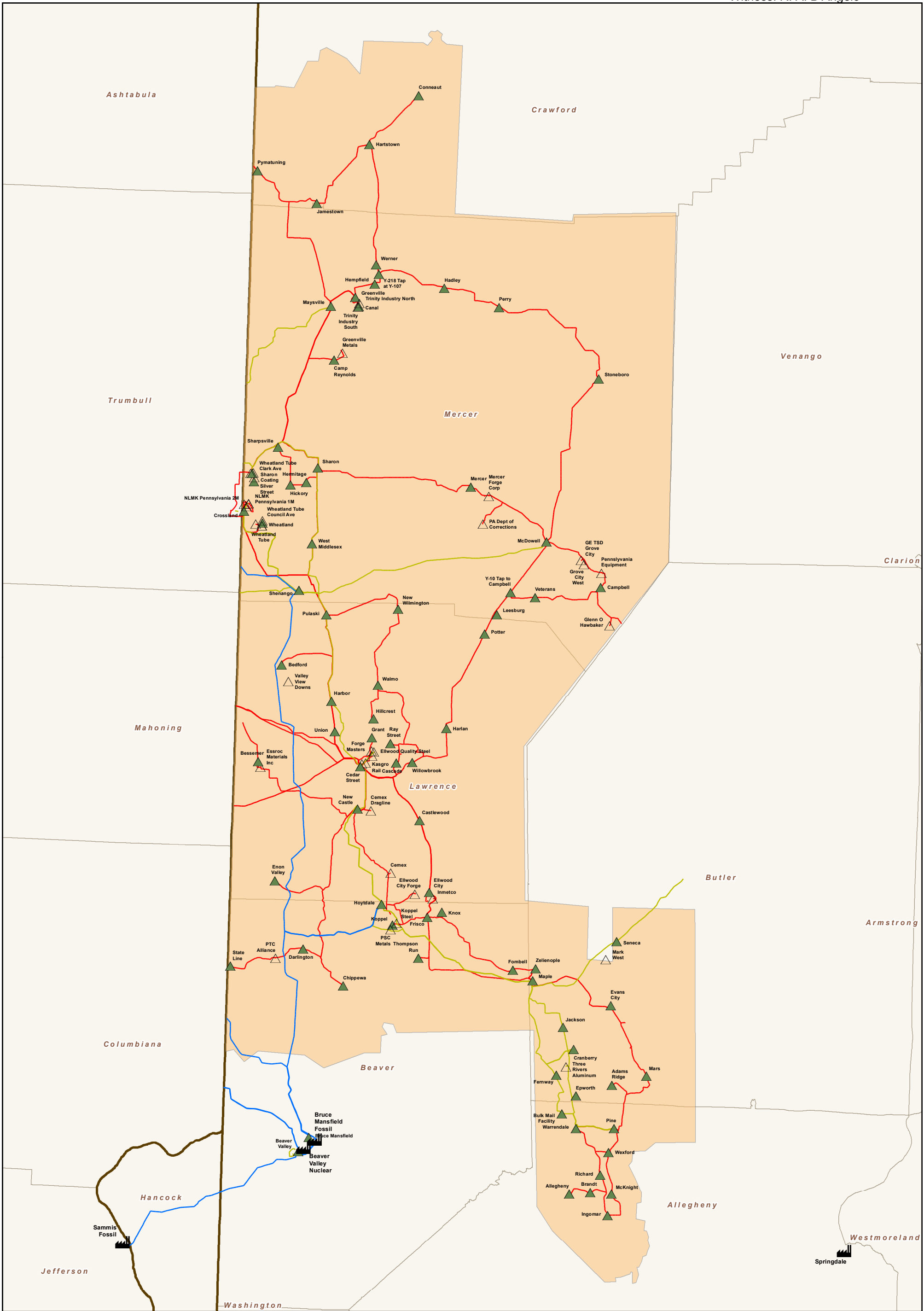
PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT I-B-3:

“Provide an overall system map, including and labeling all generating plants, transmission substations—indicate voltage, transmission system lines—indicate voltage, and all interconnection points with other electric utilities, power pools, and other like systems.”

RESPONSE:

See Penn Power Exhibit RAD-7 Attachment A.



- Generation
- FE Owned Substation
- Customer Owned Substation
- Penn Power
- 69 kV
- 138 kV
- 345 kV

Penn Power Transmission System



Contains Privileged and Confidential Information and/or Critical Infrastructure Information
 Do Not Release Pursuant to 18 C.F.R. § 388.12

Created on 5/2/2014

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-A-1:

“Provide a schedule showing the test year rate base and rates of return at original cost less accrued depreciation under present rates and under proposed rates. Claims made on this schedule should be cross-referenced to appropriate supporting schedules.”

RESPONSE:

See Penn Power Exhibit RAD-1 for the fully projected future test year.

See Penn Power Exhibit RAD-3 for the future test year.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-A-2:

“If the schedule provided in response to item 1, is based upon a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.”

RESPONSE:

See Penn Power Exhibit RAD-5 for the historical test year.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-A-3:

“When a utility files a tariff stating a new rate based in whole or in part on the cost of construction, as defined in 66 Pa.C.S. § 1308(f) (relating to voluntary changes in rates), of an electric generating unit, the utility shall identify:

- (a) The total cost of the generating unit
- (b) The following costs:
 - (1) The cost and quantity of each category of major equipment, such as switchgear, pumps or diesel generators and the like.
 - (2) The cost and quantity of each category of bulk materials, such as concrete, cable and structural steel and the like. .
 - (3) Manual labor. .
 - (4) Direct and indirect costs of architect/engineering services. .
 - (5) Direct and indirect costs of subcontracts or other contracts involving major components or systems such as turbines, generators, nuclear steam supply systems, major structures and the like.
 - (6) Distributed costs.
- (c) A cost increase of \$5 million or more, including AFUDC, over the original utility estimates provided under 66 Pa.C.S. § 515(a) (relating to construction cost of electric generating units) and its causes.
- (d) Compliance with subsections (a) and (b) will be identical in format and substance as that provided under 52 Pa. Code § 57.103 (relating to estimate of construction costs) for original cost estimates submitted under 66 Pa.C.S. § 515(a).”

RESPONSE:

Not applicable.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-B-1:

“If a claim is made for plant held for future use, supply the following:

- a. A description of the plant or land site and its cost and any accumulated depreciation.
- b. The expected date of use for each item claimed.
- c. An explanation as to why it is necessary to acquire each item in advance of its date of use.
- d. The data when each item was acquired.
- e. The date when each item was placed in plant held for future use.”

RESPONSE:

No rate base claim is being made in this proceeding for plant held for future use.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-B-2:

“If a claim is made for construction work in progress, provide a supporting schedule which sets forth separately, revenue-producing and nonrevenue producing amounts, and include, for each category a summary of all work orders, amounts expended at the end of the test year and anticipated in service dates. Indicate if the construction work in progress will result in insurance recoveries, reimbursements, or retirements of existing facilities. Describe in exact detail the necessity of each project claimed if not detailed on the summary page from the work order. Include final completion dates and estimated total amounts to be spent on each project.”

RESPONSE:

Penn Power is not making any rate base claim for construction work in progress.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-B-3:

“If a claim is made for materials and supplies or fuel inventory provide a supporting schedule for each claim showing the latest actual 13 monthly balances and showing in the case of fuel inventory claims, the type of fuel, and location, as in station, and the quantity and price claimed.”

RESPONSE:

PENNSYLVANIA POWER COMPANY

13 Month Book Balance of Materials and Supplies

Line No.	Month	Amount
		<i>(in thousands)</i>
1	April 1, 2013	\$ 3,165,952
2	April 30, 2013	3,051,759
3	May 31, 2013	3,103,185
4	June 30, 2013	3,573,065
5	July 31, 2013	3,331,379
6	August 31, 2013	3,206,178
7	September 30, 2013	3,169,591
8	October 31, 2013	3,093,770
9	November 30, 2013	3,053,579
10	December 31, 2013	3,215,590
11	January 31, 2014	3,220,190
12	February 28, 2014	3,225,370
13	March 31, 2014	3,192,566
14	13 Period Average	\$ 3,200,167

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-B-4:

“If a claim is made for cash working capital provide a supporting schedule setting forth the method and all detailed data utilized to determine the cash working capital requirement. If not provided in the support data provide a lead-lag study of working capital, completed no more than 6 months prior to the rate increase filing.”

RESPONSE:

See the Direct Testimony of Patricia Larkin, Met-Ed/Penelec/Penn Power/West Penn Statement No. 6.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-B-6:

“Explain in detail by statement or exhibit the appropriateness of additional claims or the use of a method not previously mentioned, in the claimed rate base.”

RESPONSE:

The supporting schedules included in Penn Power Exhibit RAD-1 explain the appropriateness of various items claimed in the rate base. Items not explained in supporting schedules to Penn Power Exhibit RAD-1, or not mentioned in other responses to filing requirements are explained below:

1. Customer Deposits

Customer deposits are deducted from the rate base as they represent a source of non-investor supplied capital. Appropriate interest on such deposits has been included as a normalizing adjustment to the income statement.

2. Customer Advances for Construction

In accordance with the practice followed in prior rate filings and accepted by Commission Orders, the Company reduces rate base by the amount of customer advances for construction at the end of the test year.

3. Operating Reserves

The Company has adopted a partial self-insurance concept for general and automotive liability insurance, property insurance and a long-term disability plan. The Company has also established an operating reserve for the purpose of providing a pension fund in addition to the normal funded plan. These operating reserves, net of applicable deferred taxes, reduce the Company's total rate base claim.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-C-1:

“Prepare a Statement of Income including:

- (a) The book, or budgeted, statement for the test year.
- (b) Adjustments to annualize and normalize under present rates, including an elimination of the effects on income of the energy cost rate and state tax adjustment surcharge.
- (c) The income statement under present rates after adjustment.
- (d) The adjustment for the revenue requested.
- (e) The income statement under requested rates after adjustment.
- (f) Each adjustment, including those relating to adjustment clauses, shall contain an explanation in sufficient clarifying detail to allow a reasonably informed person to understand the method and rationale of the adjustment.”

RESPONSE:

Fully Projected Future Test Year

See Penn Power Exhibit RAD-2. Regarding part (b) pertaining to the annualization and normalization of revenues including applicable surcharges and tariff riders, these adjustments are supported in the Direct Testimony of Penn Power Witness Kevin M. Siedt, Penn Power Statement No. 4 and Penn Power Exhibit KMS-1 Attachment A which accompanies his Direct Testimony.

Future Test Year

See Penn Power Exhibit RAD-4. Regarding part (b) pertaining to the annualization and normalization of revenues including applicable surcharges and tariff riders, these adjustments are supported in the Direct Testimony of Penn Power Witness Kevin M. Siedt, Penn Power Statement No. 4 and Penn Power Exhibit KMS-1, Attachment B which accompanies his Direct Testimony.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-C-2:

“If the schedule provided in Filing Requirement II-C-1 is based upon budgeted data for a future test year, provide a similar schedule which is based upon actual data for the 12-month period immediately prior to the test year.”

FILING REQUIREMENT II-C-1:

“Prepare a Statement of Income including:

- (a) The book, or budgeted, statement for the test year.
- (b) Adjustments to annualize and normalize under present rates, including an elimination of the effects on income of the energy cost rate and state tax adjustment surcharge.
- (c) The income statement under present rates after adjustment.
- (d) The adjustment for the revenue requested.
- (e) The income statement under requested rates after adjustment.
- (f) Each adjustment, including those relating to adjustment clauses, shall contain an explanation in sufficient clarifying detail to allow a reasonably informed person to understand the method and rationale of the adjustment.”

RESPONSE:

See Penn Power Exhibit RAD-6. Regarding part (b) pertaining to the annualization and normalization of revenues including applicable surcharges and tariff riders, these adjustments are supported in the Direct Testimony of Penn Power Witness Kevin M. Siedt, Penn Power Statement No. 4 and Penn Power Exhibit KMS-1, Attachment C which accompanies his Direct Testimony.

Pennsylvania Power Company
Comparative Income Statements

FERC Account	Twelve Months Ending		Increase/ (Decrease)	
	April 30, 2016	March 31, 2015		
Operating Revenues				
Electric Service Revenues				
440	Residential sales	\$ 126,172	\$ 127,005	\$ (834)
442	Commercial sales	44,587	47,793	(3,206)
442	Industrial sales	6,095	5,658	437
444	Public street and highway lighting	1,249	1,194	55
445	Other sales to public authorities	-	-	-
447	Sale for resale	-	1	(1)
	Total electric service revenues	\$ 178,103	\$ 181,652	\$ (3,549)
Other Electric Revenue				
450	Forfeited discounts	\$ 1,291	\$ 1,291	\$ -
451	Miscellaneous service revenues	194	194	-
454	Rent from electric property	122	122	-
456	Other electric revenues	1,411	1,414	(3)
	Total other electric revenues	\$ 3,018	\$ 3,021	\$ (3)
	Total operating revenues	\$ 181,121	\$ 184,673	\$ (3,552)
Operating Expenses				
401-2	Operation and maintenance expense			
	Power production expenses	\$ 75,522	\$ 85,756	\$ (10,235)
	Transmission expenses	5,974	6,382	(408)
	Regional market expenses	22	25	(4)
	Distribution expenses	14,242	10,074	4,169
	Customer accounts expense	4,823	5,586	(764)
	Customer service & information expense	11,585	13,263	(1,678)
	Sales expenses	7	6	0
	Administrative & general expenses	11,385	11,537	(153)
	Subtotal	\$ 123,558	\$ 132,630	\$ (9,072)
403	Depreciation expense	\$ 14,523	\$ 12,849	\$ 1,674
404-5	Amortization and depletion of utility plant	841	330	511
406	Amortization and utility plant acq. adjustment	-	-	-
407	Amortization of property losses	-	-	-
407.3	Regulatory debits	(2,715)	(3,449)	733
407.4	Regulatory credits	583	(7,006)	7,590
408.1	Taxes other than income taxes	12,216	12,448	(232)
411.1	Accretion expense	18	4	13
411.8	Gains from disposition allowance	-	-	-
	Total operating expenses before federal and state income taxes	\$ 149,023	\$ 147,806	\$ 1,218
	Net operating income before income taxes	\$ 32,097	\$ 36,868	\$ (4,770)
Income taxes				
409.1	Income taxes-federal	\$ 7,956	\$ 4,874	\$ 3,082
409.1	Income taxes-state	-	-	-
410.1	Provision for deferred income taxes	1,457	6,624	(5,167)
411.1	Income taxes deferred in prior years-cr.	-	-	-
411.4	Investment tax credit adjustments-net	-	-	-
	Total income taxes	\$ 9,413	\$ 11,498	\$ (2,085)
	Net operating income	\$ 22,685	\$ 25,370	\$ (2,685)

**Pennsylvania Power Company
Comparative Income Statements**

FERC Account	Twelve Months Ending		Increase/ (Decrease)	
	April 30, 2016	March 31, 2015		
Other income				
415-16	Revenues from merchandising, jobbing and contract work	\$ 401	\$ 634	\$ (233)
417	Revenues from non-utility operations	-	-	-
417.1	Expenses from non-utility operations	-	-	-
418	Nonoperating rental income	(2)	(2)	-
418.1	Equity in earnings of subsidiary companies	-	-	-
419	Interest and dividend income	-	-	-
419.1	Allowance for funds used during construction	-	-	-
421	Miscellaneous non-operating income	397	397	0
421.1	Gain on disposition of property	-	-	-
	Total other income	<u>\$ 796</u>	<u>\$ 1,029</u>	<u>\$ (232)</u>
	Gross income	<u>\$ 23,481</u>	<u>\$ 26,398</u>	<u>\$ (2,917)</u>
Other Income Deductions				
421.2	Loss on disposition of property	\$ -	\$ -	\$ -
425	Miscellaneous amortization	-	-	-
426	Other income deductions	(40)	(40)	(0)
	Total other income deductions	<u>\$ (40)</u>	<u>\$ (40)</u>	<u>\$ (0)</u>
Taxes Applicable to Other Income and Deductions				
408.2	Taxes other than income taxes	\$ -	\$ -	\$ -
409.2	Income taxes - federal	-	-	-
409.2	Income taxes - state	-	-	-
410.2	Provision for deferred income taxes	-	-	-
411.2	Provision for deferred income taxes-cr.	-	-	-
	Total taxes on other income and deductions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Charges				
427	Interest on long term debt	\$ 6,535	\$ 6,637	\$ (102)
428	Amortization of debt discount and expense	112	112	-
428.1	Amortization of loss on reacquired debt	432	432	-
429	Amortization of premium on debt credit	-	-	-
429.1	Amortization of gain on reacquired debt	(20)	(20)	-
430	Interest on debt to associated companies	996	760	237
431	Other interest expense	825	377	448
432	Allowance for borrowed funds used during construction - credit	(113)	(55)	(59)
	Total interest charges	<u>\$ 8,768</u>	<u>\$ 8,243</u>	<u>\$ 525</u>
	Income before extraordinary items	<u>\$ 14,753</u>	<u>\$ 18,195</u>	<u>\$ (3,442)</u>
Extraordinary Items & Related Taxes				
434	Extraordinary income	\$ -	\$ -	\$ -
435	Extraordinary deductions	-	-	-
409.3	Income taxes - Federal & other	-	-	-
	Extraordinary items after taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Net income	<u>\$ 14,753</u>	<u>\$ 18,195</u>	<u>\$ (3,442)</u>

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-1

“Provide a schedule showing all revenues and expenses for the test year and for the 12-month period immediately prior to the test year, together with an explanation for major variances between test year revenues and expenses and those for the previous 12-month period. Revenues and expenses shall be summarized by the major account categories listed below. If budgeted data for a future test year is not readily available by these categories, an analysis of the data for the 12-month period immediately prior to the future test year or for the most recent available calendar year may serve as the basis for ratably allocating the budgeted data into the account categories as follows:

OPERATING REVENUES

	Electric Revenues:
	Residential Sales
	Commercial Sales
400	Industrial Sales
	Public Street & Highway
	Lighting Sales
	Sales for Resale
	Total Other Electric Revenues
	Other Electric Revenues:
	Late Payment Charges
	Miscellaneous Service Revenues
	Rent from Electric Property
	Other Electric Revenues
	Total Other Electric Revenues
	Total Operating Revenues

OPERATING EXPENSES

	Operation and Maintenance Expenses
	Power Production Expenses:
	Fuel
401-2	Net Interchange
	Deferred Energy Costs
	Other
	Transmission Expenses
	Distribution Expenses
	Customer Service & Informational Expense
	Sales Expenses

Administrative and General Expenses
Total Operation & Maintenance Expenses

403 Depreciation Expenses
Amortization of Net Salvage
Nuclear Decommissioning Expense
407 Amortization of Property Losses
Taxes Other Than Income Taxes
408 Total Operating Expenses Prior To
Federal & State Income Taxes

OPERATING EXPENSES

Operating Income Prior To Federal and State Income Taxes

FEDERAL AND STATE INCOME TAXES

409 Federal Income Taxes
State Income Taxes
409 Deferred Federal Income Taxes
Deferred State Income Taxes
Investment Tax Credit Adjustments
411 Deferrals
Amortization—Credit
Other Income Tax Credits & Charges
Total Federal and State Income Taxes
Operating Income After Federal and State Income Taxes

OTHER INCOME AND DEDUCTIONS

OTHER INCOME

415-18 Non-utility Operating Income
419 Interest and Dividend Income
419 Allowance for Other Funds Used During Construction
421 Gain on Disposition of Property
Other Miscellaneous Non-operating Income
421 Total Other Income

OTHER INCOME DEDUCTIONS

421 Loss on Disposition of Property
425 Miscellaneous Amortization
Miscellaneous
426 Total Other Income Deductions

TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS

408 Taxes Other Than Income Taxes
409 Federal Income Tax

409 State Income Tax
Total Taxes Applicable to Other Income and Deductions
Income Before Interest Charges

INTEREST CHARGES

427 Interest on Long-Term Debt
428 Amortization of Debt Discount and Expense
429 Amortization of Premium on Debt
431 Other Interest Expense
432 Allowance for Borrowed Funds Used During Construction—Credit
Net Interest Charges
Income Before Extraordinary Items
Extraordinary Items After Taxes
Net Income “

RESPONSE:

See Penn Power Exhibit RAD-18, Attachment A, for the requested comparative operating statements. Set forth below are explanations of the causes of major variances.

OPERATING REVENUES

Commercial Sales (Variation (\$3,206))

Variance is primarily due to a decrease in hourly pricing default service revenues of \$3.5 million offset by an increase in revenue for Smart Meter Technologies of \$0.4 million.

OPERATING EXPENSES

Operation and Maintenance expense Account 401-2 (Variance (\$9,031))

This variance is primarily due to decreases of \$10.2 million in purchase power, \$1.7 million in customer assistance expenses, and \$1.5 million in outside service employed offset partly by increases of \$2.8 million in maintenance of overhead distribution lines.

Account 403 Depreciation expense (Variance \$1,674)

This variance is due primarily to a \$1.7 million increase in depreciation on assets.

Account 407.4 Regulatory credits (Variance \$7,590)

This variance is primarily due to a \$2.5 million decrease in the Universal Service deferral, a \$2.8 million decrease in the Energy Efficiency deferral, and a \$2.3 million decrease in the Price-To-Compare deferral.

Pennsylvania Power Company

Line No.	Adj. No.	Support Schedule No.	Description	Operating Revenues (1)	Operating Expenses (2)	Taxes Other Than Income Taxes (3)	Operating Income Before Income Taxes (4)	State Income Tax (5)	Federal Income Tax (6)	Income Available for Return (7)=(4)-(5)-(6)
1			As budgeted (Exhibit RAD-2, Page 1, col. 1)	\$ 181,121	\$ 136,809	\$ 12,216	\$ 32,096	\$ -	\$ 9,413	\$ 22,683
Normalizations and Adjustments										
Revenues										
2	1		Base Operating Revenues	483			483	48	152	283
3	2		State Tax Surcharge Revenues	-			-	-	-	-
4			<u>Other Operating Revenues</u>	-			-	-	-	-
5	3		Eliminate non-jurisdictional transmission revenues	-			-	-	-	-
Operating Expenses										
Distribution										
6	4	1	Distribution payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		12		(12)	(1)	(4)	(7)
7	4	1	Service company distribution payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		17		(17)	(2)	(5)	(10)
8	4		Amortization of gain or loss on reacquired debt		412		(412)	(41)	(130)	(241)
Customer Accounts										
9	5		Customer account payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		5		(5)	(0)	(2)	(3)
10	5		Service company customer account payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		27		(27)	(3)	(9)	(16)
10	5	1	Increased O&M costs associated with increased number of customers in normalized revenue levels		2		(2)	(0)	(1)	(1)
11	5	2	Interest on customer deposits		240		(240)	(24)	(76)	(140)
Customer Service										
13	6		Customer service payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		2		(2)	(0)	(1)	(1)
Administrative & General Expenses										
14	7		A&G payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		14		(14)	(1)	(4)	(8)
15	7		Service company A&G payroll adjustment to reflect year end employee levels and ongoing wage and salary rates		43		(43)	(4)	(14)	(25)
16	7		Adjust OPEB expense to service cost level		778		(778)	(78)	(245)	(455)
17	7		Adjust Pension Expense to ten year cash level		3,624		(3,624)	(362)	(1,142)	(2,120)
18	7	3	Adjust employee benefit costs		20		(20)	(2)	(6)	(12)
19	7		Rate Case expenses normalized over 2 years		(678)		678	68	214	397
20	7		Increase in O&M costs for accelerated (3 day) switching for customers moving to a new supplier		90		(90)	(9)	(28)	(53)
21	7		Less legacy meters from budget		-		-	-	-	-
Depreciation Expense										
22	8		Adjustment for average remaining life accrual for jurisdictional plant		(234)		234	23	74	137
23	8		Adjustment of cost of removal/salvage expenses to a jurisdictional five year average		2,642		(2,642)	(264)	(832)	(1,546)
24	8	1	Adjustment for acceleration of legacy meters		2,159		(2,159)	(216)	(680)	(1,263)
Amortization										
25	9		Remove amortization of rate case expenses from budget		750		(750)	(75)	(236)	(439)
26	9		Remove accrecion expense		(18)		18	2	6	11
Taxes Other than Income										
27	10		Adjustment for gross receipts tax at normalized revenue level			32	(32)	(3)	(10)	(19)
28	10	1	Adjustment for payroll taxes on normalized payroll			3	(3)	(0)	(1)	(2)
Income Taxes										
29	11		Current federal & state income taxes				-	2,616	294	(2,910)
30	12		Deferred federal & state income taxes				-	-	355	(355)
31			Total adjustments (Exhibit RAD-2, Page 1, col. 2)	\$ 483	\$ 9,907	\$ 35	\$ (9,459)	\$ 1,671	\$ (2,331)	\$ (8,799)

Line No.	Adj. No.	Support Schedule No.	Description	Operating Revenues (1)	Operating Expenses (2)	Taxes Other Than Income Taxes (3)	Operating Income Before Income Taxes (4)	State Income Tax (5)	Federal Income Tax (6)	Income Available for Return (7)=(4)-(5)-(6)
32			Budget as Adjusted (Exhibit RAD-2, Page 1, col. 3)	\$ 181,604	\$ 146,716	\$ 12,251	\$ 22,637	\$ 1,671	\$ 7,082	\$ 13,884
33			Adjustments to achieve required return - Total PaPUC	31,091	-	1,834	29,257	2,923	9,217	17,117

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-2:

“Provide a summary of test year adjustments which sets forth the effect of the adjustment upon the following: operating revenues, operating expenses, taxes other than income taxes, operating income before income taxes, State income tax, Federal income tax and income available for return. In addition, test year adjustments shall be presented on the basis of the major account categories set out at II-D-1.”

RESPONSE:

See Penn Power Exhibit RAD-19, Attachment A.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-3:

“List and explain all nonrecurring or extraordinary expenses incurred in the test year and all expenses included in the test year which do not occur yearly but are of a nature that they do occur over an extended period of years, for example, non-yearly maintenance programs, and the like.”

RESPONSE:

The test year ending 4/30/16 does not include any non-recurring or extraordinary expenses.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-4:

“As a separate item, list extraordinary property losses related to property previously included in cost of service when the gain or loss on this property has occurred or is likely to occur in the future test year. The proposed ratemaking treatment of extraordinary gains and losses must also be disclosed. Sufficient supporting data must be provided.”

RESPONSE:

There are no extraordinary property losses.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-5:

“Provide the amount of accumulated reserve for uncollectible accounts, method and rate of accrual, amounts accrued and amounts written off in each of the last 3 calendar years.”

RESPONSE:

The future estimate of uncollectible accounts is based on a historically determined average of net write-offs to sales for each utility company. For the Uncollectible Customer Reserve, the regulated utility companies at FirstEnergy determine a 3-year rolling average of net write-offs to sales (36 months of net write-offs/ 36 months of sales). This percentage is then multiplied by the latest 6 months of sales to arrive at a reserve.

Beginning in 2013, the Uncollectible Customer Reserve includes a reserve for the Purchase of Receivables program (POR). This is determined by using a percentage of Non- POR Uncollectible Customer Reserve to Non- POR Customer Receivable Arrears (Uncollectible Customer Receivable Reserve/Non-Current Customer Receivable Arrears). This percentage is then multiplied by the POR Non-Current Customer Receivable Arrears to arrive at a reserve.

The Utility may record additional uncollectible customer reserve amounts as deemed necessary to fairly value Accounts Receivable.

The accruals, net write-offs and balance in FERC Account No. 144.1 Accumulated Reserve for Uncollectible Accounts for the last three calendar years are as follows:

Line No.	Description	Amount
1	Balance, January 1, 2011	\$ (1,022,175)
2	Accruals	\$ (2,568,789)
3	Write-offs (Net)	<u>\$ 2,642,524</u>
4	Balance, December 31, 2011	\$ (948,440)
5	Accruals	\$ (1,696,032)
6	Write-offs (Net)	<u>\$ 1,913,079</u>
7	Balance, December 31, 2012	\$ (731,393)
8	Accruals	\$ (1,692,917)
9	Write-offs (Net)	<u>\$ 1,230,688</u>
10	Balance, December 31, 2013	<u>\$ (1,193,622)</u>

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-6:

“Supply detailed calculations to support the total claim for rate case expense, including supporting data for outside service rendered. Provide the items comprising the estimated rate case expense claim for the current rate case.”

RESPONSE:

The claim in the current rate case proceeding for rate case expenses, shown on Penn Power Exhibit RAD-2 page 18, is based on the following total estimated expenses proposed to be amortized for ratemaking purposes over three years:

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>(\$000)</u> <u>Amount</u>
1.	Legal Fees	\$ 80
2.	Expert Witnesses	10
3.	Other	<u>54</u>
4.	Total Current Filing	<u>\$ 144</u>

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-7:

“Submit schedules for the test year and for the 12-month period immediately prior to the test year showing by major components, if included in claimed test year expenses, the expenses incurred in each of the following expense categories:

- (a) Miscellaneous general expenses, including account 930.
- (b) Outside service expenses.
- (c) Regulatory commission expenses.
- (d) Advertising expenses, including advertising engaged in by trade associations whenever the utility has claimed a contribution to the trade association as a ratemaking claim - provide explanation of types and purposes of such advertising.
- (e) Research and development expenses – provide a listing of major projects.
- (f) Charitable and civic contributions, by recipient and amount.
- (g) Explain major variances between the test year expenses and those expenses for the prior 12-month period.”

RESPONSE:

- (a) – (d) See Page 2 of 3
- (e) – (f) See Page 3 of 3

Line No.	Description	12 Months Ending		
		April 30 2016	March 31 2015	March 31 2014
<i>(in thousands)</i>				
<u>Acct 913 - Advertising & 930 - Miscellaneous General Expense</u>				
Institutional or Goodwill Advertising Expenses (913 & 930.1)				
1	Goodwill Advertising	\$ 8	\$ 7	\$ 5
2	Print Advertising			73
3	Total Institutional or Goodwill Advertising	<u>\$ 8</u>	<u>\$ 7</u>	<u>\$ 78</u>
Misc. General Expenses (930.2)				
3	Bank Fees	\$ 54	\$ 54	\$ 48
4	Misc Regulatory Expenses	42	56	55
5	Corporate Dues - Civic	37	37	9
6	Financing Admin Fees	30	30	20
7	Corporate Dues - Trade	26	26	28
8	Association Fees and Dues	2	2	-
	FENOC - Benefits	-	-	3
	Licenses, Permits & Regulation	-	-	1
	FENOC - Tax	-	-	1
	Other Miscellaneous Expenses	-	-	37
9	Total Miscellaneous General Expenses	<u>\$ 191</u>	<u>\$ 205</u>	<u>\$ 203</u>
10	Accounts 913 & 930	<u>\$ 199</u>	<u>\$ 212</u>	<u>\$ 281</u>

Account 923 - Outside Services Employed

1	Outside Contractors	\$ 5,380	\$ 6,966	\$ 4,847 (A)
2	FE Service Co. Assessments	4,548	4,495	3,707
3	FENOC	6	6	29
4	MetEd, Penelec & West Penn	1	1	2
5	Ohio Edison Company	-	-	-
6	Monangahela Power	-	-	1
7	Total Account 923	<u>\$ 9,935</u>	<u>\$ 11,468</u>	<u>\$ 8,586</u>

(A) The variance in Outside Contractors expense is due primarily to fluctuations in Smart Meter and Energy Efficiency programs.

Account 928 - Regulatory Commission Expenses

1	Regulatory Commission Expense	\$ 583	\$ 572	\$ 571
2	Total Account 928	<u>\$ 583</u>	<u>\$ 572</u>	<u>\$ 571</u>

Line No.	Description of Project	12 Months Ending		
		April 30 2016	March 31 2015	March 31 2014
		<i>(in thousands)</i>		
1	<u>Research and Development Expenditures</u>	\$ 36	\$ 35	\$ 39 (B)

(B) For the year ended March 31, 2014, R&D expenses represents actual amounts included in the income statement. Future amounts are projected expenditures which will settle to either capital or expense depending on the nature of the project.

Acct. 426.1 -- Donations

Organizations

1	Property Donations	\$ 36	\$ 36	\$ 36
2	Civic Donations	7	7	10
4	Total charitable and civic contributions	<u>\$ 43</u>	<u>\$ 43</u>	<u>\$ 46</u>

Service Company Agreement-Utility [Execution Copy]

SERVICE AGREEMENT

This Service Agreement ("Agreement") is entered into as of the 25th day of February, 2011, by and between each of the associate companies listed on the signature page hereto (each a "Client Company"), and FirstEnergy Service Company, an Ohio corporation ("Service Company").

WHEREAS, Service Company is a direct wholly-owned subsidiary of FirstEnergy Corp., a holding company under the Public Utility Holding Company Act of 2005, as amended (the "Act");

WHEREAS, Service Company has been formed for the purpose of providing administrative, management and other services to FirstEnergy Corp. and its associate companies, including Client Company (together, the "Client Companies"); and

WHEREAS, Client Company believes that it is in its interest to enter into an arrangement whereby Client Company may agree to purchase such administrative, management and other services from Service Company as Client Company may choose at cost as determined in accordance with this Agreement and the Act;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. DESCRIPTION OF SERVICES.

Service Company agrees to provide certain administrative, management or other services (the "Services") to Client Company similar to those supplied to other Client Companies of Service Company. Such services are and will be provided to Client Company only at the request of Client Company. Exhibit A hereto lists and describes all of the Services that are available from Service Company.

2. PERSONNEL.

In order to provide the Services, Service Company will employ executive officers, accountants, financial advisers, technical advisers, attorneys and other persons with the necessary qualifications. If necessary, Service Company may also arrange for the services of nonaffiliated experts, consultants and attorneys in connection with the performance of any of the Services provided under this Agreement.

3. COMPENSATION AND ALLOCATION.

As and to the extent required by law, Service Company provides and will provide such services at fully allocated cost, determined in accordance with the Act. Exhibit A hereof contains rules for determining and allocating such costs.

4. TERMINATION AND MODIFICATION.

Either party to this Agreement may terminate this Agreement by providing 60 days written notice of such termination to the other party. This Agreement is subject to termination or modification at any time to the extent its performance may conflict with the provisions of the Act or with any rule, regulation or order of the Federal Regulatory Energy Commission (the "Commission") adopted before or after the making of this Agreement. This Agreement shall be subject to the approval of any state commission or other state regulatory body whose approval is, by the laws of said state, a legal prerequisite to the execution and delivery or the performance of this Agreement.

5. SERVICE REQUESTS.

Client Company and Service Company will prepare a Service Request on or before September 30th of each year listing Services to be provided to Client Company by Service Company and any special arrangements related to the provision of such Services for the coming year, based on Services provided during the preceding year. Client Company and Service Company may supplement the Service Request during the year to reflect any additional or special Services that Client Company wishes to obtain from Service Company, and the arrangements relating thereto.

6. BILLING AND PAYMENT.

Unless otherwise set forth in a Service Request, payment for Services provided by Service Company shall be by making remittance of the amount billed or by making appropriate accounting entries on the books of Client Company and Service Company. Billing will be made on a monthly basis, with the bill to be rendered as soon as practicable after the close of the month, and remittance or accounting entries completed within 30 days of billing. Any amount remaining unpaid after 30 days following receipt of the bill shall bear interest thereon from the due date of the bill until payment at a rate equal to the prime rate on the due date.

7. NOTICE.

Where written notice is required by this Agreement, all notices, consents, certificates, or other communications hereunder shall be in writing and shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:

To Client Company: c/o President
76 South Main St.
Akron, Ohio 44308

To Service Company: c/o Vice President and Controller
76 South Main Street
Akron, Ohio 44308

8. GOVERNING LAW.

This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio, without regard to its conflict of laws provisions.

9. MODIFICATION.

No amendment, change or modification to this Agreement shall be valid, unless made in writing and signed by both parties hereto.

10. ENTIRE AGREEMENT.

This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter, and effective upon the execution of this Agreement by the respective parties hereof, any and all prior agreements, understandings or representations with respect to this subject matter are hereby terminated and canceled in their entirety and are of no further force and effect, except to the extent transactions thereunder have taken place prior to such effective date in which case such agreements will govern the terms of such transactions.

11. WAIVER.

No waiver by either party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.

12. ASSIGNMENT.

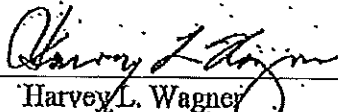
This Agreement shall inure to the benefit and shall be binding upon the parties and their respective successors and assigns. No assignment of this Agreement or either party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned.

13: SEVERABILITY.

If any provision or provisions of this Agreement shall be held by a court of competent jurisdiction to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

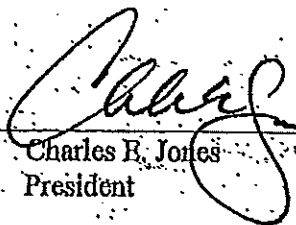
IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed effective as of the 25th day of February, 2011. This Agreement supercedes any previous agreement between the Service Company and the Client Companies.

FirstEnergy Service Company

By: 
Harvey L. Wagner
Vice President & Controller

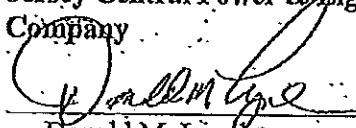
Client Companies:

Ohio Edison Company
The Cleveland Electric Illuminating
Company
The Toledo Edison Company
Pennsylvania Power Company
American Transmission Systems,
Incorporated
Pennsylvania Electric Company
Waverly Electric Power & Light
Company
Metropolitan Edison Company
Monongahela Power Company
The Potomac Edison Company
West Penn Power Company
PATH - Allegheny Land Acquisition
Company
PATH Allegheny Maryland
Transmission Company, LLC
PATH Allegheny Transmission
Company, LLC
PATH Allegheny Virginia
Transmission Corporation
AYE Series, Potomac-Appalachian Transmission
Highline, LLC
Trans-Allegheny Interstate Line
Company

By: 
Charles R. Jones
President

**Jersey Central Power & Light
Company**

By:



Donald M. Lynch
President

EXHIBIT A
DESCRIPTION OF SERVICES AND ALLOCATION METHODOLOGY

1. Description Of Services

Overview

This Exhibit provides a description of all services provided by Service Company departments and the cost allocation methodologies to be used in connection therewith. All products and services are subject to Service Level Standards as negotiated between the Service Company department and Client Company. Each Client Company is classified as either a "Utility Subsidiary" or a "Non-Utility Subsidiary".

2. Cost Allocation Methodology

Overview

The costs of services provided by Service Company will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method. The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully allocated cost of providing the product or service. The costs of product and services provided by the ServeCo that cannot be charged directly to the Subsidiary receiving the product or service will be allocated among the associate companies by utilizing one of the methods described below that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. The allocation methods used by Service Company are as follows:

a. "Multiple Factor -- All" - For the Indirect Costs for products or services benefiting the entire FirstEnergy system, FirstEnergy and all Subsidiaries will bear a fair and equitable portion of such costs. FirstEnergy will bear 5% of these Indirect Costs. The remaining Indirect Costs will be allocated among the Utility Subsidiaries and the Non-Utility Subsidiaries benefiting from the services provided based on FirstEnergy's equity investment in the respective groups. A subsequent allocation step will then occur. Among the Utility Subsidiaries, allocations will be based upon the "Multiple Factor - Utility" method. Among the Non-Utility Subsidiaries, allocations will be based upon the "Multiple Factor - Non-Utility" method.

b. "Multiple Factor -- Utility" - For the Indirect Costs for a product or service solely benefiting one or more of the Utility Subsidiaries, each such Utility Subsidiary so benefiting will be charged a portion of the Indirect Costs based on the sum of the weighted averages of the following factors:

1. Gross transmission and/or distribution plant.
2. Operating and maintenance expense excluding purchase power and fuel costs.

3. Transmission and/or distribution revenues, excluding transactions with affiliates

These three (3) factors have been determined to be the most appropriate for the Utility Subsidiaries in the FirstEnergy system. Each factor will be weighted equally so that no one facet of the electric utility operations inordinately influences the distribution of Indirect Costs.

- c. "Multiple Factor - Non-Utility" - For the Indirect Costs for products or services solely benefiting the Non-Utility Subsidiaries, each Non-Utility Subsidiary so benefiting receiving the product or service will be charged a proportion of the Indirect Costs based upon the total assets of each Non-Utility Subsidiary, including the generating assets under operating leases from the Utility Subsidiaries.
- d. "Multiple Factor - Utility and Non-Utility" - For the Indirect Costs for a product or service benefiting one or more of the Utility and Non-Utility Subsidiaries, each such Subsidiary so benefiting is first assigned a distribution ratio that is in proportion to the Indirect Costs based on FirstEnergy's equity investment in such Subsidiaries. Following this distribution, a subsequent allocation step will then occur. Among the Utility Subsidiaries, allocations will be based upon the "Multiple Factor-Utility." Among the Non-Utility Subsidiaries, allocations will be based upon "Multiple Factor - Non-Utility"
- e. "Direct Charge Ratio" - The ratio of direct charges for a particular product or service to an individual Subsidiary as a percentage of the total direct charges for a particular product or service to all Subsidiaries benefiting from such services. Indirect Costs are then allocated to each Subsidiary based on the calculated ratios.
- f. "Number of Customers Ratio" - For costs of products and services driven by the number of Utility customers, the allocation method that will be used will be the number of Utility customers for the respective Utility Subsidiary receiving the product or service divided by the total number of utility customers.
- g. "Number of Shopping Customers Ratio" - A "shopping customer" is defined as a Utility customer who has selected a competitive electric generation supplier. For costs of products and services driven by the number of shopping customers, the allocation method that will be used will be the number of shopping customers for the respective Utility Subsidiary receiving the product or service divided by the total number of shopping customers.

- h. **"Number of Participating Employees - General"** - For costs of products and services driven by all participating employees within the FirstEnergy system, the allocation method that will be used will be the number of participating employees for the respective Subsidiary receiving the product or service divided by the total number of participating employees.
- i. **"Number of Participating Employees - Utility and Non-Utility"** - For costs of products and services driven by participating employees who work for the Utility and Non-Utility Subsidiaries, the Subsidiaries receiving the product or service are first assigned a distribution ratio that is in proportion to the Indirect Costs based on FirstEnergy's equity investment in the respective groups. Costs are further allocated by using the number of participating employees for the respective Subsidiary divided by the total number of participating FirstEnergy employees.
- j. **"Gigabytes Used Ratio"** - Number of gigabytes utilized by a Subsidiary receiving the product or service divided by the total number of gigabytes used by the FirstEnergy system companies applicable to that respective product or service.
- k. **"Number of Computer Workstations Ratio"** - Number of computer workstations utilized by a Subsidiary receiving the product or service divided by the total number of computer workstations in use by the FirstEnergy system companies applicable to that respective product or service.
- l. **"Number of Billing Inserts Ratio"** - Number of billing inserts performed for a Subsidiary receiving the product or service divided by the total number of billing inserts performed for the FirstEnergy system companies applicable to that respective product or service.
- m. **"Number of Invoices Ratio"** - Number of invoices processed for a Subsidiary receiving the product or service divided by the total number of invoices processed for the FirstEnergy system companies applicable to that respective product or service.
- n. **"Number of Payments Ratio"** - Number of monthly payments processed for a Subsidiary divided by the total monthly number of payments processed for the FirstEnergy system companies applicable to that respective product or service. This will not be utilized until some historical information is available out of our new automated system.
- o. **"Daily Print Volume"** - Average daily print volume performed for a Subsidiary receiving the service divided by the total average daily print volume performed for the entire FirstEnergy system.

p. "Number of Intel Servers" - Number of Intel servers utilized by a Subsidiary receiving the product or service divided by the total number of Intel servers utilized by the FirstEnergy system.

q. "Application Development Ratio" - Number of application development hours budgeted for a Subsidiary receiving the service divided by the total number of budgeted application development hours for the year.

r. "Server Support Composite" - The average ratio of unix gigabytes, SAP gigabytes and Intel number of servers for a Subsidiary receiving the service.

3. Descriptions of Products and Services

CALL CENTER

Product or Service	Product / Service Description	Indirect Allocation Methods
Field All Inbound Regulated Calls	Field calls related to billing, credit, new service, service order completion, outages, and other miscellaneous activities.	Multiple Factor – Utility and Non-Utility
Field All Inbound Unregulated Calls	Field calls related to billing, credit, new service, service order completion, outages, and other miscellaneous activities.	Multiple Factor – Utility and Non-Utility

CUSTOMER SERVICE

Product or Service	Product / Service Description	Indirect Allocation Methods
Supplier Services	Provide customer services support to electric generation suppliers, administer and maintain Electronic Data Interface (EDI) functions and invoice suppliers.	Number of Shopping Customers Ratio
Regulatory Interface and Process Improvement: Supplier	Liaison to ensure Customer Choice requirements and develop and execute plans to improve supplier services processes.	Number of Shopping Customers Ratio
Market Support Generation (MSG) Administration	Administer and support MSG supplier functions.	Number of Shopping Customers Ratio
Regulatory Interface and Process Improvement: Regulatory	Respond to regulatory complaints from customers and develop and execute plans to improve regulatory compliance processes.	Number of Customers Ratio
Compliance	Work with regions to communicate and ensure regulatory requirements.	Multiple Factor – Utility
Power Billing	Provide billing functions for large commercial/industrial contract customers.	Number of Customers Ratio
Revenue Reporting	Perform and manage revenue reporting functions.	Number of Customers Ratio
Billing Exception Processing	Process billing exceptions.	Number of Customers Ratio
Remittance Processing	Process customer payments and deposit funds.	Number of Payments Ratio
Human Services	Coordinate and administer the various social services programs.	Number of Customers Ratio

Arrears Management/ Outsourcing Services Incorporated (OSI) Administration	Coordinate and perform arrears, credit and bankruptcy functions. Manage outside collections agencies' performance and OSI credit activities.	Number of Customers Ratio
Revenue Protection Administration	Perform revenue reporting and compliance functions.	Number of Customers Ratio
Metrics and Budget/ Customer Satisfaction Measurement	Manage Customer Services and Call Center Departments' budgets and measure performance and customer satisfaction results.	Number of Customers Ratio
Policy/Procedures Development and Documentation	Develop, document and communicate Customer Services policies and procedures.	Number of Customers Ratio
Bill Administration/ Forms Administration	Design standardized customer bills, envelopes, and forms.	Number of Customers Ratio
Meter Reading Support	Coordinate Meter Reading schedules and routing activities.	Number of Customers Ratio
Customer Information System (CIS) Control	Operate and maintain CIS.	Number of Customers Ratio

ECONOMIC DEVELOPMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Economic Development Services	Foster economic development to encourage capital investment in FirstEnergy's service areas.	Multiple Factor -- Utility

TRANSMISSION & DISTRIBUTION TECHNICAL SERVICES

Product or Service	Product / Service Description	Indirect Allocation Methods
Forestry	Provide forestry services.	Multiple Factor -- Utility
Distribution Reliability and Asset Records	Services include Joint User contracts, public works coordination, reliability reporting to regions and Public Utility Commissions, mutual assistance coordination, PowerOn support, cable locate ticket screening and tariff support.	Multiple Factor -- Utility

Design Standards	Services include line material and construction standards, distribution line and underground maintenance practices and support, new business process support, and service practices.	Multiple Factor – Utility
Substation Services Support	Services include Substation maintenance plan coordination, practices and support, mobile substation administration and planning, and environmental compliance support.	Multiple Factor – Utility
Equipment Repair/Testing Services	Services include the maintenance, installation, maintenance, testing and repair of utility equipment.	Multiple Factor – Utility
Fleet Services	Develop fleet strategy, and perform fleet maintenance practices and support.	Multiple Factor – Utility
Financial Services	Identify revenue enhancements and cost reductions.	Multiple Factor – Utility
Substation Design and Transmission-Line Maintenance Support	Perform substation and transmission line design and project management and transmission line and substation design and material standards, right-of-way and survey services, transmission line maintenance plan coordination, practices and support, FAA activity coordination.	Multiple Factor – Utility
Planning and Protection	Perform planning and protection support for subtransmission system and overall radial system capacity planning overview, and interconnection coordination for distributed technology applications on distribution system.	Multiple Factor – Utility
Capital Budget and Equipment Support	Capital budget development and support, and major equipment specifications and procurement/repair activities for major equipment.	Multiple Factor – Utility

WORKFORCE DEVELOPMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Transmission and Distribution Skills Training	Develop and facilitate technical and safety training for workers associated with distribution activities, including line, substation, meter, fleet, warehouse, field engineering, and dispatch. Provide support through equipment evaluation, training analyses, job assessments, and project coordination.	Number of Participating Employees – General
Customer Service Skills Training	Develop and facilitate skills training for customer service groups.	Multiple Factor – Utility
External Learning Opportunities Through the Power Systems Institute	Develop educational partnerships with colleges to offer two-year degrees in electric utility technology.	Multiple Factor – Utility

ADMINISTRATIVE SERVICES

Product or Service	Product / Service Description	Indirect Allocation Methods
Provide Administrative Support Services	Provides services in production printing, document imaging, graphic services, food services, corporate mailroom and corporate courier.	Multiple Factor – Utility and Non-Utility or Multiple Factor Utility*
Provide Records Management Services	Provides services in records storage, records retrieval, records retention, records planning and engineering records.	Multiple Factor – Utility and Non-Utility or Multiple Factor Utility*
Provide Business Services	Provides services in convenience copiers, fax machines, pagers, printers, and business information center.	Multiple Factor – Utility and Non-Utility or Multiple Factor Utility*

* For services rendered only to the utilities.

EXECUTIVE

Product or Service	Product / Service Description	Indirect Allocation Methods
Executive Management	Consultation and services in management and administration of all aspects of the business.	Multiple Factor – All

COMMUNICATIONS

Product or Service	Product / Service Description	Indirect Allocation Methods
Public Relations	Provides services in media relations, financial communications, annual reports, executive presentation, public relations counsel, corporate writing, internet support and special projects.	Multiple Factor – All
Employee Communications	Provides services with update, retirees, satellite broadcast, human resource-related communications and special projects.	Number of Participating Employees – Utility and Non-Utility
Production	Provides services related to display, photography, Corporate ID, video and employee merchandise.	Multiple Factor – All
Sponsorship	Provides services related to sports marketing, university support and special projects.	Multiple Factor – All
Non-Utility Advertising	Provides services related to broadcast/print, collateral, direct mail, internet/intranet, display/merchandise, yellow/white pages, production/agency support and special projects.	Multiple Factor – Non-Utility
Utility Advertising	Provides services related to TV, radio, print, outdoors, Internet/Intranet, special projects, production, agency support and creative media placement.	Multiple Factor – Utility
Utility Bill Inserts	Provides services developing regulated bill service to Ohio, Pennsylvania and New Jersey.	Multiple Factor – Utility
Utility : Yellow / White Pages	Provides services with regulated yellow/white pages.	Multiple Factor – Utility
Utility: Research	Provides research services.	Multiple Factor – Utility
Ohio Consumer Education	Provides services related to Ohio Consumer Education statewide and locally.	Multiple Factor – Utility
Ohio Deregulation Education	Provides service related to Deregulation Education.	Multiple Factor – Utility

CORPORATE AFFAIRS AND COMMUNITY INVOLVEMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Corporate Affairs Activities	Provide administrative support through oversight of the business practices and planning and implementation of staff, senior management and related meetings. Serves as community liaison.	Multiple Factor - Utility
Direct Community Involvement Initiatives	Provides direction in employee volunteerism, supports viable community partnerships and educational initiatives.	Multiple Factor - Utility
Energy Efficiency Programs	Directing and coordinating Ohio Weatherization and Energy Efficiency Programs for Low Income Customers.	Multiple Factor - Utility
Community Initiatives Consulting Services	Consults to regional operations and other business units and client managers for the various community programs.	Multiple Factor - Utility
Contributions Management	Directs, coordinates, monitors, and manages contributions.	Multiple Factor - Utility

CORPORATE

Product or Service	Product / Service Description	Indirect Allocation Methods
Investor Services	Stock administration, perform recordkeeping, transfer agent, registrar, paying agent, reinvestment plan administration and other services for shareholders.	None (All Direct Charge to Holding Co.)
Board of Directors Support	Support and administration of Board of Directors meetings and director compensation.	None (All Direct Charge to Holding Co.)
Annual Meeting Coordination	Coordinate the Annual Meeting of Shareholders, including the preparation and mailing of proxy materials and annual reports and the tabulation of proxies.	None (All Direct Charge to Holding Co.)
Indenture Compliance	Administer the company's indentures	Multiple Factor - Utility

HUMAN RESOURCES

Product or Service	Product / Service Description	Indirect Allocation Methods
Manage Employee Executive Compensation and Benefits	Provide management and supervision for employee and executive compensation and benefits.	Number of Participating Employees – General
Manage Workers Compensation and Disability Management	Provide management and supervision for workers compensation and disability programs.	Number of Participating Employees – General
Provide and Coordinate Human Resources Training	Design, prepare and conduct training.	Number of Participating Employees – General
Provide Employment Services	Provide staffing, relocation and employment expertise.	Number of Participating Employees – General
Provide HRIS Services	Provide and maintain Human Resources information.	Number of Participating Employees – General
Provide Diversity Management Services	Manage Affirmative Action programs, provide EEO/AA consulting services, and respond to charges.	Number of Participating Employees – General
Manage/ Administer Medical Services and Wellness Programs	Establish compliance, develop, implement, and administer medical and wellness programs.	Number of Participating Employees – General

INDUSTRIAL RELATIONS

Product or Service	Product / Service Description	Indirect Allocation Methods
Provide Labor Contract Negotiations	Provide contract negotiation services for all labor agreements.	Number of Participating Employees – General
Provide Labor Consulting Services	Provide labor consulting services.	Number of Participating Employees – General
Manage/Administer Safety Programs	Develop, implement and administer occupational safety programs.	Number of Participating Employees – General

REAL ESTATE

Product or Service	Product / Service Description	Indirect Allocation Methods
Facilities Management	Management and maintenance of office facilities.	Multiple Factor – All or Multiple Factor Utility*
Facilities Planning and Project Management	Manage office design services, furniture, project management and other capital improvements.	Multiple Factor – All or Multiple Factor Utility*
Management of Real Estate Assets	Support internal and external inquiries regarding the acquisition, divestiture and management of real estate assets	Multiple Factor – All or Multiple Factor Utility*
Manage/Administer Security Programs	Administer physical security, special investigations, security audits, security consultation and contract guard services.	Multiple Factor – All or Multiple Factor Utility*

* For services rendered only to the utilities.

FIRSTENERGY TECHNOLOGIES

Product or Service	Product / Service Description	Indirect Allocation Methods
Strategic Technologies	Develop, support and implement BPRI programs, industry initiatives, research and development programs, collaboratives and activities with universities, labs and the Department of Energy.	Multiple Factor – Utility
New Technology Assessment	Perform assessment activities for strategic technology pilots, technology assessments, marketing tests, customer pilots and due diligence reviews.	Multiple Factor – Utility and Non-Utility
Technical Application and Product Innovation	Develop, analyze and support strategic alliances, joint ventures, strategic startups, direct investments and Portfolio initiatives.	Multiple Factor – Utility and Non-Utility
New Technology and Product Market Deployment	Develop, support and implement the following initiatives: tailored solutions with existing products, commercial packages, operational efficiencies and business area solutions.	Multiple Factor – Utility and Non-Utility
Demand Response Initiatives	Provide support for corporate demand response initiatives.	Multiple Factor – Utility and Non-Utility
Renewable Energy Program and Strategy	Provide support for various corporate and regulatory initiatives to develop and implement renewable energy programs and products.	Multiple Factor – Utility

Regulated Programs and Services	Develop, support and implement programs and strategies to meet corporate initiatives and regulatory mandates and commitments related to Comprehensive Resource Assessment(CRA), customer end-use technology, distributed generation and load management.	Multiple Factor – Utility
Project Implementation Management Services	Develop and implement end-use and distributed generation technology-based products and services:	Multiple Factor – Utility and Non-Utility

TECHNOLOGY & SUPPORT SERVICES

Product or Service	Product/ Service Description	Indirect Allocation Methods
Provide Network Services	Provide Internal Network Services.	Multiple Factor – Utility and Non-Utility
Maintain wireless cell sites and fiber optics network	Maintain internal wireless cell sites and fiber optic network; provide engineering, procurement, and installation services.	Multiple Factor – Utility and Non-Utility

INFORMATION TECHNOLOGY

Product or Service	Product / Service Description	Indirect Allocation Methods
Application Development	Create new or enhance existing applications; including analysis design coding, testing, system integration, and implementation, as well as any required technical writing or project manual development.	Directly Billed
Development Supervision and Tool Support	Supervision of application development employees and the support of development software tools.	Application Development Ratio
Server Support (Unix, SAP)	Create and support the network and server infrastructure to accommodate unix and SAP client server applications.	Gigabytes Used Ratio
Client Server Storage Support	Support of storage requirements for all server applications.	Server Support Composite Ratio
Server Support (Intel)	Create and support the network and server infrastructure to accommodate windows and NT client server applications.	Number of Intel Servers Ratio
Mainframe Processing and Storage Support	Execute mainframe applications, including an appropriate portion of support, started tasks, mainframe backups and microfiche services.	Gigabytes Used Ratio

Desktop Support	Help desk email and end-user tools, remote access, repair services, and general workstation support.	Number of Computer Workstations Ratio
Network Services	Includes voice, data, BMS and radio access.	Direct Charge Ratio
Inserting Services	Provide document bursting, inserting and mailing.	Number of Billing Inserts Ratio
Printing Services	Provide mainframe and client server printing services at the data center.	Daily Print Volume Ratio
Technical Consulting	Provide consulting support to departments and end-users to enable them to leverage their IT capabilities. Provide advice and consultation regarding desktop setups and configurations.	Directly Billed
Training	Provide IT training.	Multiple Factor -- Utility and Non-Utility
Business Application Support	Support business application related software licenses and /or hardware maintenance provided by an outside vendor.	Directly Billed
Data Security	Disaster recovery and data security services.	Multiple Factor -- Utility and Non-Utility
Project Management Office	Oversee technology projects through benefit.	Multiple Factor -- Utility and Non-Utility
Provide Telecommunication Services	Provide telecommunication services and equipment.	Direct Charge Ratio
Portal Support	Support the infrastructure to accommodate internet and intranet application access.	Multiple Factor -- Utility and Non-Utility

PERFORMANCE PLANNING

Product or Service	Product / Service Description	Indirect Allocation Methods
Performance Planning Services	Develop, support and execute performance planning services.	Multiple Factor -- All

SUPPLY CHAIN

Product or Service	Product / Service Description	Indirect Allocation Methods
Strategic Planning, Demand management and Procurement Projects	Provide assistance in materials and services planning (demand management) and performs special procurement projects.	Multiple Factor – Utility and Non-Utility
Goods and services procurement	Procure material, equipment and contractor services. Establish, manage and administer programs, which allow internal customers to obtain goods without having to process the need through Procurement. Develop specifications, construction standards, schedules, and bills of materials.	Multiple Factor – Utility and Non-Utility
Materials Management Support	Maintain the computerized purchasing and materials management systems, and material related modules; maintain and/or modify select management reports. Analyze Supply Chain processes and measure performance. Monitor and forecast demand to ensure a continuous supply of materials.	Multiple Factor – Utility and Non-Utility
Investment Recovery Projects	Develop and implement plans for disposition of surplus assets.	Multiple Factor – Utility and Non-Utility
Process, Refurbish and Sell Materials	Perform recovery processing, investment recovery processing, refurbishing and selling materials.	Multiple Factor – Utility and Non-Utility
Provide Warehousing Services - Non-nuclear	Receive and place material into stock, insure quality requirements are met at receipt, maintain inventory counts, and update information systems. Fill customer requests for material from stock.	Multiple Factor – Utility and Non-Utility
Provide Warehousing Services - Nuclear	Receive and place material into stock, insure quality requirements are met at receipt, maintain inventory counts, and update information systems. Fill customer requests for material from stock.	None (All direct charged)
Warehousing Space Charge	Provide warehousing space to internal customers.	Multiple Factor – Utility and Non-Utility

CONTROLLERS

Product or Service	Product / Service Description	Indirect Allocation Methods
Accounting Research	Provide accounting research and consulting to ensure compliance with existing and proposed financial reporting, and regulatory accounting requirements.	Multiple Factor - All
Accounts Payable	Nonpayroll corporate disbursement services including account distribution to the general ledger. Resolve problems associated with invoice processing and maintain the accounts payable system.	Multiple Factor - All
Billing Services	Prepare non-retail electric billings.	Multiple Factor Utility
Infrastructure and Corporate Reporting, Accounting and Budgeting	Prepare Corporate Sustaining reports, subsidiary accounting and corporate budgeting, which includes reporting and support of the ledger, property records and SAP system.	Multiple Factor - All
Due Diligence	Assist value centers to determine whether proposed business acquisitions/combinations and similar transactions are desirable from a financial perspective; extensive review/analysis following preliminary review and firm intent to proceed with transaction through commitment and closing phases.	None (All direct charged)
Value Center Accounting and Budgeting	Maintain the property accounting system and provide value center accounting such as management reporting.	Multiple Factor -- Utility and Non-Utility
Property Record Maintenance	Maintain corporate continuing property records.	Multiple Factor -- Utility and Non-Utility or Multiple Factor Utility*
Tax Consulting and Research	Conduct tax research and tax consulting to assure compliance with statutes, while evaluating alternative tax strategies within the constraints of regulations that provide additional shareholder value to the company. In addition, provide tax-consulting advice to the value centers on tax compliance and reporting issues, which includes business "start-up" support to organizations requiring assistance.	Multiple Factor -- All

* For services rendered only to the utilities.

Tax Compliance	Prepare and process all schedules and information associated with corporate and subsidiary tax returns, audits, and tax litigation, assuring compliance with tax regulations and statutes.	Multiple Factor – All or Multiple Factor Utility*
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* For services rendered only to the utilities.

CREDIT MANAGEMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Credit Analysis and Supporting Functions	Provide detailed written credit analysis issuing recommendations on counterparty creditworthiness and assigning credit limits.	Multiple Factor – Utility and Non-Utility
Credit Policies and Procedures	Develop and support credit policies and procedures for managing credit risk. Implement and support standardized credit approval processes.	Multiple Factor – Utility and Non-Utility
Credit Management Information System	Develop and support credit management reports and calculate credit exposure on a corporate wide basis.	Multiple Factor – All

ENTERPRISE RISK MANAGEMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
General Risk Management	Develop and maintain an enterprise risk management system.	Multiple Factor - All

INSURANCE SERVICES

Product or Service	Product / Service Description	Indirect Allocation Methods
Insurance Policies	Manage and support insurance policies for all the business units.	Multiple Factor – Utility and Non-Utility
Loss Control Services	Manage and support property inspections to prevent losses.	Multiple Factor – Utility and Non-Utility
Surety Bonds	Manage and support Surety Bonds.	Multiple Factor – Utility and Non-Utility
Risk Transfer and Risk Mitigation Services	Manage and support risk transfer and risk mitigation services.	Multiple Factor – Utility and Non-Utility
Ancillary Coverages	Manage and support ancillary coverages.	None (All direct charged)

INTERNAL AUDIT

Product or Service	Product / Service Description	Indirect Allocation Methods
Audit Services	Perform the following internal audit services based on risk levels and / or requests: financial, performance analysis, safeguarding of assets, computer-related and fraud investigations.	Multiple Factor -- All or Multiple Factor -- Utility*

INVESTMENT MANAGEMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Qualified and Non-qualified Pension and Savings Plan	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	Number of Participating Employees -- Utility and Non-Utility
FirstEnergy Foundation	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	Multiple Factor - All
Voluntary Employee Benefit Association (VEBA) Trust	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	Number of Participating Employees -- Utility and Non-Utility
Nuclear Decommissioning	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	None (All direct charged)
Non-Utility Generator Trust	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	Multiple Factor -- Non-Utility
Spent Nuclear Fuel	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	None (All direct charged)
Low-Income Housing Tax Credit Partnership	Establish and implement investment policy and asset allocation strategy and monitor investment performance.	Multiple Factor - All

INVESTOR RELATIONS

Product or Service	Product / Service Description	Indirect Allocation Methods
Investor Information	Compile and communicate information to investors.	Multiple Factor -- Utility* or Direct Charge to Holding Co.
Investor Education	Target and educate potential investors to promote FirstEnergy's valuation characteristics and business strategy.	None (All Direct Charge to Holding Co.)

* For services rendered only to the utilities.

Regulations Compliance	Ensure compliance with SEC Fair Disclosure regulations.	Multiple Factor - All
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FirstEnergy Management Education	Provide education to management of business concerns and valuation issues of analyst/investors	Multiple Factor – All
FirstEnergy Employee Education	Actively promote understanding of financial and investor relations' issues.	Multiple Factor – All

RATES AND REGULATORY AFFAIRS

Product or Service	Product / Service Description	Indirect Allocation Methods
Regulatory Activities and Consulting	Manage regulatory activities and interfaces, including tariff development and interpretation. Monitor and participate in regulatory affairs at the local, state and federal levels.	Multiple Factor – Utility
Customer Pricing and Contracting	Develop pricing programs for regulated electric service for retail and wholesale customers; including "unbundled" costs and prices for generation, transmission and distribution service and support justification to regulators. Provide support in developing pricing for special-purpose customer programs and non-regulated energy services (e.g. prepayment, economic development, interruptible load, conjunctive-billing electric service programs).	Multiple Factor – Utility
Billing Support	Provide assistance calculating customer (external and internal) invoices and operate and maintain systems to render, collect and account for these invoices.	Multiple Factor – Utility
Sales and Load Forecasting	Develop short-term and long-term sales forecast, peak load projections and customer counts	Multiple Factor – Utility and Non-Utility

TREASURY

Product or Service	Product / Service Description	Indirect Allocation Methods
Capital Structure Management and Administration	Perform all activities related to acquiring capital and establish and administer funding, legal documentation, and record-keeping activities associated with finance programs	Multiple Factor – All
Corporate Funds Management	Plan, manage, and operate the corporate "cash-flow-cycle."	Multiple Factor – All
Corporate Forecasting	Provide regulatory support, strategy support, financial modeling and forecasting, financial and economic analysis and development of annual corporate KPI target.	Multiple Factor – All

Capital Project Evaluation and Support	Provide analytical support in the areas of financing, profitability, capital structure and cash flow.	Multiple Factor – Utility and Non-Utility
Investor Relations Activities	Provide institutional and retail security holder, buy and sell-side analysts, rating agencies, and other key members of the financial community with qualitative and quantitative information.	Multiple Factor – All

BUSINESS DEVELOPMENT

Product or Service	Product / Service Description	Indirect Allocation Methods
Mergers and Acquisitions Support	Support, evaluate and assist in the management of merger, asset acquisition and asset disposition activities.	None (All direct charged)
Internal Consulting	Perform strategic analysis/business fit, and economic analysis. Provide integration and transitional management services as needed.	None (All direct charged)

GOVERNMENTAL AFFAIRS

Product or Service	Product / Service Description	Indirect Allocation Methods
Federal Governmental Affairs Support	Activities associated with developing and maintaining relationships with federal government institutions; includes lobbying, and other support activities.	None (All direct charged)
State Governmental Affairs Support	Activities associated with developing and maintaining relationships with state government institutions; includes lobbying, and other support activities.	None (All direct charged)

LEGAL

Product or Service	Product / Service Description	Indirect Allocation Methods
Provide Governmental Affairs Support	Activities associated with developing and maintaining relationships with government institutions; includes lobbying, litigation, and other support activities.	None (All direct charged)
Nuclear Legal Consultation and Case Management	Provide legal advice for federal and state nuclear matters.	None (All direct charged)
Human Resources Legal Consultation & Case Management	Provide legal advice for human resource matters (including workers compensation, union negotiations, arbitrations, class action lawsuits, etc.).	Multiple Factor – Utility and Non-Utility

Product or Service	Product / Service Description	Indirect Allocation Methods
Employee Benefits Legal Consultation & Case Management	Provide legal advice for employee benefits matters (including health and welfare benefits, tax-qualified and non-tax qualified benefit plans and programs, pension administration, etc.).	Number of Participating Employees – Utility and Non-Utility
Tax Legal Consultation & Case Management	Provide legal advice for tax matters, including federal, state & local tax matters (land tax, sales & use tax, IRS, etc.).	Multiple Factor – All
Bankruptcy Legal Consultation & Case Management	Provide legal advice for bankruptcy matters.	Multiple Factor – Utility and Non-Utility
International Legal Consultation & Case Management	Provide legal advice for international matters – contract negotiations, sale/lease agreements.	None (All direct charged)
Non-Utility Legal Consultation & Case Management	Provide legal advice on federal and state matters to Non-Utility Subsidiaries.	Multiple Factor – Non-Utilities
Regulatory Legal Consultation & Case Management	Provide legal advice for federal and state regulatory matters.	Multiple Factor – Utility
Environmental Legal Consultation & Case Management	Provide legal advice for environmental matters (other than PCB – related matters) - federal (EPA) and state (EPA), regulatory/legislative compliance issues.	None (All direct charged)
PCB Environmental Legal Consultation & Case Management	Provide legal advice for PCB-related matters - federal (EPA) and state (EPA), regulatory/legislative compliance issues.	Multiple Factor – Utility
Real Estate Legal Consultation & Case Management	Provide legal advice for real estate matters.	Multiple Factor – Utility and Non-Utility
Corporate Legal Consultation & Case Management	Provide legal advice for general corporate and transactional matters (including SEC filings, Board of Directors matters, PUHCA, Financings, Securities Matters, Intellectual Property, Technology, General Counsel matters, etc.).	Multiple Factor – All
Claims Legal Consultation & Case Management	Provide legal advice for Claims matters.	Multiple Factor – All

CLAIMS:

Product or Service	Product / Service Description	Indirect Allocation Methods
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Process Receivable Claims	Provide management, supervision, and performance of tasks associated with the resolution and chargeback of receivable claims.	Multiple Factor - All
Provide Corporate Support	Claims support in evaluating claims; and procuring appropriate external/internal legal resources.	Multiple Factor - All

Pennsylvania Power Company
Charges by Affiliates
 (000's)

Line No.	Description	Twelve Months Ending April 30, 2016			Twelve Months Ending March 31, 2015			Twelve Months Ending March 31, 2014		
		Labor *	Other than Labor **	Total	Labor *	Other than Labor **	Total	Labor *	Other than Labor **	Total
1	Production	-	-	-	-	-	-	15	9	24
2	Transmission	52	83	135	51	82	132	87	49	136
3	Distribution	657	442	1,099	621	440	1,061	1,054	1,114	2,168
4	Customer Accounting and Information	1,073	961	2,033	368	1,667	2,035	1,438	1,056	2,494
5	Administrative and General	1,715	3,275	4,990	547	4,260	4,807	2,037	1,897	3,934
6	Total	<u>\$ 3,497</u>	<u>\$ 4,760</u>	<u>\$ 8,257</u>	<u>\$ 1,587</u>	<u>\$ 6,449</u>	<u>\$ 8,036</u>	<u>\$ 4,630</u>	<u>\$ 4,125</u>	<u>\$ 8,755</u>

* Labor is direct payroll only; excludes payroll overhead

** OTL includes payroll overhead

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-8:

“Provide an analysis by function of charges by affiliates, for the test year and the 12-month period immediately prior to the test year, for services rendered included in the operating expenses of the filing company. Explain the nature of the service and the basis on which charges or allocations are made, including a copy of an applicable contract. Also, explain major variances between the charges for the test year and the corresponding charges for the prior 12-month period.”

RESPONSE:

See Penn Power Exhibit RAD-25 Attachment A for a summary of charges budgeted to be billed to Penn Power by First Energy Service Company for the twelve months ending April 30, 2016 and the 12 months ending March 31, 2015. Penn Power Exhibit RAD-25 Attachment A also shows the charges billed to Penn Power by First Energy Service Company for the twelve months ended March 31, 2014.

See Penn Power Exhibit, RAD-25, Attachment B which is a copy of the Service Agreement between the operating subsidiary Pennsylvania Power Company and FirstEnergy Service Company (FE Service) outlining the services to be provided by FE Service and the basis on which charges are to be billed.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-9:

“Prepare a detailed schedule for the test year showing types of social and service organization memberships paid for, the cost thereof, the accounting treatment and whether included in claimed test year expenses.”

RESPONSE:

Penn Power Company
Social and Service Organization Memberships Paid
(000's)

Line No.	Organization	12 Months Ending		
		April 30, 2016 (1)	March 31, 2015 (2)	March 31, 2014 (3)
<u>Business Associations</u>				
<u>Account 930</u>				
1	Edison Electric Institute	\$ 26	\$ 26	\$ 28
	Chamber of Commerce, Economic Development, & Local Community			
2	Organizations	37	37	9
3	Other Business / Trade Organizations	2	2	-
4	Total Account 930.20	<u>\$ 65</u>	<u>\$ 65</u>	<u>\$ 37</u>
<u>Account 426</u>				
5	Edison Electric Institute	6	6	8
		<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 8</u>
6	Total (line 4 + line 5)	<u>\$ 71</u>	<u>\$ 71</u>	<u>\$ 45</u>

Pennsylvania Power Company (Penn Power)
Payroll and Employee Benefits

Penn Power Exhibit RAD-27
Attachment A
Witness: R. A. D'Angelo
Page 1 of 1

(\$000)

Line No.	Description	12 Months Ending 4/30/2016			12 Months Ending 3/31/2015			12 Months Ending 3/31/2014		
		Full-Time Bargaining	Full-Time NonBargaining	Total	Full-Time Bargaining	Full-Time NonBargaining	Total	Full-Time Bargaining	Full-Time NonBargaining	Total
Number of Employees										
1	Average	148	52	200	146	52	198	151	49	200
2	Year-End	148	52	200	148	52	200	148	49	197
3	Straight Time Payroll	11,010	4,021	15,031	10,298	3,859	14,157	\$ 10,334	\$ 3,559	\$ 13,892
4	Overtime Payroll	1,477	416	1,894	1,477	416	1,894	\$ 3,086	\$ 395	\$ 3,481
5	Incentive Compensation	456	226	683	492	249	741	\$ 825	\$ 486	\$ 1,311
6	Total Payroll	<u>12,944</u>	<u>4,663</u>	<u>17,607</u>	<u>12,267</u>	<u>4,525</u>	<u>16,791</u>	<u>\$ 14,244</u>	<u>\$ 4,441</u>	<u>\$ 18,685</u>
Total Company Employee Benefits:										
7	Workers Compensation	\$ 97	\$ 34	\$ 131	\$ 97	\$ 34	\$ 131	\$ 146	\$ 51	\$ 197
8	Pension Costs	(1,433)	(503)	(1,936)	(1,547)	(550)	(2,097)	(2,833)	(995)	(3,828)
9	OPEB	(1,272)	(447)	(1,719)	(2,527)	(898)	(3,425)	(5,023)	(1,765)	(6,788)
10	Life Insurance	21	7	28	22	8	30	17	6	23
11	Medical/Dental Insurance	1,314	462	1,775	1,228	436	1,664	837	294	1,131
12	Executive Benefits	0	1,249	1,249	0	1,100	1,100	0	(139)	(139)
13	Restricted Stock	0	16	16	0	60	60	0	50	50
14	Savings Plan	404	142	546	276	98	374	243	86	329
15	Long Term Disability	37	13	49	36	13	49	25	9	33
16	Education Assistance	14	5	19	15	5	20	10	3	13
17	Employee Awards	2	1	2	2	1	2	0	0	0
18	Employee Assistance Program	3	1	4	3	1	4	3	1	4
19	Wellness Program	52	18	71	48	17	65	21	7	28
20	Relocation	0	99	99	0	108	108	0	9	9
21	Other	4	2	6	5	2	7	(3)	(1)	(4)
22	Total Employee Benefits	<u>\$ (758)</u>	<u>\$ 1,097</u>	<u>\$ 339</u>	<u>\$ (2,343)</u>	<u>\$ 435</u>	<u>\$ (1,908)</u>	<u>\$ (6,558)</u>	<u>\$ (2,384)</u>	<u>\$ (8,942)</u>

- (1) Employee Counts exclude Part-time and Temporary employees
(2) Benefit costs allocated to Bargaining/NonBargaining based on average number of employees except for Executive Benefits, Restricted Stock and Relocation expenses (100% non-bargaining)

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-10:

“Provide the following payroll and employee benefit data – regular and overtime – separately for the test year and for the 12-month period immediately prior to the test year:

- (a) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with union personnel.
- (b) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with nonunion personnel.
- (c) The average and year-end number of employees and the unadjusted annual payroll expense and employee benefit expense associated with managerial employees.
- (d) A summary of the wage rate, salary and employee benefit changes granted or to be granted during the year.
- (e) The claimed test year payroll expense and employee benefit expense.
- (f) The percentage of payroll expense and employee benefit expense applicable to operation and maintenance expenses and the basis thereof.”

RESPONSE:

a., b. See Penn Power Exhibit RAD-27, Attachment A to this response.

c. Managerial employees shown below are also included in response a and b under “Full-Time Non-Bargaining” employees.

Line No		Payroll and Employee Benefits (\$000)		
		12 Months Ending 4/30/2016	12 Months Ending 3/31/2015	12 Months Ending 3/31/2014
		Full-Time	Full-Time	Full-Time
		NonBargaining	NonBargaining	NonBargaining
	Number of Management Employees			
1	Average	4	4	4
2	Year-End	4	4	4
3	Straight Time Payroll	\$ 483	\$ 469	\$ 455
4	Overtime Payroll	-	-	-
5	Incentive Compensation	32	31	31
6	Total Payroll	<u>\$ 516</u>	<u>\$ 501</u>	<u>\$ 486</u>
22	Total Employees Benefits	<u>\$ 97</u>	<u>\$ 94</u>	<u>\$ 91</u>

- d. The following wage increase assumptions were incorporated in the May 2015 – Apr. 2016 test period: Non-Bargaining 3.00% effective 3/1/16. Non-Bargaining Physical employees 3.00% effective 3/1/16. Bargaining UWUA 140 3.00% effective 7/1/15.

The following assumptions were incorporated in the May 2015 – Apr. 2016 test period: Pension discount rate 6.50%, OPEB discount rate 6.25%, Return on Assets 7.75%, effective January 1, 2016.

The following wage increase assumptions were incorporated in the Apr. 2014 – Mar. 2015 test period: Non-Bargaining 3.00% effective 9/1/14 and 3.00% effective 3/1/15. Non-Bargaining Physical employees 3.00% effective 3/1/15. Bargaining UWUA 140 3.00% effective 7/1/14.

The following assumptions were incorporated in the Apr. 2014 – Mar. 2015 test period: Pension discount rate 5.75%, OPEB discount rate 5.50%, Return on Assets 7.75%, effective January 1, 2015.

The following benefit changes were incorporated:

May 2015 – Apr. 2016 test period – increase saving plan match by 1%, effective January 1, 2016, average increase per employee, \$838.

Apr. 2014 – Mar. 2015 test period – increase saving plan match by 1%, effective January 1, 2015, average increase per employee, \$245.

- e. Item “e” to be completed by PA Rate Department.
- f. The percentage of payroll expense directly charged to O&M expense for the Apr. 2013 - Mar. 2014 period is 39%. The percentage of employee benefits directly charged to O&M expense for the Apr. 2013 – Mar. 2014 period is 38%. The benefit percentage does not include pension or OPEB costs which are not charged to O&M expense as part of the benefit labor adder applied to payroll.

The percentage of forecast payroll expense directly charged to O&M expense for the Apr. 2014 - Mar. 2015 test period is 52%. The percentage of employee benefits directly charged to O&M expense for the Apr. 2014 – Mar. 2015 test period is 49%. The benefit percentage does not include pension or OPEB costs which are not charged to O&M expense as part of the benefit labor adder applied to payroll.

The percentage of forecast payroll expense directly charged to O&M expense for the May 2015 - Apr. 2016 test period is 53%. The percentage of employee benefits directly charged to O&M expense for the May 2015 – Apr. 2016 test period is 50%. The benefit percentage does not include pension or OPEB costs which are not charged to O&M expense as part of the benefit labor adder applied to payroll.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-11:

“Describe costs relative to leasing equipment, including computer rentals, and office space, including terms and conditions of the leases. State method for calculating monthly or annual payments.”

RESPONSE:

<u>Line No.</u>	<u>Name of Lessor</u>	<u>Basic Detail of Lease</u>	<u>12 Months Ended April 30, 2016 (In thousands)</u>
1	GE Capital Commercial Inc. (successor-in-interest BLC Corporation)	<p><u>Motor Vehicles & Trailers</u> – Base term 36-120 months with fixed to rate & maximum expected residual of 25% and unguaranteed residual of 13%. At end of base term, option for renewal exists for up to 24 months at 474 BPS plus federal 2 year swap rate. At end of renewal term, option to continue to rent for monthly fee equivalent of 1/12 of 1% of acquisition cost until unit is sold or returned to Lessor.</p> <p><u>Other Equipment</u> – Base term of 36-120 months with a fixed rate & maximum expected residual of 20% with unguaranteed residual of 13%. At end of base term, option for renewal exists for up to 24 months at 474 BPS plus federal 2 year swap rate. At end of renewal term, option to continue to rent for monthly fee equivalent of 1/12 of 1% of acquisition cost until unit is sold or returned to Lessor.</p>	\$676

2	RBS Asset Finance, Inc.	<u>Motor Vehicles & Trailers</u> – Base term 60 months for light and medium duty vehicles, 96 months for heavy duty high use trouble trucks and 120 months for all other heavy duty vehicles & trailers with a \$1 buy out at end of term for all. <u>Other Equipment</u> – Base term 96 months for miscellaneous equipment like ATVs, sweeper/scrubbers, etc. and 120 months for construction equipment & forklifts with a \$1 buy out at end of term for all. Rates for both motor vehicles/trailers & other equipment leases are fixed based on 200 BPS plus Bloomberg Avg Life swap rate (2.5 years for 60 month term, 4 years for 96 month term and 5.5 years for 120 month term).	\$718
3	Schreiber Industrial Park	Cranberry Pa Truck Garage - Lease inception 10/1/2008, expiration 9/30/2018 with no renewal options	\$26

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-12:

“Submit a statement of past and anticipated changes, since the previous rate case, in major accounting procedures, explain any differences between the basis or procedure used in allocations of revenues, expenses, depreciation and taxes in the current rate case and that used in the prior rate cases, and list all internal and independent audit reports for the most recent 2 year period.”

RESPONSE:

A list of all internal audit reports performed by the Internal Audit Department from April 2012 thru March 2014 appears on pages 4 thru 7.

A list of all independent audits performed from April 2012 thru March 2014 appears on page 7.

The following is a list of major changes in accounting procedures adopted since the previous rate case:

1. In 1990, the Company began including in income an estimate for unbilled revenues. The purpose of this change was to more accurately reflect revenues in the month of sale and to properly match revenues with the associated Operation and Maintenance expenses incurred in producing the revenues. The Company follows a cycle method for reading customers' electric service meters. Under this cycle method, the amount of unbilled revenue tends to be approximately half a month's billed revenue. The estimated amount is calculated using meter reading schedules and weather-adjusted revenue forecasts.
2. In 1993, the Company adopted SFAS 106 (ASC 715), *Employers' Accounting for Postretirement Benefits Other than Pensions*. SFAS 106 requires the estimated cost of certain retiree health care and life insurance benefits be accrued during the employee's active working career.
3. In 1993, the Company implemented SFAS 109 (ASC 740), *Accounting for Income Taxes*. SFAS 109 requires the liability method to be used to account for deferred income taxes. Under this standard, deferred income tax liabilities related to tax and accounting basis differences must be recognized at the statutory income tax rates in effect when the liabilities are expected to be paid. The balance sheet effect of recording SFAS 109 resulted in a regulatory asset for income taxes

- recoverable through future rates (e.g., related to liberalized depreciation) and a regulatory liability for income taxes refundable through future rates (e.g., related to unamortized ITC).
4. In 1994, the Company adopted SFAS 112 (ASC 712), *Employer's Accounting for Postemployment Benefits*. SFAS 112 requires that the obligation for all types of postemployment benefits that are provided to former or inactive employees, their beneficiaries, and covered dependents be recognized if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. The obligation is actuarially calculated on an annual basis based on updated census data and assumptions.
 5. In 2003, the Company changed its accounting procedure for the costs of employee nonproductive time, such as time participating in training, attending general meetings, and time off for vacation, sick time and holidays. Under the new procedure, the nonproductive time is included in a labor rate (i.e., activity price) that is used to distribute an employee's wages to jobs/projects (e.g., construction, operation and maintenance activities) via their time sheets.
 6. In 2005, the Company implemented FIN 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143*. Under this interpretation, companies are required to recognize a liability for the fair value of an asset retirement obligation that is conditional on a future event, if the fair value of the liability can be reasonably estimated. The Company identified applicable legal obligations as defined under the new standard at the Company's substation control rooms, service center buildings, line shops and office buildings, identifying asbestos as the primary conditional asset retirement obligation and recorded a conditional liability.
 7. In 2006, the Company adopted SFAS 158 (ASC 715), *Accounting for Defined Benefits*. This statement requires employers to recognize an asset or liability for the overfunded or underfunded status of their pension and other postretirement benefit plans (OPEB). For a pension plan, the asset or liability is the difference between the fair value of the plan's assets and the projected benefit obligation. For any other postretirement benefit plan, the asset or liability is the difference between the fair value of the plan's assets and the accumulated postretirement benefit obligation. The Statement required employers to recognize all unrecognized prior service costs and credits and unrecognized actuarial gains and losses in accumulated other comprehensive income (AOCI), net of tax. Such amounts will be adjusted as they are subsequently recognized as components of net periodic benefit cost or income pursuant to the current recognition and amortization provisions.

8. In 2007, the Company adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, which provides guidance for accounting for uncertainty in income taxes in a company's financial statements in accordance with SFAS 109 (ASC 740), *Accounting for Income Taxes*. This interpretation prescribes a financial statement recognition threshold and measurement attribute for tax positions taken or expected to be taken on a company's tax return. FIN 48 also provides guidance on derecognition, classification, interest, penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. The first step is to determine if it is more likely than not that a tax position will be sustained upon examination, based on the merits of the position, and should therefore be recognized. The second step is to measure a tax position that meets the more likely than not recognition threshold to determine the amount of income tax benefit to recognize in the financial statements.

FIN 48 also requires companies to recognize interest expense or income related to uncertain tax positions. That amount is computed by applying the applicable statutory interest rate to the difference between the tax position recognized in accordance with FIN 48 and the amount previously taken or expected to be taken on the tax return. The Company includes net interest and penalties in the provision for income taxes, consistent with its policy prior to implementing FIN 48.

9. In 2011, the Company changed its method of recognizing actuarial gains and losses for its defined benefit pension and OPEB plans. Previously, the Company recognized the net actuarial gains and losses as a component of AOCI and amortized the gains and losses into income over future periods.

The Company, with this accounting change, elected to immediately recognize the change in fair value of plan assets and actuarial gains and losses annually in the fourth quarter of each year. The Company retroactively applied immediate recognition of gains and losses for its defined benefit pension and OPEB plans to each year, from 1986 through 2010.

Internal Audits Performed During - April thru December 31, 2012

Compliance:

1. Audit of the IBM Consulting Services' Pennsylvania "Smart Meter Implementation and Procurement" Plan Development as of February 10, 2012.
2. Limited Scope Review of US Bank Travel Card as of July 27, 2012
3. Audit of Substation Safety/Security Inspection and Corrective Maintenance as of October 3, 2012
4. Review of Purchasing Card Usage – Severed Employees as of December 12, 2012
5. 2012 Corporate Compliance Program Update
6. Annual Review of the Code of Business Conduct as of November 26, 2012

Operational:

1. Audit of the Streetlight Repair Process as of May 2, 2012
2. Data Analysis of Wood Pole Inspection Results (Years 2007-2011) as of October 8, 2012
3. Audit of Rate Change and Rate Adjustment Processes Documentation as of September 17, 2012
4. Energy Efficiency Program Support (Memorandum)

IT Related:

1. Audit of IT Merger Project - Consolidate IT Security Policies (L01) as of March 16, 2012
2. Audit of IT Merger Project - Energy Delivery Meter and Transformer Testing Systems (B07.1) as of February 27, 2012
3. Audit of IT Merge Project - Energy Delivery Graphical Information System (B02.3) as of March 23, 2012
4. Audit of IT Merger Project - Energy Delivery Outage Management Ancillary (B01.2) as of April 13, 2012
5. Audit of IT Merger Project - Energy Delivery Internet Vegetation Management System (B06.1) as of May 7, 2012
6. Audit of IT Merger Project - Cascade (B02.1) as of May 11, 2012
7. Audit of IT Merger Project - Energy Delivery Meter Reading and Route Completion (B07.2) as of May 18, 2012
8. Audit of IT Merger Project - Energy Efficiency & Conservation/Demand Response Program Integration (C03.1) as of May 11, 2012
9. Audit of IT Merger Project - Energy Delivery Outage Management (B01.1) as of May 11, 2012
10. Audit of IT Merger Project - Consolidate Sensitive Customer Information Programs (L01) as of May 21, 2012
11. Audit of IT Merger Project - SAP Project Light-year as of May 14, 2012
12. Audit of IT Merger Project - Contact Center Technologies as of June 25, 2012

13. Audit of IT Merger Project - Energy Delivery Work Management System (B04.2) as of June 12, 2012
14. Audit of IT Merger Project - Rates/Load Forecasting System (B08.1) as of April 2, 2012
15. Audit of IT Merger Project - Consolidate eDiscovery and Record Retention Processes (L01.1) as of October 31, 2012

Financial:

1. Audit of the Pennsylvania Energy Efficiency Conservation Service Provider Invoice Validation Guidelines as of January 31, 2012
2. Reconciliation of Advanced Billing Platform System Data to Electric Distribution Company Data as of July 8, 2012
3. Audit of Regulated Metered But Unbilled Revenue as of September 27, 2012
4. Sarbanes-Oxley Annual Progress Report as of December 28, 2012
5. First Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of March 31, 2012
6. Second Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of June 30, 2012
7. Third Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of September 30, 2012
8. Sarbanes-Oxley Annual Progress Report as of December 28, 2012

Internal Audits Performed During - January thru December 31, 2013

Compliance:

1. Audit of 2012 Occupational Safety & Health Administration (OSHA) Recordable Incident Rate as of January 15, 2013
2. Audit Pennsylvania Distribution Vegetation Maintenance Practices as of January 15, 2013 - Privileged and Confidential - Prepared at the Request of Counsel
3. Audit of FirstEnergy's Compliance With Section 114 of the Fair and Accurate Credit Transactions Act as of March 31, 2013
4. Audit of Contract Compliance of Osmose Utilities Services, Inc., as of September 24, 2013
5. Interim Report of the Pre-Implementation Audit of the State Code of Conduct Project as of December 6, 2013
6. 2013 Corporate Compliance Program Update
7. Annual Review of the Code of Business Conduct as of November 27, 2013

Operational:

1. Audit of Energy Delivery Joint Use Revenue as of October 26, 2012

2. Audit of the Implementation of Energy Delivery's Resources on-Demand Application as of November 4, 2013
3. Internal Auditing's Partnering Engagement in Documenting Regulated Settlements' Processes and High Risk Procedures
4. Internal Auditing Risk Assessment - Smart Meter Implementation Procurement (SMIP) Project

IT Related:

1. Interim Memorandum - Facilitation of the Control Design for the Office Productivity Transformation Project
2. Interim Report of the Pre-Implementation Audit of the Financial Transformation Project Budget, Forecast, and Planning System as of August 16, 2013
3. Audit of the Cascade Order Integration Project as of June 25, 2013
4. Office Productivity Transformation Testing and Pilot Project
5. Interim Report of the Pre-Implementation Audit of the Financial Transformation Project - New General Ledger Technology as of December 6, 2013
6. Interim Report of the Pre-Implementation Audit of the Financial Transformation Project -Business Objects Planning and Consolidation System as of December 6, 2013
7. PowerPlant Continuous Improvement Project

Financial:

1. Audit of FirstEnergy Utilities' Capital and Operation & Maintenance Expenses as of January 31, 2013
2. Audit of the PA Top 100 Hours Demand Response Program Invoicing Process as of February 13, 2013
3. Audit of Transmission Control Center Affiliate Rent Calculation as of July 12, 2013
4. Audit of the Smart Meter Tracking, Accounting and Cost Allocations Process as of November 7, 2013
5. Audit of the 2012 SOx 404 Assessment of Internal Controls as of December 31, 2012
6. First Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of March 31, 2013
7. Second Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of June 30, 2013
8. Third Quarter Sarbanes-Oxley Assessment of Internal Controls Over Financial Reporting as of September 30, 2013

9. Audit of the Purchasing Card Automated Reconciliation and Travel Expenses Implementation as of February 28, 2013
10. Vendor Payroll Tax Reconciliation Audit Review

Internal Audits Performed During - January thru March 31, 2014

Compliance:

1. Audit of FirstEnergy Utilities Waste Management Practices as of November 7, 2013
2. Audit of FirstEnergy's Compliance to the Clean Air Act – Sulfur Hexafluoride Mandatory Emissions Tracking and Reporting as of January 21, 2014

Operational:

1. Audit of 2013 Occupational Safety & Health Administration (OSHA) Recordable Incident Rate as of January 10, 2014

IT Related:

1. IT Merger Support - EMS Auxiliary (F01.3)

Financial:

1. Revenew's Payment Recovery Audit for Accounts Payable – 2012
2. Sarbanes-Oxley Annual Progress Report as of December 31, 2013
3. Audit of Pennsylvania Storm Deferral Accounting as of January 14, 2014
4. Sarbanes-Oxley 404 Assessment of Internal Controls Over Financial Reporting as of December 31, 2013
5. Sarbanes-Oxley Annual Progress Report as of December 31, 2013

Independent Audits Performed for the years ended December 31, 2012 and 2013

PricewaterhouseCoopers LLP – Independent Registered Public Accounting Firm

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-13:

“Regardless of whether a claim for negative or positive net salvage is made, attach an exhibit showing gross salvage, cost of removal, third party reimbursements, if any, and net salvage for the test year and 4 previous years.”

RESPONSE:

See Penn Power Exhibit RAD-30, Attachment A

Penn Power Company
Third Party Reimbursement, Cost of Removal and Salvage
For test year 5/1/2015 thru 4/30/2016 and 6 previous years

	Third Party Reimbursements	Cost of Removal	Salvage	Net Salvage
4/1/2009 thru 3/31/2010	\$ 50,177.92	\$ 2,954,205.46	\$ (80,018.38)	\$ 2,874,187.08
4/1/2010 thru 3/31/2011	\$ (57,967.56)	\$ 1,766,061.56	\$ (76,725.71)	\$ 1,689,335.85
4/1/2011 thru 3/31/2012	\$ (599,896.00)	\$ 1,646,853.39	\$ (26,933.31)	\$ 1,619,920.08
4/1/2012 thru 3/31/2013	\$ (454,303.90)	\$ 3,751,932.02	\$ -	\$ 3,751,932.02
4/1/2013 thru 3/31/2014	\$ (86,166.05)	\$ 3,304,669.98	\$ (29,948.18)	\$ 3,274,721.80
4/1/2014 thru 3/31/2015	\$ (1,523,603.00)	\$ -	\$ -	\$ -
5/1/2015 thru 3/31/2016	\$ (880,641.00)	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-14:

“State the amount of debt interest utilized for test year income tax calculations, including the amount so utilized which has been allocated from the debt interest of an affiliate, and provide details of debt interest and allocation computations.”

RESPONSE:

Debt interest utilized in the normalized test year under present rates is \$10,961,000 as calculated in Penn Power Exhibit RAD-2, Adjustment No. 11 page 27, line 9.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-15:

“Provide a schedule for the test year of Federal and Pennsylvania taxes other than income taxes, per books, pro forma at present rates, and pro forma at proposed rates, including the following tax categories:

- (a) Social Security.
- (b) Unemployment.
- (c) Capital stock.
- (d) Public utility
- (e) P.U.C. assessment.
- (f) Other property taxes.
- (g) Any other appropriate tax categories.”

RESPONSE:

See Penn Power Exhibit RAD-32, Attachment A, for a schedule of taxes other than income taxes showing per budget and pro forma at present rates for the future test year.

PENNSYLVANIA POWER COMPANY
 Summary of Taxes other than Income Taxes
Twelve Months Ending April 30, 2016
 (\$000)

Line No.	Description	Per Budget	Pro Forma Under Present Rates	
		Total Electric Operating (1)	Normalizing Adjustments (2)	As Adjusted (3)
	<u>Federal</u>			
1	Federal and State payroll taxes	\$ 1,329	\$ -	\$ 1,329
	<u>State</u>			
2	Capital Stock	37	-	37
3	Gross Receipts	10,505	-	10,505
4	Public utility realty	266	-	266
5	Gross premiums	-	-	-
6	Use tax	0	-	0
	<u>Local</u>			
7	Real estate & other	79	-	79
8	TOTAL	<u>\$ 12,216</u>	<u>\$ -</u>	<u>\$ 12,216</u>

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-16:

“Submit a schedule showing the adjustments from taxable net income per books to taxable net income pro forma under existing rates and pro forma under proposed rates, together with an explanation of all normalizing adjustments. Submit detailed calculations supporting taxable income before State and Federal income taxes where the income tax is subject to allocation due to operations in another state or due to operation of other taxable utility or non-utility business, or by operating divisions or areas.”

RESPONSE:

See Penn Power Exhibit II-D-16, Attachment A to this response.

		In Thousands		
Line No.	Description	Fully Future Test Year Ending 4/30/16 Per Budget (1)	Pro-Forma Test Year Under Existing Rates (2)	Pro-Forma Test Year Under Proposed Rates (3)
1	Balance after preferred stock dividends	\$ 13,805		
2	Net utility operating income:			
3	Exhibit RAD-2, page 1, line 23, column 13		\$ 14,277	
3	Exhibit RAD-2, page 3, line 23, column 33			\$ 30,550
	Add:			
4	Income Taxes-Federal	6,042	5,483	14,225
5	Income Taxes-State	1,910	1,739	4,511
6	Provision for Deferred Income Taxes	1,486	1,841	1,841
7	Provision for Deferred Income Taxes-Credit	-	-	-
8	Investment Tax Credit	(29)	(29)	(29)
9	Book Income Subject to Tax	\$ 23,214	\$ 23,311	\$ 51,098
	Adjustments:			
10	Book Depreciation	15,365		19,931
11	Tax Depreciation	(12,560)	(18,501)	(18,501)
12	Interest expense per Ratemaking	-		10,082
13	Business Meals	16		16
14	Life Insurance	(330)		(330)
15	Energy Efficiency Deferral	595		595
16	ESOP Dividend	(207)		(207)
17	Lobbying	6		6
18	Capitalized Interest-Avoided Costs in Excess of AFC	-		-
19	FAS 123R - Restricted Stock Units	-		-
20	FAS 143	18		18
21	Price to Compare Rider	3,607		3,607
22	Default Serv. Support - Unbilled Rev.	(2,715)		(2,715)
23	Storm Damage & Other Deferrals	(1,007)		(1,007)
24	Deferred Interco Gain	4,528		4,528
25	OPEBs	(1,221)		(1,221)
26	Tax Capitalized Interest	102		102
27	Reacquired Debt - Book Amortization of Loss	937		937
28	Casualty Loss	(1,918)		(1,918)
29	Section 263	133		133
30	T&D Repairs	(5,785)		(5,785)
31	AFUDC Equity	-		-
32	Capitalized Interest-Book AFC	(113)		(113)
33	PA PTC Deferral	-		-
34	Pension Accrual	(662)		(662)

		In Thousands		
Line No.	Description	Fully Future Test Year Ending 4/30/16 Per Budget (1)	Pro-Forma Test Year Under Existing Rates (2)	Pro-Forma Test Year Under Proposed Rates (3)
35	Research & Development - 174	-		-
36	Asset Retirement Obligation	-		-
37	Capital Lease Vehicle - Book Expense	145		145
38	Universal Service Program (incl interest)	(2,615)		(2,615)
39	Other Reg Assets / Liabilities	(415)		(415)
40	CIAC - Post 86	-		-
41	State Taxable Income before Tax Preferences	\$ 19,118	\$ 4,810	\$ 55,709
42	State Tax Preference Items	0	-	-
43	State Taxable Income	\$ 19,118	\$ 4,810	\$ 55,709
	State Income Tax:			
44	Current Year	1,910	481	5,565
45	Total State Tax	\$ 1,910	\$ 481	\$ 5,565
46	Less: State Tax Preference Items	-		-
47	Federal Taxable Income (Line 40-L42-L43)	\$ 17,208	\$ 4,329	\$ 50,144

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-17:

“Submit a schedule showing for the last 5 years the income tax refunds, plus interest - net of taxes, received from the Federal government due to prior years' claims.”

RESPONSE:

See Penn Power Exhibit RAD-34, Attachment A to this response.

Pennsylvania Power Company
Income Tax Refunds Prior Year Claims

() represents refunds

		Tax Refunds	Interest Rec	0.414935 Tax On Interest	Net Interest
Received 2009					
None					
Received 2010					
NOL Carryback Claim	2009	\$ (2,687,327)	\$ -	\$ -	\$ -
Received 2011					
Audit Settlement					
	2001	\$ (10,905,659)	\$ (3,491,952)	\$ 1,448,933	\$ (2,043,019)
	2002	(923,559)	(256,175)	106,296	(149,879)
	2003	(360,981)	(90,779)	37,667	(53,112)
	2004	(772,062)	(436,556)	181,142	(255,414)
Claim for Refund					
	1998 R&D claim	\$ (182,660)	\$ (182,660)	\$ 75,792	\$ (106,868)
	1999 R&D claim	(184,541)	(184,541)	76,572	(107,968)
	2000 R&D claim	(201,378)	(201,378)	83,559	(117,819)
	2001 R&D claim	(578,331)	(578,331)	239,970	(338,361)
	2002 R&D claim	(955,684)	(955,684)	396,547	(559,137)
	2003 R&D claim	(895,907)	(895,907)	371,743	(524,164)
Received 2012					
None					
Received 2013					
None					
Total		\$ (18,648,089)	\$ (7,273,963)	\$ 3,018,222	\$ (4,255,741)

Line No.	Balance at 04/30/16		Balance at 03/31/15		Balance at 03/31/14		Balance at 12/31/13	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<u>Account 190-Accumulated Deferred Income Taxes</u>								
1	Audit Interest Settlement - Federal	6	6	6	6	6	6	6
2	Amortization Premium/Discount on Debt	109	59	59	12	12	12	12
3	Bad Debts	495	495	495	495	495	495	495
4	Charitable Contribution Limitation	54	54	54	54	54	54	54
5	Company Debt - Gain on Reacquisition	(19)	(10)	(10)	(2)	(2)	-	-
6	Consumer Education	36	36	36	36	36	36	36
7	Customer Deposits - Electric Service	2	2	2	2	2	2	2
8	Deferred Compensation	2,445	2,445	2,445	2,445	2,445	2,445	2,445
9	Energy Efficiency Conservation Phase 2	147	147	147	147	147	147	147
10	Energy Efficiency Deferral	2,099	1,854	1,854	2,052	2,052	2,132	2,132
11	Energy Efficiency Unbilled Deferral	7	7	7	7	7	7	7
12	FAS 123R - Performance Shares	1	1	1	1	1	1	1
13	FAS 123R - Restricted Stock	59	59	59	59	59	59	59
14	FAS 123R - Restricted Stock Units	69	69	69	69	69	69	69
15	FAS 143 - Accretion Expense - ARO	23	15	15	8	8	7	7
16	Federal NOL	47	47	47	47	47	47	47
17	FICA on Vacation Accrual	78	78	78	78	78	78	78
18	General Tax Reserve	78	78	78	78	78	78	78
19	Incentive Compensation	45	45	45	45	45	45	45
20	Injuries and Damages	610	610	610	610	610	610	610
21	Investment Tax Credit	56	79	79	135	135	182	182
22	Other Comprehensive Income - EDCP	389	389	389	389	389	404	404
23	Other Comprehensive Income - SERP	1	1	1	1	1	1	1
24	Pension	10,946	11,234	11,234	11,528	11,528	11,616	11,616
25	Price to Compare Rider	1,852	239	239	106	106	323	323
26	Price to Compare Unbilled Deferral	2,325	2,325	2,325	2,325	2,325	2,325	2,325
27	Reserve For Obsolescence	56	56	56	56	56	56	56
28	Smart Meter Deferral	194	194	194	194	194	194	194
29	Smart Meter Unbilled Deferral	41	41	41	41	41	41	41
30	Solar Photovoltaic Req-Unbilled Deferral	15	15	15	15	15	15	15
31	Solar Voltaic Req Charge Rider	160	157	157	71	71	50	50
32	State Income Tax - Federal Deferred Only	631	631	631	631	631	631	631
33	State Income Tax - RAR - Federal	36	36	36	36	36	36	36
34	Tax Basis Step-Up	55	57	57	60	60	61	61
35	Universal Service Cost Rider-Regulatory Asset	(520)	545	545	1,777	1,777	2,064	2,064
36	Universal Service Cost Rider Unbilled Deferral	(52)	75	75	123	123	130	130
37	Vacation Pay Accrual	985	985	985	985	985	985	985
			<u>23,561</u>	<u>23,156</u>	<u>24,722</u>	<u>24,722</u>	<u>25,432</u>	<u>25,432</u>
<u>Account 281-283 Accum. Deferred Income Taxes</u>								
38	Liberalized Depreciation	(121,981)	(117,217)	(117,217)	(115,377)	(115,377)	(114,175)	(114,175)
39	2013 PTC Administration	(75)	(75)	(75)	(75)	(75)	(75)	(75)
40	AFUDC Equity Flow Thru (Gross Up)	(1,081)	(1,081)	(1,081)	(1,081)	(1,081)	(1,100)	(1,100)
41	Company Debt - Loss on Reacquisition	(1,197)	(1,391)	(1,391)	(1,570)	(1,570)	(1,615)	(1,615)
42	Customer Advances for Construction	(42)	(42)	(42)	(42)	(42)	(42)	(42)
43	Default Service Support-Unbilled Deferral	(3,122)	(1,890)	(1,890)	(638)	(638)	(306)	(306)
44	Deferred Intercompany Gain - Fossil	(9,525)	(10,926)	(10,926)	(12,219)	(12,219)	(12,542)	(12,542)
45	Deferred Interco Gain - Transmission	(1,846)	(2,480)	(2,480)	(3,066)	(3,066)	(3,212)	(3,212)
46	Energy Efficiency Phase 2 Unbilled Deferral	(189)	(189)	(189)	(189)	(189)	(189)	(189)
47	Energy Insurance Services Cell 6	(6)	(6)	(6)	(6)	(6)	(6)	(6)
48	Environmental Projects	(272)	(272)	(272)	(272)	(272)	(272)	(272)
49	FAS 123R - Restricted Stock Unit Deduction	(180)	(180)	(180)	(180)	(180)	(180)	(180)
50	FAS 123R - Restricted Stock Deduction	(20)	(20)	(20)	(20)	(20)	(20)	(20)
51	FAS 123R - Stock Options Exercised Deduction	(1)	(1)	(1)	(1)	(1)	(1)	(1)
52	FE Service Non Property Timing Allocation	(1,454)	(1,454)	(1,454)	(1,570)	(1,570)	(1,609)	(1,609)
53	FE Service RSU 162(m) Val. Allow Allocation	(94)	(94)	(94)	(94)	(94)	(94)	(94)
54	FE Service Tax Interest Allocation	(1)	(1)	(1)	(1)	(1)	(1)	(1)
55	Other Post Employment Benefits (OPEB)	(1,520)	(1,987)	(1,987)	(2,534)	(2,534)	(2,680)	(2,680)
56	Pension EDCP-SERP Payments	(424)	(424)	(424)	(424)	(424)	(424)	(424)
57	Regulatory Assets - Other	(1,099)	(695)	(695)	(275)	(275)	-	-
58	Reverse Capital Gain	(52)	(52)	(52)	(52)	(52)	(52)	(52)
	Total Account 281-283	<u>(144,181)</u>	<u>(140,477)</u>	<u>(140,477)</u>	<u>(139,686)</u>	<u>(139,686)</u>	<u>(138,595)</u>	<u>(138,595)</u>
	Total Deferred Taxes	<u>(120,620)</u>	<u>(117,321)</u>	<u>(117,321)</u>	<u>(114,964)</u>	<u>(114,964)</u>	<u>(113,163)</u>	<u>(113,163)</u>

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-18:

“Furnish a breakdown of major items comprising prepaid and deferred income tax charges and other deferred income tax credits, reserves and associated reversals on liberalized depreciation.”

RESPONSE:

See Penn Power Exhibit RAD-35, Attachment A to this response.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-19:

“Explain how the Federal corporate graduated tax rates have been reflected for rate case purposes. If the Pennsylvania jurisdictional utility is part of a multi-corporate system, explain how the tax savings are allocated to each member of the system.”

RESPONSE:

Penn Power is not entitled to a Federal graduated tax rate. Penn Power files as a member of a Consolidated group and its taxable income exceeds where graduated rates apply. Therefore, the Company uses a flat 35% Federal income tax rate in this filing.

FirstEnergy allocates its current federal consolidated income tax liability, pursuant to an agreement approved by the Securities and Exchange Commission, in accordance with the Energy Policy Act of 2005.

Members of the FirstEnergy consolidated group follow the allocation rules under the IRS Regulations under Code Section 1552. The consolidated group is treated as one taxpayer for federal income tax. Each member is required to compute its separate company taxable income. The members with positive taxable income (Paying Members) pay the consolidated tax liability based on an allocation of its separate company income. The aggregate of all amounts paid by Members of the consolidated, as a result of the excess of each Members' Separate Return Tax liability, (as determined under Section 1.1552-1(a)(2)(ii) of the IRS Regulations) over the amount allocated to such Member as its share of the Consolidated Tax Liability under Code Section 1552 (i.e., the Tax Benefit Amount) is paid by FirstEnergy to the other Members (the “Loss Members”) which had tax deductions, losses and credits to which such payments by the Paying Members are attributable. The apportionment of such payments among Loss Members is allocated among the group Members pursuant to IRS Regulations Section 1.1502-21(b).

However, the Tax Benefit Amount allocated to FirstEnergy and paid to FirstEnergy as a result of its being a Loss Member is limited to its Tax Benefit Amount determined by multiplying its total loss benefit amount by a fraction, the numerator of which is FirstEnergy's interest deduction attributable to Acquisition Indebtedness, and the denominator of which is the sum of all of FirstEnergy's deductions. The portion of FirstEnergy's Tax Benefit Amount which cannot be allocated and paid to FirstEnergy due to the operation of this limitation is reallocated to Paying Members of the Consolidated Group other than FirstEnergy in accordance with the method described in Sections 1.1502-33(d)(3) and 1.1552-1(a)(2) of the IRS Regulations.

The general effect of the method is to first allocate the consolidated tax liability among the Members of the Consolidated Group on the basis of the percentage of the total consolidated tax which the tax of such Member, if computed on a separate return basis would bear to the total amount of the taxes for all Members of the group so computed. Then the method allocates an additional amount (the "Tax Benefit Amount") to each Member up to, but not greater than, the excess, if any, of its Separate Return Tax liability, over the amount allocated to such Member in the previous sentence. The total of the Tax Benefit Amounts allocated to Members results in payments to the Members who had items of deduction, loss or credits to which such Tax Benefit Amount is attributable.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-20:

“Explain the treatment given to costs of removal in the income tax calculation and the basis for such treatment.”

RESPONSE:

On property acquired from 1971 to 1980, the company utilizes the A.D.R. Tax Depreciation Method.

Under those regulations, when an asset is retired, the cost of dismantling, demolishing, or removing is deductible as a current year's expense.

On property acquired in 1981 and subsequent thereto, the company (in accordance with ACRS and MACRS regulations) elected to use Cost of Removal in the calculation of gain or loss on retirements of 1981 and subsequent property.

Pennsylvania Power Company
Net Operating Loss Carryforwards - Federal & State
Cumulative Balance at 12-31-14

	2011	2012	2013	2014
Federal NOL	\$ -	\$ -	\$ -	\$ -
PA NOL	3,378,018	-	-	-
2012 Utilization	(3,085,152)	-	-	-
2013 Utilization	(292,866)	-	-	-
Balance 12/31/13	\$ -	\$ -	\$ -	\$ -

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-21:

“Show income tax loss/gain carryovers from previous years. Show loss/gain carryovers by years of origin and amounts remaining by years at the beginning of the test year.”

RESPONSE:

See Penn Power Exhibit RAD-38, Attachment A, the Net Operating Loss (NOL) Carryforward schedule of this response.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-22:

“State whether the company eliminates tax savings by the payment of actual interest on construction work in progress not in rate base claim. If response is affirmative:

- (a) Set forth amount of construction claimed in this tax savings reduction, and explain the basis for this amount
- (b) Explain the manner in which the debt portion of this construction is determined for purposes of the deferral calculations.
- (c) State the interest rate used to calculate interest on this construction debt portion, and the manner in which it is derived.
- (d) Provide details of calculation to determine tax savings reduction, and state whether State taxes are increased to reflect the construction interest elimination.”

RESPONSE:

One of the revisions made to the Internal Revenue Code (IRC) by the Tax Reform Act of 1996 was the elimination of the current deduction for construction period interest. The IRC now requires construction period interest to be capitalized for tax purposes using an avoided cost methodology. This methodology results in a similar required capitalized interest amount for tax purposes than the debt component of AFUDC. Therefore, there are no current tax savings to eliminate.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-23:

“Under section 1552 of the Internal Revenue Code (26 U.S.C.A. § 1552) and 26 CFR 1.1552-1 (1983), if applicable, a parent company, in filing a consolidated income tax return for the group, must choose one of four options by which it must allocate total income tax liability of the group to the participating members to determine each member’s tax liability to the Federal government (if this interrogatory is not applicable, so state):

- (a) State what option has been chosen by the group.
- (b) Provide, in summary form, the amount of tax liability that has been allocated to each of the participating members in the consolidated income tax return for the test year and the most recent 3 years for which data is available.
- (c) Provide a schedule, in summary form, of contributions, which were determined on the basis of separate tax return calculations, made by each of the participating members to the tax liability indicated in the consolidated group tax return. Provide total amounts of actual payments to the tax depository for the tax year, as computed on the basis of separate returns of members.
- (d) Provide the most recent annual income tax return for the group.
- (e) Provide details of the amount of the net operating losses of any member allocated to the income tax returns of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.
- (f) Provide details of the amount of net negative income taxes, after all tax credits are accounted for, of any member allocated to the income tax return of each of the members of the consolidated group for the test year and the 3 most recent years for which data is available, together with a summary of the actual tax payments for those years.”

RESPONSE:

- (a) The option used is Reg. § 1.1552-1(a)(2) – the tax liability of the group is allocated based on the percentage of total tax computed on a separate basis for each member over the total amount of tax for all members of the group so computed.

- (b) See Penn Power Exhibit RAD-40, Attachment A¹, page 1, for the amount of the tax liability that has been allocated to each of the participating members in the Consolidated Federal income tax return for the most recent three years.
- (c) See Penn Power Exhibit RAD-40, Attachment A, pages 7 – 39, for the payments and refunds made for the most recent filed returns for years 2010, 2011, and 2012 as computed on the basis of separate returns of members.
- (d) See Penn Power Exhibit RAD-40, Attachment A, pages 2 – 6, for a copy of the U.S. Corporation Income Tax Return (Form 1120) as filed by FirstEnergy Corp. and Subsidiaries for the year 2012.
- (e) See Penn Power Exhibit RAD-40, Attachment A, pages 2 – 39.
- (f) See Penn Power Exhibit RAD-40, Attachment A, pages 2 – 39.

¹ Attachment A to Penn Power Exhibit RAD-40 is **Highly Confidential** and is being provided to the Commission in hard copy only.

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2013 - March, 2014

Vintage Year	Deferral of Taxes		Total	Pro Forma Under Present Rates	
	State	Federal		Normalizing Adjustments	Total
Provision: 1970	\$0	(\$86)	(\$86)		(\$86)
1971	0	(297)	(297)		(297)
1972	0	10,706	10,706		10,706
1973	0	154,600	154,600		154,600
1974	0	164	164		164
1975	0	58,974	58,974		58,974
1976	0	14,559	14,559		14,559
1977	0	4,596	4,596		4,596
1978	0	8,289	8,289		8,289
1979	0	(856)	(856)		(856)
1980	0	2,142	2,142		2,142
1981	0	3,638	3,638		3,638
1982	0	38	38		38
1983	0	42	42		42
1984	0	206	206		206
1985	0	47	47		47
1986	0	36	36		36
1987	0	8	8		8
1987 A	0	0	0		0
1988	0	17,204	17,204		17,204
1988 A	0	0	0		0
1989	0	17,359	17,359		17,359
1989 A	0	116	116		116
1990	0	20,340	20,340		20,340
1990 A	0	56	56		56
1991	0	21,264	21,264		21,264
1992	0	14,522	14,522		14,522
1993	0	66,246	66,246		66,246
1993 A	0	(151)	(151)		(151)
1994	0	117,161	117,161		117,161
1995	0	128,657	128,657		128,657
1996	0	125,231	125,231		125,231
1997	0	89,775	89,775		89,775
1998	0	42,485	42,485		42,485
1999	0	78,153	78,153		78,153
2000	0	85,868	85,868		85,868
2001	0	116,462	116,462		116,462
2001 30%	0	9,886	9,886		9,886
2002	0	51,271	51,271		51,271
2002 30%	0	35,762	35,762		35,762
2003	0	21,813	21,813		21,813
2003 30%	0	38,694	38,694		38,694
2003 50%	0	16,494	16,494		16,494
2004	0	(142)	(142)		(142)
2004 30%	0	12,036	12,036		12,036
2004 50%	0	106,802	106,802		106,802
2005	0	130,191	130,191		130,191
2006	0	153,674	153,674		153,674
2007	0	254,232	254,232		254,232
2008	0	133,908	133,908		133,908
2008 50%	0	88,706	88,706		88,706
2009	0	(22,026)	(22,026)		(22,026)
2009 50%	0	185,543	185,543		185,543
2010	0	6,930	6,930		6,930
2010 100%	0	1,474	1,474		1,474
2010 50%	0	81,915	81,915		81,915
2011	0	1,847	1,847		1,847
2011 100%	0	26,049	26,049		26,049
2011 50%	0	34,379	34,379		34,379
2012	0	(73,694)	(73,694)		(73,694)
2012 50%	0	291,255	291,255		291,255
2013	0	103,412	103,412		103,412
2013 50%	0	2,778,115	2,778,115		2,778,115
2014	0	824,139	824,139		824,139
Total Provision	\$0	\$6,490,220	\$6,490,220	\$0	\$6,490,220

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2013 - March, 2014

Reversal	Vintage Year	Deferral of Taxes		Total	Pro Forma Under Present Rates	
		State	Federal		Normalizing Adjustments	Total
	1970	\$0	(\$2,225)	(\$2,225)		(\$2,225)
	1971	0	(10,087)	(10,087)		(10,087)
	1972	0	(1,598)	(1,598)		(1,598)
	1973	0	(15,727)	(15,727)		(15,727)
	1974	0	(13,318)	(13,318)		(13,318)
	1975	0	(7,473)	(7,473)		(7,473)
	1976	0	(1,074)	(1,074)		(1,074)
	1977	0	(10,123)	(10,123)		(10,123)
	1978	0	(19,435)	(19,435)		(19,435)
	1979	0	(21,133)	(21,133)		(21,133)
	1980	0	(43,548)	(43,548)		(43,548)
	1981	0	(16,907)	(16,907)		(16,907)
	1982	0	(20,333)	(20,333)		(20,333)
	1983	0	(29,500)	(29,500)		(29,500)
	1984	0	(40,312)	(40,312)		(40,312)
	1985	0	(40,816)	(40,816)		(40,816)
	1986	0	(45,245)	(45,245)		(45,245)
	1987	0	(37,183)	(37,183)		(37,183)
	1987 A	0	(3,282)	(3,282)		(3,282)
	1988	0	(63,311)	(63,311)		(63,311)
	1988 A	0	(1,150)	(1,150)		(1,150)
	1989	0	(52,638)	(52,638)		(52,638)
	1989 A	0	(372)	(372)		(372)
	1990	0	(76,504)	(76,504)		(76,504)
	1990 A	0	(210)	(210)		(210)
	1991	0	(64,361)	(64,361)		(64,361)
	1992	0	(63,328)	(63,328)		(63,328)
	1993	0	(112,199)	(112,199)		(112,199)
	1993 A	0	2	2		2
	1994	0	(56,835)	(56,835)		(56,835)
	1995	0	(72,580)	(72,580)		(72,580)
	1996	0	(67,718)	(67,718)		(67,718)
	1997	0	(41,478)	(41,478)		(41,478)
	1998	0	(2,964)	(2,964)		(2,964)
	1999	0	(6,715)	(6,715)		(6,715)
	2000	0	(99,032)	(99,032)		(99,032)
	2001	0	(39,965)	(39,965)		(39,965)
	2001 30%	0	(1,227)	(1,227)		(1,227)
	2002	0	(15,135)	(15,135)		(15,135)
	2002 30%	0	(10,139)	(10,139)		(10,139)
	2003	0	(88,825)	(88,825)		(88,825)
	2003 30%	0	5,250	5,250		5,250
	2003 50%	0	(460)	(460)		(460)
	2004	0	(45,895)	(45,895)		(45,895)
	2004 30%	0	(217)	(217)		(217)
	2004 50%	0	22,600	22,600		22,600
	2005	0	(68,829)	(68,829)		(68,829)
	2006	0	(131,154)	(131,154)		(131,154)
	2007	0	(191,038)	(191,038)		(191,038)
	2008	0	(104,807)	(104,807)		(104,807)
	2008 50%	0	(61,322)	(61,322)		(61,322)
	2009	0	(84,366)	(84,366)		(84,366)
	2009 50%	0	(15,289)	(15,289)		(15,289)
	2010	0	24,991	24,991		24,991
	2010 100%	0	(47,804)	(47,804)		(47,804)
	2010 50%	0	(46,527)	(46,527)		(46,527)
	2011	0	(218,849)	(218,849)		(218,849)
	2011 100%	0	(175,165)	(175,165)		(175,165)
	2011 50%	0	(7,533)	(7,533)		(7,533)
	2012	0	(46,230)	(46,230)		(46,230)
	2012 50%	0	(129,748)	(129,748)		(129,748)
	2013	0	509	509		509
	2013 50%	0	(3,597)	(3,597)		(3,597)
	2014	0	4,468	4,468		4,468
Total Reversal		\$0	(\$2,637,013)	(\$2,637,013)	\$0	(\$2,637,013)
Net Provision		\$0	\$3,853,208	\$3,853,208	\$0	\$3,853,208

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2013 - March, 2014

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates		State	Deferral of Taxes		Total
		State	Federal		Federal	Federal	
Provision							
1970	(\$246)	0%	35%	\$0		(\$86)	(\$86)
1971	(847)	0%	35%	0		(297)	(\$297)
1972	30,589	0%	35%	0		10,706	\$10,706
1973	441,713	0%	35%	0		154,600	\$154,600
1974	469	0%	35%	0		164	\$164
1975	168,496	0%	35%	0		58,974	\$58,974
1976	41,598	0%	35%	0		14,559	\$14,559
1977	13,133	0%	35%	0		4,596	\$4,596
1978	23,683	0%	35%	0		8,289	\$8,289
1979	(2,445)	0%	35%	0		(856)	(\$856)
1980	6,119	0%	35%	0		2,142	\$2,142
1981	10,395	0%	35%	0		3,638	\$3,638
1982	109	0%	35%	0		38	\$38
1983	121	0%	35%	0		42	\$42
1984	589	0%	35%	0		206	\$206
1985	135	0%	35%	0		47	\$47
1986	104	0%	35%	0		36	\$36
1987	(14)	0%	35%	0		(5)	(\$5)
1987 A	-	0%	35%	0		0	\$0
1988	49,106	0%	35%	0		17,187	\$17,187
1988 A	-	0%	35%	0		0	\$0
1989	49,462	0%	35%	0		17,312	\$17,312
1989 A	332	0%	35%	0		116	\$116
1990	57,872	0%	35%	0		20,255	\$20,255
1990 A	161	0%	35%	0		56	\$56
1991	60,725	0%	35%	0		21,254	\$21,254
1992	41,314	0%	35%	0		14,460	\$14,460
1993	188,237	0%	35%	0		65,883	\$65,883
1993 A	(450)	0%	35%	0		(158)	(\$158)
1994	328,749	0%	35%	0		115,062	\$115,062
1995	362,979	0%	35%	0		127,043	\$127,043
1996	349,077	0%	35%	0		122,177	\$122,177
1997	248,455	0%	35%	0		86,959	\$86,959
1998	113,049	0%	35%	0		39,567	\$39,567
1999	156,693	0%	35%	0		54,843	\$54,843
2000	234,721	0%	35%	0		82,152	\$82,152
2001	292,734	0%	35%	0		102,457	\$102,457
2001 30%	25,226	0%	35%	0		8,829	\$8,829
2002	139,189	0%	35%	0		48,716	\$48,716
2002 30%	97,053	0%	35%	0		33,969	\$33,969
2003	58,213	0%	35%	0		20,374	\$20,374
2003 30%	103,463	0%	35%	0		36,212	\$36,212
2003 50%	42,613	0%	35%	0		14,914	\$14,914
2004	(3,501)	0%	35%	0		(1,225)	(\$1,225)
2004 30%	31,493	0%	35%	0		11,022	\$11,022
2004 50%	226,953	0%	35%	0		79,434	\$79,434
2005	300,497	0%	35%	0		105,174	\$105,174
2006	425,534	0%	35%	0		148,937	\$148,937
2007	662,599	0%	35%	0		231,909	\$231,909
2008	355,613	0%	35%	0		124,465	\$124,465
2008 50%	222,609	0%	35%	0		77,913	\$77,913
2009	(65,232)	0%	35%	0		(22,831)	(\$22,831)
2009 50%	459,965	0%	35%	0		160,988	\$160,988
2010	19,688	0%	35%	0		6,891	\$6,891
2010 100%	4,211	0%	35%	0		1,474	\$1,474
2010 50%	209,729	0%	35%	0		73,405	\$73,405
2011	6,312	0%	35%	0		2,209	\$2,209
2011 100%	74,425	0%	35%	0		26,049	\$26,049
2011 50%	84,988	0%	35%	0		29,746	\$29,746
2012	(194,276)	0%	35%	0		(67,996)	(\$67,996)
2012 50%	809,746	0%	35%	0		283,411	\$283,411
2013	273,103	0%	35%	0		95,586	\$95,586
2013 50%	7,876,478	0%	35%	0		2,756,767	\$2,756,767
2014	2,354,683	0%	35%	0		824,139	\$824,139
	<u>17,868,287</u>			<u>\$0</u>		<u>\$6,253,901</u>	<u>\$6,253,901</u>
Provision Gains/Losses Page (6)				\$0		\$236,320	\$236,320
Provision				\$0		\$6,490,221	\$6,490,221

PENN POWER
 Computation of Deferred Income Taxes
Based upon Electric Plant in Service April, 2013 - March, 2014

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates		Deferral of Taxes		Total
		State	Federal	State	Federal	
Reversal						
1970	(\$6,357)	0%	35%	0	(\$2,225)	(\$2,225)
1971	(28,819)	0%	35%	0	(10,087)	(\$10,087)
1972	(4,565)	0%	35%	0	(1,598)	(\$1,598)
1973	(44,935)	0%	35%	0	(15,727)	(\$15,727)
1974	(38,050)	0%	35%	0	(13,318)	(\$13,318)
1975	(21,351)	0%	35%	0	(7,473)	(\$7,473)
1976	(3,067)	0%	35%	0	(1,074)	(\$1,074)
1977	(28,922)	0%	35%	0	(10,123)	(\$10,123)
1978	(55,530)	0%	35%	0	(19,435)	(\$19,435)
1979	(60,379)	0%	35%	0	(21,133)	(\$21,133)
1980	(124,422)	0%	35%	0	(43,548)	(\$43,548)
1981	(48,306)	0%	35%	0	(16,907)	(\$16,907)
1982	(58,094)	0%	35%	0	(20,333)	(\$20,333)
1983	(84,285)	0%	35%	0	(29,500)	(\$29,500)
1984	(115,177)	0%	35%	0	(40,312)	(\$40,312)
1985	(116,618)	0%	35%	0	(40,816)	(\$40,816)
1986	(129,272)	0%	35%	0	(45,245)	(\$45,245)
1987	(106,238)	0%	35%	0	(37,183)	(\$37,183)
1987 A	(9,378)	0%	35%	0	(3,282)	(\$3,282)
1988	(180,889)	0%	35%	0	(63,311)	(\$63,311)
1988 A	(3,286)	0%	35%	0	(1,150)	(\$1,150)
1989	(150,396)	0%	35%	0	(52,638)	(\$52,638)
1989 A	(1,063)	0%	35%	0	(372)	(\$372)
1990	(218,583)	0%	35%	0	(76,504)	(\$76,504)
1990 A	(600)	0%	35%	0	(210)	(\$210)
1991	(183,888)	0%	35%	0	(64,361)	(\$64,361)
1992	(180,937)	0%	35%	0	(63,328)	(\$63,328)
1993	(320,569)	0%	35%	0	(112,199)	(\$112,199)
1993 A	5	0%	35%	0	2	\$2
1994	(162,386)	0%	35%	0	(56,835)	(\$56,835)
1995	(207,371)	0%	35%	0	(72,580)	(\$72,580)
1996	(193,480)	0%	35%	0	(67,718)	(\$67,718)
1997	(118,510)	0%	35%	0	(41,478)	(\$41,478)
1998	(8,468)	0%	35%	0	(2,964)	(\$2,964)
1999	(19,186)	0%	35%	0	(6,715)	(\$6,715)
2000	(282,948)	0%	35%	0	(99,032)	(\$99,032)
2001	(114,186)	0%	35%	0	(39,965)	(\$39,965)
2001 30%	(3,506)	0%	35%	0	(1,227)	(\$1,227)
2002	(43,241)	0%	35%	0	(15,135)	(\$15,135)
2002 30%	(28,968)	0%	35%	0	(10,139)	(\$10,139)
2003	(253,786)	0%	35%	0	(88,825)	(\$88,825)
2003 30%	14,999	0%	35%	0	5,250	\$5,250
2003 50%	(1,314)	0%	35%	0	(460)	(\$460)
2004	(131,128)	0%	35%	0	(45,895)	(\$45,895)
2004 30%	(621)	0%	35%	0	(217)	(\$217)
2004 50%	64,573	0%	35%	0	22,600	\$22,600
2005	(196,654)	0%	35%	0	(68,829)	(\$68,829)
2006	(374,724)	0%	35%	0	(131,154)	(\$131,154)
2007	(545,823)	0%	35%	0	(191,038)	(\$191,038)
2008	(299,450)	0%	35%	0	(104,807)	(\$104,807)
2008 50%	(175,205)	0%	35%	0	(61,322)	(\$61,322)
2009	(241,046)	0%	35%	0	(84,366)	(\$84,366)
2009 50%	(43,683)	0%	35%	0	(15,289)	(\$15,289)
2010	71,404	0%	35%	0	24,991	\$24,991
2010 100%	(136,583)	0%	35%	0	(47,804)	(\$47,804)
2010 50%	(132,935)	0%	35%	0	(46,527)	(\$46,527)
2011	(625,283)	0%	35%	0	(218,849)	(\$218,849)
2011 100%	(500,471)	0%	35%	0	(175,165)	(\$175,165)
2011 50%	(21,522)	0%	35%	0	(7,533)	(\$7,533)
2012	(132,086)	0%	35%	0	(46,230)	(\$46,230)
2012 50%	(370,709)	0%	35%	0	(129,748)	(\$129,748)
2013	1,455	0%	35%	0	509	\$509
2013 50%	(10,276)	0%	35%	0	(3,597)	(\$3,597)
2014	12,767	0%	35%	0	4,468	\$4,468
Reversal	(7,534,322)			\$0	(\$2,637,013)	(\$2,637,013)
Total Net Provison				\$0	\$3,853,208	\$3,853,208

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2013 - March, 2014
Deferred Income Taxes Related to Gains/Losses

Vintage Year	Per Power Tax Report 52		(Gain)/Loss recognized	Statutory/ Effective Rates		Deferral of Taxes		
	Basis of Property	Accumulated Tax Depreciation		State	Federal	State	Federal	Total
	1	2	3	4	5	6 = 3 x 4	7 = 3 x 5	8 = 6+7
Provision - 4/13-3/14								
1987	60,003	59,967	36	0%	35%	0	13	13
1987 A	5,668	5,668	0	0%	35%	0	0	0
1988	85,041	84,994	48	0%	35%	0	17	17
1988 A	2,079	2,079	0	0%	35%	0	0	0
1989	86,936	86,801	135	0%	35%	0	47	47
1989 A	615	615	0	0%	35%	0	0	0
1990	100,437	100,195	242	0%	35%	0	85	85
1990 A	287	287	0	0%	35%	0	0	0
1991	161,716	161,686	30	0%	35%	0	11	11
1992	161,295	161,119	177	0%	35%	0	62	62
1993	124,056	123,019	1,037	0%	35%	0	363	363
1993 A	41	22	19	0%	35%	0	7	7
1994	146,312	140,315	5,997	0%	35%	0	2,099	2,099
1995	61,960	57,347	4,613	0%	35%	0	1,614	1,614
1996	72,990	64,264	8,726	0%	35%	0	3,054	3,054
1997	51,128	43,084	8,044	0%	35%	0	2,815	2,815
1998	41,407	33,072	8,336	0%	35%	0	2,917	2,917
1999	235,434	168,832	66,602	0%	35%	0	23,311	23,311
2000	68,361	57,743	10,618	0%	35%	0	3,716	3,716
2001	114,817	74,802	40,016	0%	35%	0	14,006	14,006
2001 30%	8,633	5,614	3,019	0%	35%	0	1,057	1,057
2002	20,056	12,756	7,300	0%	35%	0	2,555	2,555
2002 30%	13,670	8,548	5,122	0%	35%	0	1,793	1,793
2003	7,714	3,604	4,110	0%	35%	0	1,438	1,438
2003 30%	21,361	14,271	7,090	0%	35%	0	2,481	2,481
2003 50%	10,630	6,117	4,513	0%	35%	0	1,580	1,580
2004	6,190	3,094	3,096	0%	35%	0	1,084	1,084
2004 30%	12,318	9,422	2,896	0%	35%	0	1,014	1,014
2004 50%	161,079	82,885	78,194	0%	35%	0	27,368	27,368
2005	138,397	66,921	71,476	0%	35%	0	25,017	25,017
2006	29,640	16,106	13,533	0%	35%	0	4,737	4,737
2007	154,606	90,826	63,780	0%	35%	0	22,323	22,323
2008	42,701	15,719	26,982	0%	35%	0	9,444	9,444
2008 50%	58,203	27,366	30,837	0%	35%	0	10,793	10,793
2009	16,811	14,511	2,300	0%	35%	0	805	805
2009 50%	101,696	31,537	70,158	0%	35%	0	24,555	24,555
2010	358	245	113	0%	35%	0	40	40
2010 100%	0	0	0	0%	35%	0	0	0
2010 50%	46,660	22,347	24,314	0%	35%	0	8,510	8,510
2011	(829)	205	(1,035)	0%	35%	0	(362)	(362)
2011 100%	0	0	0	0%	35%	0	0	0
2011 50%	33,462	20,225	13,237	0%	35%	0	4,633	4,633
2012	(17,659)	(1,380)	(16,279)	0%	35%	0	(5,698)	(5,698)
2012 50%	35,128	12,716	22,413	0%	35%	0	7,844	7,844
2013	24,357	1,996	22,361	0%	35%	0	7,826	7,826
2013 50%	66,585	5,593	60,993	0%	35%	0	21,347	21,347
Provision - (gains/losses)						236,320	236,320	

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2014 - April, 2015

Provision:	Vintage Year	Deferral of Taxes			Pro Forma Under Present Rates	
		State	Federal	Total	Normalizing Adjustments	Total
	1970	\$0	(95)	(\$95)		(\$95)
	1971	0	(302)	(302)		(302)
	1972	0	(562)	(562)		(562)
	1973	0	(14)	(14)		(14)
	1974	0	(39)	(39)		(39)
	1975	0	1,959	1,959		1,959
	1976	0	11,041	11,041		11,041
	1977	0	437	437		437
	1978	0	(1,604)	(1,604)		(1,604)
	1979	0	(8,688)	(8,688)		(8,688)
	1980	0	(5,831)	(5,831)		(5,831)
	1981	0	15	15		15
	1982	0	238	238		238
	1983	0	234	234		234
	1984	0	1,062	1,062		1,062
	1985	0	229	229		229
	1986	0	169	169		169
	1987	0	35	35		35
	1987 A	0	0	0		0
	1988	0	220	220		220
	1988 A	0	0	0		0
	1989	0	341	341		341
	1989 A	0	1	1		1
	1990	0	551	551		551
	1990 A	0	1	1		1
	1991	0	317	317		317
	1992	0	318	318		318
	1993	0	449	449		449
	1993 A	0	(167)	(167)		(167)
	1994	0	27,397	27,397		27,397
	1995	0	99,030	99,030		99,030
	1996	0	124,398	124,398		124,398
	1997	0	86,330	86,330		86,330
	1998	0	34,137	34,137		34,137
	1999	0	23,599	23,599		23,599
	2000	0	84,599	84,599		84,599
	2001	0	92,713	92,713		92,713
	2001 30%	0	6,927	6,927		6,927
	2002	0	53,585	53,585		53,585
	2002 30%	0	36,305	36,305		36,305
	2003	0	24,952	24,952		24,952
	2003 30%	0	38,102	38,102		38,102
	2003 50%	0	13,969	13,969		13,969
	2004	0	(1,881)	(1,881)		(1,881)
	2004 30%	0	7,790	7,790		7,790
	2004 50%	0	32,643	32,643		32,643
	2005	0	120,823	120,823		120,823
	2006	0	142,414	142,414		142,414
	2007	0	216,971	216,971		216,971
	2008	0	126,723	126,723		126,723
	2008 50%	0	70,515	70,515		70,515
	2009	0	(33,034)	(33,034)		(33,034)
	2009 50%	0	140,232	140,232		140,232
	2010	0	1,883	1,883		1,883
	2010 100%	0	39	39		39
	2010 50%	0	64,294	64,294		64,294
	2011	0	(7,276)	(7,276)		(7,276)
	2011 100%	0	214	214		214
	2011 50%	0	5,377	5,377		5,377
	2012	0	(78,577)	(78,577)		(78,577)
	2012 50%	0	168,938	168,938		168,938
	2013	0	83,054	83,054		83,054
	2013 50%	0	205,212	205,212		205,212
	2014	0	3,672,876	3,672,876		3,672,876
	2015	0	1,132,050	1,132,050		1,132,050
Total Provision		\$0	\$6,817,640	\$6,817,640	\$0	\$6,817,640

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2014 - April, 2015

Vintage Year	Deferral of Taxes		Total	Pro Forma Under Present Rates	
	State	Federal		Normalizing Adjustments	Total
Reversal					
1970	\$0	(8,381)	(\$8,381)		(\$8,381)
1971	0	(14,664)	(14,664)		(14,664)
1972	0	(5,741)	(5,741)		(5,741)
1973	0	(23,118)	(23,118)		(23,118)
1974	0	(17,942)	(17,942)		(17,942)
1975	0	(17,116)	(17,116)		(17,116)
1976	0	(4,233)	(4,233)		(4,233)
1977	0	(18,301)	(18,301)		(18,301)
1978	0	(24,501)	(24,501)		(24,501)
1979	0	(24,131)	(24,131)		(24,131)
1980	0	(37,051)	(37,051)		(37,051)
1981	0	(29,230)	(29,230)		(29,230)
1982	0	(29,561)	(29,561)		(29,561)
1983	0	(36,094)	(36,094)		(36,094)
1984	0	(49,738)	(49,738)		(49,738)
1985	0	(56,646)	(56,646)		(56,646)
1986	0	(60,694)	(60,694)		(60,694)
1987	0	(52,088)	(52,088)		(52,088)
1987 A	0	(4,660)	(4,660)		(4,660)
1988	0	(78,624)	(78,624)		(78,624)
1988 A	0	(1,468)	(1,468)		(1,468)
1989	0	(69,352)	(69,352)		(69,352)
1989 A	0	(492)	(492)		(492)
1990	0	(94,986)	(94,986)		(94,986)
1990 A	0	(260)	(260)		(260)
1991	0	(103,399)	(103,399)		(103,399)
1992	0	(109,332)	(109,332)		(109,332)
1993	0	(150,504)	(150,504)		(150,504)
1993 A	0	2	2		2
1994	0	(61,889)	(61,889)		(61,889)
1995	0	(79,676)	(79,676)		(79,676)
1996	0	(83,532)	(83,532)		(83,532)
1997	0	(48,033)	(48,033)		(48,033)
1998	0	(1,640)	(1,640)		(1,640)
1999	0	(32,007)	(32,007)		(32,007)
2000	0	(112,823)	(112,823)		(112,823)
2001	0	(52,354)	(52,354)		(52,354)
2001 30%	0	(2,354)	(2,354)		(2,354)
2002	0	(17,748)	(17,748)		(17,748)
2002 30%	0	(12,881)	(12,881)		(12,881)
2003	0	(96,348)	(96,348)		(96,348)
2003 30%	0	4,739	4,739		4,739
2003 50%	0	(2,123)	(2,123)		(2,123)
2004	0	(49,749)	(49,749)		(49,749)
2004 30%	0	(877)	(877)		(877)
2004 50%	0	(2,227)	(2,227)		(2,227)
2005	0	(109,567)	(109,567)		(109,567)
2006	0	(125,101)	(125,101)		(125,101)
2007	0	(174,400)	(174,400)		(174,400)
2008	0	(102,550)	(102,550)		(102,550)
2008 50%	0	(85,455)	(85,455)		(85,455)
2009	0	(83,238)	(83,238)		(83,238)
2009 50%	0	(35,494)	(35,494)		(35,494)
2010	0	17,209	17,209		17,209
2010 100%	0	(60,653)	(60,653)		(60,653)
2010 50%	0	(71,941)	(71,941)		(71,941)
2011	0	(283,447)	(283,447)		(283,447)
2011 100%	0	(219,860)	(219,860)		(219,860)
2011 50%	0	(36,168)	(36,168)		(36,168)
2012	0	(57,887)	(57,887)		(57,887)
2012 50%	0	(159,856)	(159,856)		(159,856)
2013	0	115	115		115
2013 50%	0	(17,810)	(17,810)		(17,810)
2014	0	16,472	16,472		16,472
2015	0	(10,279)	(10,279)		(10,279)
Total Reversal	\$0	(\$3,373,736)	(\$3,373,736)	\$0	(\$3,373,736)
Net Provision	\$0	\$3,443,905	\$3,443,905	\$0	\$3,443,905

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2014 - April, 2015

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates		Deferral of Taxes		Total
		State	Federal	State	Federal	
Provision						
1970	(\$271)	0%	35%	\$0	(95)	(\$95)
1971	(864)	0%	35%	0	(302)	(302)
1972	(1,606)	0%	35%	0	(562)	(562)
1973	(41)	0%	35%	0	(14)	(14)
1974	(111)	0%	35%	0	(39)	(39)
1975	5,596	0%	35%	0	1,959	1,959
1976	31,546	0%	35%	0	11,041	11,041
1977	1,250	0%	35%	0	437	437
1978	(4,583)	0%	35%	0	(1,604)	(1,604)
1979	(24,824)	0%	35%	0	(8,688)	(8,688)
1980	(16,659)	0%	35%	0	(5,831)	(5,831)
1981	42	0%	35%	0	15	15
1982	679	0%	35%	0	238	238
1983	670	0%	35%	0	234	234
1984	3,036	0%	35%	0	1,062	1,062
1985	654	0%	35%	0	229	229
1986	482	0%	35%	0	169	169
1987	(54)	0%	35%	0	(19)	(19)
1987 A	-	0%	35%	0	0	0
1988	429	0%	35%	0	150	150
1988 A	-	0%	35%	0	0	0
1989	405	0%	35%	0	142	142
1989 A	4	0%	35%	0	1	1
1990	557	0%	35%	0	195	195
1990 A	2	0%	35%	0	1	1
1991	780	0%	35%	0	273	273
1992	187	0%	35%	0	65	65
1993	1,271	0%	35%	0	445	445
1993 A	(556)	0%	35%	0	(195)	(195)
1994	76,518	0%	35%	0	26,781	26,781
1995	278,325	0%	35%	0	97,414	97,414
1996	346,621	0%	35%	0	121,317	121,317
1997	236,610	0%	35%	0	82,813	82,813
1998	92,773	0%	35%	0	32,471	32,471
1999	42,806	0%	35%	0	14,982	14,982
2000	218,220	0%	35%	0	76,377	76,377
2001	242,335	0%	35%	0	84,817	84,817
2001 30%	18,045	0%	35%	0	6,316	6,316
2002	138,937	0%	35%	0	48,628	48,628
2002 30%	93,281	0%	35%	0	32,648	32,648
2003	59,177	0%	35%	0	20,712	20,712
2003 30%	96,442	0%	35%	0	33,755	33,755
2003 50%	31,487	0%	35%	0	11,021	11,021
2004	(10,878)	0%	35%	0	(3,807)	(3,807)
2004 30%	19,803	0%	35%	0	6,931	6,931
2004 50%	71,197	0%	35%	0	24,919	24,919
2005	267,068	0%	35%	0	93,474	93,474
2006	336,251	0%	35%	0	117,688	117,688
2007	526,248	0%	35%	0	184,187	184,187
2008	312,276	0%	35%	0	109,296	109,296
2008 50%	159,481	0%	35%	0	55,818	55,818
2009	(95,898)	0%	35%	0	(33,564)	(33,564)
2009 50%	317,776	0%	35%	0	111,221	111,221
2010	5,368	0%	35%	0	1,879	1,879
2010 100%	113	0%	35%	0	39	39
2010 50%	156,743	0%	35%	0	54,860	54,860
2011	(15,837)	0%	35%	0	(5,543)	(5,543)
2011 100%	612	0%	35%	0	214	214
2011 50%	12,761	0%	35%	0	4,466	4,466
2012	(200,997)	0%	35%	0	(70,349)	(70,349)
2012 50%	451,658	0%	35%	0	158,080	158,080
2013	219,964	0%	35%	0	76,988	76,988
2013 50%	547,085	0%	35%	0	191,480	191,480
2014	10,436,432	0%	35%	0	3,652,751	3,652,751
2015	3,234,427	0%	35%	0	1,132,050	1,132,050
	<u>\$18,721,246</u>			<u>\$0</u>	<u>\$6,552,436</u>	<u>\$6,552,436</u>
Provision Gains/Losses Page (11)				\$0	\$265,204	\$265,204
Provision				\$0	\$6,817,640	\$6,817,640

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2014 - April, 2015

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates		Deferral of Taxes		Total
		State	Federal	State	Federal	
Reversal						
1970	(\$23,946)	0%	35%	\$0	(\$8,381)	(\$8,381)
1971	(41,896)	0%	35%	0	(14,664)	(14,664)
1972	(16,402)	0%	35%	0	(5,741)	(5,741)
1973	(66,050)	0%	35%	0	(23,118)	(23,118)
1974	(51,263)	0%	35%	0	(17,942)	(17,942)
1975	(48,902)	0%	35%	0	(17,116)	(17,116)
1976	(12,095)	0%	35%	0	(4,233)	(4,233)
1977	(52,288)	0%	35%	0	(18,301)	(18,301)
1978	(70,002)	0%	35%	0	(24,501)	(24,501)
1979	(68,947)	0%	35%	0	(24,131)	(24,131)
1980	(105,861)	0%	35%	0	(37,051)	(37,051)
1981	(83,514)	0%	35%	0	(29,230)	(29,230)
1982	(84,460)	0%	35%	0	(29,561)	(29,561)
1983	(103,125)	0%	35%	0	(36,094)	(36,094)
1984	(142,109)	0%	35%	0	(49,738)	(49,738)
1985	(161,845)	0%	35%	0	(56,646)	(56,646)
1986	(173,412)	0%	35%	0	(60,694)	(60,694)
1987	(148,824)	0%	35%	0	(52,088)	(52,088)
1987 A	(13,316)	0%	35%	0	(4,660)	(4,660)
1988	(224,640)	0%	35%	0	(78,624)	(78,624)
1988 A	(4,194)	0%	35%	0	(1,468)	(1,468)
1989	(198,150)	0%	35%	0	(69,352)	(69,352)
1989 A	(1,405)	0%	35%	0	(492)	(492)
1990	(271,389)	0%	35%	0	(94,986)	(94,986)
1990 A	(744)	0%	35%	0	(260)	(260)
1991	(295,427)	0%	35%	0	(103,399)	(103,399)
1992	(312,377)	0%	35%	0	(109,332)	(109,332)
1993	(430,010)	0%	35%	0	(150,504)	(150,504)
1993 A	6	0%	35%	0	2	2
1994	(176,826)	0%	35%	0	(61,889)	(61,889)
1995	(227,646)	0%	35%	0	(79,676)	(79,676)
1996	(238,662)	0%	35%	0	(83,532)	(83,532)
1997	(137,236)	0%	35%	0	(48,033)	(48,033)
1998	(4,684)	0%	35%	0	(1,640)	(1,640)
1999	(91,447)	0%	35%	0	(32,007)	(32,007)
2000	(322,352)	0%	35%	0	(112,823)	(112,823)
2001	(149,582)	0%	35%	0	(52,354)	(52,354)
2001 30%	(6,726)	0%	35%	0	(2,354)	(2,354)
2002	(50,709)	0%	35%	0	(17,748)	(17,748)
2002 30%	(36,803)	0%	35%	0	(12,881)	(12,881)
2003	(275,281)	0%	35%	0	(96,348)	(96,348)
2003 30%	13,541	0%	35%	0	4,739	4,739
2003 50%	(6,064)	0%	35%	0	(2,123)	(2,123)
2004	(142,139)	0%	35%	0	(49,749)	(49,749)
2004 30%	(2,506)	0%	35%	0	(877)	(877)
2004 50%	(6,362)	0%	35%	0	(2,227)	(2,227)
2005	(313,047)	0%	35%	0	(109,567)	(109,567)
2006	(357,433)	0%	35%	0	(125,101)	(125,101)
2007	(498,287)	0%	35%	0	(174,400)	(174,400)
2008	(292,999)	0%	35%	0	(102,550)	(102,550)
2008 50%	(244,158)	0%	35%	0	(85,455)	(85,455)
2009	(237,822)	0%	35%	0	(83,238)	(83,238)
2009 50%	(101,413)	0%	35%	0	(35,494)	(35,494)
2010	49,169	0%	35%	0	17,209	17,209
2010 100%	(173,294)	0%	35%	0	(60,653)	(60,653)
2010 50%	(205,547)	0%	35%	0	(71,941)	(71,941)
2011	(809,850)	0%	35%	0	(283,447)	(283,447)
2011 100%	(628,171)	0%	35%	0	(219,860)	(219,860)
2011 50%	(103,337)	0%	35%	0	(36,168)	(36,168)
2012	(165,392)	0%	35%	0	(57,887)	(57,887)
2012 50%	(456,732)	0%	35%	0	(159,856)	(159,856)
2013	328	0%	35%	0	115	115
2013 50%	(50,884)	0%	35%	0	(17,810)	(17,810)
2014	47,063	0%	35%	0	16,472	16,472
2015	(29,368)	0%	35%	0	(10,279)	(10,279)
Reversal	(\$9,639,246)			\$0	(\$3,373,736)	(\$3,373,736)
Total Net Provision				\$0	\$3,443,904	\$3,443,904

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service April, 2014 - April, 2015
Deferred Income Taxes Related to Gains/Losses

Vintage Year	Per Power Tax Report 52		(Gain)/Loss recognized	Statutory/ Effective Rates		Deferral of Taxes		Total
	Basis of Property	Accumulated Tax Depreciation		State	Federal	State	Federal	
	1	2	3	4	5	6 = 3 x 4	7 = 3 x 5	8 = 6+7
Provision - 4/14-4/15								
1987	38,379	38,226	153	0%	35%	0	54	54
1987 A	3,574	3,574	0	0%	35%	0	0	0
1988	62,358	62,158	201	0%	35%	0	70	70
1988 A	1,369	1,369	0	0%	35%	0	0	0
1989	58,935	58,367	568	0%	35%	0	199	199
1989 A	424	424	0	0%	35%	0	0	0
1990	83,468	82,449	1,018	0%	35%	0	356	356
1990 A	235	235	0	0%	35%	0	0	0
1991	88,413	88,288	126	0%	35%	0	44	44
1992	92,501	91,779	722	0%	35%	0	253	253
1993	106,638	106,625	12	0%	35%	0	4	4
1993 A	173	93	80	0%	35%	0	28	28
1994	78,506	76,747	1,758	0%	35%	0	615	615
1995	102,582	97,964	4,618	0%	35%	0	1,616	1,616
1996	99,502	90,699	8,803	0%	35%	0	3,081	3,081
1997	73,580	63,533	10,047	0%	35%	0	3,516	3,516
1998	28,654	23,892	4,763	0%	35%	0	1,667	1,667
1999	36,281	11,661	24,620	0%	35%	0	8,617	8,617
2000	85,209	61,716	23,493	0%	35%	0	8,223	8,223
2001	76,492	53,933	22,560	0%	35%	0	7,896	7,896
2001 30%	5,836	4,088	1,748	0%	35%	0	612	612
2002	44,609	30,446	14,163	0%	35%	0	4,957	4,957
2002 30%	30,398	19,952	10,446	0%	35%	0	3,656	3,656
2003	21,282	9,168	12,114	0%	35%	0	4,240	4,240
2003 30%	51,741	39,318	12,423	0%	35%	0	4,348	4,348
2003 50%	21,674	13,249	8,425	0%	35%	0	2,949	2,949
2004	10,815	5,310	5,505	0%	35%	0	1,927	1,927
2004 30%	10,576	8,122	2,454	0%	35%	0	859	859
2004 50%	51,450	29,382	22,067	0%	35%	0	7,724	7,724
2005	166,996	88,855	78,141	0%	35%	0	27,349	27,349
2006	134,864	64,217	70,647	0%	35%	0	24,726	24,726
2007	186,232	92,563	93,670	0%	35%	0	32,784	32,784
2008	77,539	27,749	49,790	0%	35%	0	17,426	17,426
2008 50%	99,921	57,930	41,991	0%	35%	0	14,697	14,697
2009	(1,942)	(3,458)	1,516	0%	35%	0	531	531
2009 50%	135,929	53,042	82,887	0%	35%	0	29,010	29,010
2010	920	907	13	0%	35%	0	5	5
2010 100%	0	0	0	0%	35%	0	0	0
2010 50%	62,544	35,590	26,955	0%	35%	0	9,434	9,434
2011	(4,251)	700	(4,952)	0%	35%	0	(1,733)	(1,733)
2011 100%	0	0	0	0%	35%	0	0	0
2011 50%	4,837	2,236	2,601	0%	35%	0	910	910
2012	(26,220)	(2,710)	(23,510)	0%	35%	0	(8,228)	(8,228)
2012 50%	61,432	30,410	31,022	0%	35%	0	10,858	10,858
2013	26,154	8,821	17,333	0%	35%	0	6,067	6,067
2013 50%	63,891	24,655	39,235	0%	35%	0	13,732	13,732
2014	82,890	25,392	57,499	0%	35%	0	20,125	20,125
Provision - (gains/losses)						265,204	265,204	

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service May, 2015 - April, 2016

Provision:	Vintage Year	Deferral of Taxes		Total
		State	Federal	
	1970	\$0	(\$65)	(\$65)
	1971	0	(138)	(138)
	1972	0	(296)	(296)
	1973	0	(21)	(21)
	1974	0	(31)	(31)
	1975	0	468	468
	1976	0	3,715	3,715
	1977	0	62	62
	1978	0	21	21
	1979	0	(69)	(69)
	1980	0	(1,351)	(1,351)
	1981	0	8	8
	1982	0	117	117
	1983	0	101	101
	1984	0	419	419
	1985	0	82	82
	1986	0	56	56
	1987	0	11	11
	1987 A	0	0	0
	1988	0	14	14
	1988 A	0	0	0
	1989	0	39	39
	1989 A	0	0	0
	1990	0	71	71
	1990 A	0	0	0
	1991	0	6	6
	1992	0	0	0
	1993	0	1	1
	1993 A	0	(87)	(87)
	1994	0	944	944
	1995	0	6,413	6,413
	1996	0	28,262	28,262
	1997	0	26,046	26,046
	1998	0	10,252	10,252
	1999	0	6,374	6,374
	2000	0	26,242	26,242
	2001	0	28,054	28,054
	2001 30%	0	1,901	1,901
	2002	0	16,238	16,238
	2002 30%	0	9,920	9,920
	2003	0	7,168	7,168
	2003 30%	0	9,852	9,852
	2003 50%	0	1,786	1,786
	2004	0	(2,309)	(2,309)
	2004 30%	0	2,011	2,011
	2004 50%	0	4,683	4,683
	2005	0	35,512	35,512
	2006	0	42,447	42,447
	2007	0	62,498	62,498
	2008	0	34,284	34,284
	2008 50%	0	11,795	11,795
	2009	0	(11,066)	(11,066)
	2009 50%	0	28,358	28,358
	2010	0	492	492
	2010 100%	0	0	0
	2010 50%	0	13,125	13,125
	2011	0	(7,237)	(7,237)
	2011 100%	0	0	0
	2011 50%	0	1,138	1,138
	2012	0	(24,991)	(24,991)
	2012 50%	0	33,148	33,148
	2013	0	21,139	21,139
	2013 50%	0	49,816	49,816
	2014	0	1,208,450	1,208,450
	2015	0	1,151,850	1,151,850
	2016	0	306,598	306,598
Total Provision		\$0	\$3,144,326	\$3,144,326

PENN POWER
 Summary of Deferred Income Taxes
 Based upon Electric Plant in Service May, 2015 - April, 2016

Reversal	Vintage Year	Deferral of Taxes		Total
		State	Federal	
	1970	\$0	(\$3,575)	(\$3,575)
	1971	0	(6,791)	(6,791)
	1972	0	(2,622)	(2,622)
	1973	0	(10,214)	(10,214)
	1974	0	(8,065)	(8,065)
	1975	0	(7,572)	(7,572)
	1976	0	(1,505)	(1,505)
	1977	0	(7,654)	(7,654)
	1978	0	(8,745)	(8,745)
	1979	0	(9,679)	(9,679)
	1980	0	(13,309)	(13,309)
	1981	0	(8,540)	(8,540)
	1982	0	(9,509)	(9,509)
	1983	0	(11,138)	(11,138)
	1984	0	(17,596)	(17,596)
	1985	0	(21,337)	(21,337)
	1986	0	(24,866)	(24,866)
	1987	0	(21,223)	(21,223)
	1987 A	0	(1,898)	(1,898)
	1988	0	(32,392)	(32,392)
	1988 A	0	(602)	(602)
	1989	0	(28,488)	(28,488)
	1989 A	0	(202)	(202)
	1990	0	(39,029)	(39,029)
	1990 A	0	(107)	(107)
	1991	0	(42,434)	(42,434)
	1992	0	(45,175)	(45,175)
	1993	0	(61,363)	(61,363)
	1993 A	0	1	1
	1994	0	(30,165)	(30,165)
	1995	0	(33,185)	(33,185)
	1996	0	(28,770)	(28,770)
	1997	0	(18,062)	(18,062)
	1998	0	(819)	(819)
	1999	0	(11,422)	(11,422)
	2000	0	(42,481)	(42,481)
	2001	0	(18,876)	(18,876)
	2001 30%	0	(961)	(961)
	2002	0	(7,001)	(7,001)
	2002 30%	0	(5,243)	(5,243)
	2003	0	(33,886)	(33,886)
	2003 30%	0	1,412	1,412
	2003 50%	0	(1,088)	(1,088)
	2004	0	(17,495)	(17,495)
	2004 30%	0	(416)	(416)
	2004 50%	0	(1,911)	(1,911)
	2005	0	(46,383)	(46,383)
	2006	0	(47,602)	(47,602)
	2007	0	(59,428)	(59,428)
	2008	0	(30,448)	(30,448)
	2008 50%	0	(24,563)	(24,563)
	2009	0	(26,448)	(26,448)
	2009 50%	0	(9,388)	(9,388)
	2010	0	7,102	7,102
	2010 100%	0	(23,724)	(23,724)
	2010 50%	0	(26,209)	(26,209)
	2011	0	(100,427)	(100,427)
	2011 100%	0	(84,153)	(84,153)
	2011 50%	0	(16,175)	(16,175)
	2012	0	(22,449)	(22,449)
	2012 50%	0	(63,934)	(63,934)
	2013	0	(337)	(337)
	2013 50%	0	(9,498)	(9,498)
	2014	0	219	219
	2015	0	(16,564)	(16,564)
	2016	0	(7,120)	(7,120)
Total Reversal		\$0	(\$1,303,526)	(\$1,303,526)
Net Provision		\$0	\$1,840,799	\$1,840,799

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service May, 2015 - April, 2016

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates			Deferral of Taxes		Total
		State	Federal	State	Federal		
Provision							
1970	(\$185)	0%	35%	\$0	(\$65)	(\$65)	
1971	(395)	0%	35%	0	(138)	(138)	
1972	(845)	0%	35%	0	(296)	(296)	
1973	(59)	0%	35%	0	(21)	(21)	
1974	(87)	0%	35%	0	(31)	(31)	
1975	1,338	0%	35%	0	468	468	
1976	10,615	0%	35%	0	3,715	3,715	
1977	176	0%	35%	0	62	62	
1978	59	0%	35%	0	21	21	
1979	(197)	0%	35%	0	(69)	(69)	
1980	(3,859)	0%	35%	0	(1,351)	(1,351)	
1981	23	0%	35%	0	8	8	
1982	333	0%	35%	0	117	117	
1983	289	0%	35%	0	101	101	
1984	1,196	0%	35%	0	419	419	
1985	235	0%	35%	0	82	82	
1986	159	0%	35%	0	56	56	
1987	(14)	0%	35%	0	(5)	(5)	
1987 A	0	0%	35%	0	0	0	
1988	(18)	0%	35%	0	(6)	(6)	
1988 A	0	0%	35%	0	0	0	
1989	(52)	0%	35%	0	(18)	(18)	
1989 A	0	0%	35%	0	0	0	
1990	(91)	0%	35%	0	(32)	(32)	
1990 A	0	0%	35%	0	0	0	
1991	(18)	0%	35%	0	(6)	(6)	
1992	(188)	0%	35%	0	(66)	(66)	
1993	(1)	0%	35%	0	(0)	(0)	
1993 A	(271)	0%	35%	0	(95)	(95)	
1994	2,379	0%	35%	0	833	833	
1995	17,737	0%	35%	0	6,208	6,208	
1996	79,295	0%	35%	0	27,753	27,753	
1997	72,351	0%	35%	0	25,323	25,323	
1998	28,244	0%	35%	0	9,886	9,886	
1999	11,252	0%	35%	0	3,938	3,938	
2000	69,051	0%	35%	0	24,168	24,168	
2001	74,592	0%	35%	0	26,107	26,107	
2001 30%	5,000	0%	35%	0	1,750	1,750	
2002	42,866	0%	35%	0	15,003	15,003	
2002 30%	25,702	0%	35%	0	8,996	8,996	
2003	17,171	0%	35%	0	6,010	6,010	
2003 30%	24,957	0%	35%	0	8,735	8,735	
2003 50%	2,938	0%	35%	0	1,028	1,028	
2004	(8,060)	0%	35%	0	(2,821)	(2,821)	
2004 30%	5,107	0%	35%	0	1,787	1,787	
2004 50%	7,639	0%	35%	0	2,674	2,674	
2005	80,986	0%	35%	0	28,345	28,345	
2006	102,437	0%	35%	0	35,853	35,853	
2007	153,604	0%	35%	0	53,762	53,762	
2008	84,437	0%	35%	0	29,553	29,553	
2008 50%	22,455	0%	35%	0	7,859	7,859	
2009	(32,253)	0%	35%	0	(11,289)	(11,289)	
2009 50%	58,824	0%	35%	0	20,589	20,589	
2010	1,400	0%	35%	0	490	490	
2010 100%	0	0%	35%	0	0	0	
2010 50%	30,280	0%	35%	0	10,598	10,598	
2011	(19,302)	0%	35%	0	(6,756)	(6,756)	
2011 100%	0	0%	35%	0	0	0	
2011 50%	2,607	0%	35%	0	912	912	
2012	(65,046)	0%	35%	0	(22,766)	(22,766)	
2012 50%	86,280	0%	35%	0	30,198	30,198	
2013	55,782	0%	35%	0	19,524	19,524	
2013 50%	132,027	0%	35%	0	46,209	46,209	
2014	3,399,419	0%	35%	0	1,189,796	1,189,796	
2015	3,277,615	0%	35%	0	1,147,165	1,147,165	
2016	875,994	0%	35%	0	306,598	306,598	
	8,733,909			\$0	\$3,056,868	\$3,056,868	
Provision Gains/Losses Page (16)				\$0	\$87,458	\$87,458	
Provision				\$0	\$3,144,326	\$3,144,326	

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service May, 2015 - April, 2016

Vintage Year	Accelerate Tax Depreciation less Straight Line Depreciation	Statutory/ Effective Rates		State	Deferral of Taxes		Total
		State	Federal		Federal	Federal	
Reversal							
1970	(\$10,215)	0%	35%	\$0	(\$3,575)		(\$3,575)
1971	(19,404)	0%	35%	0	(6,791)		(6,791)
1972	(7,491)	0%	35%	0	(2,622)		(2,622)
1973	(29,184)	0%	35%	0	(10,214)		(10,214)
1974	(23,042)	0%	35%	0	(8,065)		(8,065)
1975	(21,634)	0%	35%	0	(7,572)		(7,572)
1976	(4,300)	0%	35%	0	(1,505)		(1,505)
1977	(21,868)	0%	35%	0	(7,654)		(7,654)
1978	(24,987)	0%	35%	0	(8,745)		(8,745)
1979	(27,655)	0%	35%	0	(9,679)		(9,679)
1980	(38,025)	0%	35%	0	(13,309)		(13,309)
1981	(24,399)	0%	35%	0	(8,540)		(8,540)
1982	(27,169)	0%	35%	0	(9,509)		(9,509)
1983	(31,824)	0%	35%	0	(11,138)		(11,138)
1984	(50,275)	0%	35%	0	(17,596)		(17,596)
1985	(60,962)	0%	35%	0	(21,337)		(21,337)
1986	(71,044)	0%	35%	0	(24,866)		(24,866)
1987	(60,636)	0%	35%	0	(21,223)		(21,223)
1987 A	(5,424)	0%	35%	0	(1,898)		(1,898)
1988	(92,549)	0%	35%	0	(32,392)		(32,392)
1988 A	(1,720)	0%	35%	0	(602)		(602)
1989	(81,393)	0%	35%	0	(28,488)		(28,488)
1989 A	(577)	0%	35%	0	(202)		(202)
1990	(111,510)	0%	35%	0	(39,029)		(39,029)
1990 A	(306)	0%	35%	0	(107)		(107)
1991	(121,241)	0%	35%	0	(42,434)		(42,434)
1992	(129,071)	0%	35%	0	(45,175)		(45,175)
1993	(175,324)	0%	35%	0	(61,363)		(61,363)
1993 A	2	0%	35%	0	1		1
1994	(86,185)	0%	35%	0	(30,165)		(30,165)
1995	(94,815)	0%	35%	0	(33,185)		(33,185)
1996	(82,200)	0%	35%	0	(28,770)		(28,770)
1997	(51,605)	0%	35%	0	(18,062)		(18,062)
1998	(2,340)	0%	35%	0	(819)		(819)
1999	(32,633)	0%	35%	0	(11,422)		(11,422)
2000	(121,373)	0%	35%	0	(42,481)		(42,481)
2001	(53,932)	0%	35%	0	(18,876)		(18,876)
2001 30%	(2,746)	0%	35%	0	(961)		(961)
2002	(20,002)	0%	35%	0	(7,001)		(7,001)
2002 30%	(14,980)	0%	35%	0	(5,243)		(5,243)
2003	(96,817)	0%	35%	0	(33,886)		(33,886)
2003 30%	4,033	0%	35%	0	1,412		1,412
2003 50%	(3,108)	0%	35%	0	(1,088)		(1,088)
2004	(49,985)	0%	35%	0	(17,495)		(17,495)
2004 30%	(1,189)	0%	35%	0	(416)		(416)
2004 50%	(5,459)	0%	35%	0	(1,911)		(1,911)
2005	(132,522)	0%	35%	0	(46,383)		(46,383)
2006	(136,007)	0%	35%	0	(47,602)		(47,602)
2007	(169,795)	0%	35%	0	(59,428)		(59,428)
2008	(86,994)	0%	35%	0	(30,448)		(30,448)
2008 50%	(70,179)	0%	35%	0	(24,563)		(24,563)
2009	(75,566)	0%	35%	0	(26,448)		(26,448)
2009 50%	(26,823)	0%	35%	0	(9,388)		(9,388)
2010	20,290	0%	35%	0	7,102		7,102
2010 100%	(67,783)	0%	35%	0	(23,724)		(23,724)
2010 50%	(74,882)	0%	35%	0	(26,209)		(26,209)
2011	(286,935)	0%	35%	0	(100,427)		(100,427)
2011 100%	(240,436)	0%	35%	0	(84,153)		(84,153)
2011 50%	(46,213)	0%	35%	0	(16,175)		(16,175)
2012	(64,141)	0%	35%	0	(22,449)		(22,449)
2012 50%	(182,669)	0%	35%	0	(63,934)		(63,934)
2013	(962)	0%	35%	0	(337)		(337)
2013 50%	(27,138)	0%	35%	0	(9,498)		(9,498)
2014	626	0%	35%	0	219		219
2015	(47,326)	0%	35%	0	(16,564)		(16,564)
2016	(20,343)	0%	35%	0	(7,120)		(7,120)
Reversal	(3,724,361)			\$0	(\$1,303,526)		(\$1,303,526)
Total Net Provision				\$0	\$1,840,799		\$1,840,799

PENN POWER
 Computation of Deferred Income Taxes
 Based upon Electric Plant in Service May, 2015 - April, 2016
Deferred Income Taxes Related to Gains/Losses

Vintage Year	Per Power Tax Report 52		(Gain)/Loss recognized	Statutory/ Effective Rates		Deferral of Taxes		Total
	Basis of Property	Accumulated Tax Depreciation		State	Federal	State	Federal	
	1	2	3	4	5	6 = 3 x 4	7 = 3 x 5	8 = 6+7
Provision - 5/15-4/16								
1987	11,076	11,031	44	0%	35%	0	15	15
1987 A	1,031	1,031	0	0%	35%	0	0	0
1988	17,996	17,938	58	0%	35%	0	20	20
1988 A	395	395	0	0%	35%	0	0	0
1989	17,008	16,844	164	0%	35%	0	57	57
1989 A	122	122	0	0%	35%	0	0	0
1990	24,088	23,794	294	0%	35%	0	103	103
1990 A	68	68	0	0%	35%	0	0	0
1991	25,515	25,480	35	0%	35%	0	12	12
1992	26,695	26,507	188	0%	35%	0	66	66
1993	30,774	30,770	4	0%	35%	0	1	1
1993 A	50	28	22	0%	35%	0	8	8
1994	22,656	22,338	317	0%	35%	0	111	111
1995	29,604	29,017	587	0%	35%	0	205	205
1996	28,715	27,262	1,453	0%	35%	0	509	509
1997	21,234	19,168	2,066	0%	35%	0	723	723
1998	8,269	7,222	1,047	0%	35%	0	366	366
1999	10,470	3,512	6,959	0%	35%	0	2,436	2,436
2000	24,590	18,665	5,925	0%	35%	0	2,074	2,074
2001	22,075	16,511	5,563	0%	35%	0	1,947	1,947
2001 30%	1,684	1,252	433	0%	35%	0	151	151
2002	12,874	9,344	3,530	0%	35%	0	1,235	1,235
2002 30%	8,772	6,132	2,641	0%	35%	0	924	924
2003	6,142	2,832	3,310	0%	35%	0	1,159	1,159
2003 30%	14,932	11,740	3,192	0%	35%	0	1,117	1,117
2003 50%	6,255	4,090	2,165	0%	35%	0	758	758
2004	3,121	1,659	1,462	0%	35%	0	512	512
2004 30%	3,052	2,414	639	0%	35%	0	223	223
2004 50%	14,848	9,106	5,741	0%	35%	0	2,010	2,010
2005	48,193	27,715	20,477	0%	35%	0	7,167	7,167
2006	38,920	20,080	18,839	0%	35%	0	6,594	6,594
2007	53,744	28,784	24,960	0%	35%	0	8,736	8,736
2008	22,377	8,858	13,518	0%	35%	0	4,731	4,731
2008 50%	28,836	17,591	11,245	0%	35%	0	3,936	3,936
2009	(560)	(1,196)	635	0%	35%	0	222	222
2009 50%	39,227	17,028	22,199	0%	35%	0	7,770	7,770
2010	266	259	6	0%	35%	0	2	2
2010 100%	0	0	0	0%	35%	0	0	0
2010 50%	18,049	10,830	7,219	0%	35%	0	2,527	2,527
2011	(1,227)	149	(1,376)	0%	35%	0	(481)	(481)
2011 100%	0	0	0	0%	35%	0	0	0
2011 50%	1,396	752	644	0%	35%	0	225	225
2012	(7,567)	(1,209)	(6,358)	0%	35%	0	(2,225)	(2,225)
2012 50%	17,728	9,298	8,430	0%	35%	0	2,951	2,951
2013	7,548	2,931	4,616	0%	35%	0	1,616	1,616
2013 50%	18,438	8,134	10,304	0%	35%	0	3,606	3,606
2014	83,292	29,996	53,296	0%	35%	0	18,654	18,654
2015	17,970	4,584	13,386	0%	35%	0	4,685	4,685
Provision - (gains/losses)							87,458	87,458

PENN POWER
 (\$000)

POST 1969 VINTAGES

	Per Power Tax	Pro Forma Under Present Rates Normalization Adjustment	Total
Liberalized Depreciation Deferred Taxes			
Balance per Budget 3/31/14	(110,241)		(110,241)
Balance per Budget 3/31/13	(105,951)		(105,951)
Liberalized Depreciation Activity - April, 2013 to March, 2014	<u>(4,290)</u>		<u>(4,290)</u>
Net Federal and State Provision	4,290		4,290
Less: Net State Provision (negative)	672		672
Net Federal Provision per Budget	3,618		3,618
Add: Federal Benefit (increase) of State	235		235
Net Federal - April, 2013 to March, 2014 Provision for Rates	<u>3,853</u>		<u>3,853</u>

POST 1969 VINTAGES

	Per Power Tax	Pro Forma Under Present Rates Normalization Adjustment	Total
Liberalized Depreciation Deferred Taxes			
Balance per Budget 4/30/15	(114,463)		(114,463)
Balance per Budget 3/31/14	(110,241)		(110,241)
Liberalized Depreciation Activity - April, 2014 to April, 2015	<u>(4,222)</u>		<u>(4,222)</u>
Net Federal and State Provision	4,222		4,222
Less: Net State Provision (negative)	1,198		1,198
Net Federal Provision per Budget	3,024		3,024
Add: Federal Benefit (increase) of State	420		420
Net Federal - April, 2014 to April, 2015 Provision for Rates	<u>3,444</u>		<u>3,444</u>

POST 1969 VINTAGES

	Per Power Tax	Pro Forma Under Present Rates Normalization Adjustment	Total
Liberalized Depreciation Deferred Taxes			
Balance per Budget 4/30/16	(116,685)		(116,685)
Balance per Budget 4/30/15	(114,463)		(114,463)
Liberalized Depreciation Activity - May, 2015 to April, 2016	<u>(2,222)</u>		<u>(2,222)</u>
Net Federal and State Provision	2,222		2,222
Less: Net State Provision (negative)	586		586
Net Federal Provision per Budget	1,636		1,636
Add: Federal Benefit (increase) of State	205		205
Net Federal - May, 2015 to April, 2016 Provision for Rates	<u>1,841</u>		<u>1,841</u>

PENN POWER
RECONCILIATION OF CUMULATIVE APB11 DEFERRED TAX BALANCE ON ROLLFORWARD SCHEDULE
vs. CUMULATIVE DEFERRED TAX BALANCE ON THE BALANCE SHEET

Balance Sheet (RAD-54) @ 3/31/13	108,558
Total APB11 Deferreds on Rollforward Schedule @ 3/31/13	108,961

Difference (403)

Reconciling Items:

State Deferreds	0
3/31/13 Rollforward Schedule didn't tie to SAP	0
FAS 109 Gross-Up	(403)
FAS 109	0

Total Reconciling Items (403)

Balance Sheet (RAD-54) @ 3/31/14	115,167
Adjustments needed for RAD-35	210
Adjusted Balance Sheet (RAD-35) @3/31/14	115,377
Total APB11 Deferreds on Rollforward Schedule @ 3/31/14	115,174

Difference 203

Reconciling Items:

State Deferreds	0
State Offset Deferreds	0
FAS 109 Gross-Up	0
FAS 109	0
Smart Meters per RAD-35	203
Vegetation Management FERC Reclasses	0

Total Reconciling Items 203

Balance Sheet (RAD-54) @ 3/31/15	114,175
Adjustments needed for RAD-35	3,042
Adjusted Balance Sheet (RAD-35) @3/31/15	117,217
Total APB11 Deferreds on Rollforward Schedule @ 4/30/15	115,822

Difference 1,395

Reconciling Items:

State Deferreds	0
State Offset Deferreds	0
B/S one month behind Rollforward Schedule	(148)
Smart Meters per RAD-35	1,166
Deferred Tax Pro-Ration on Rollforward Schedule	377
FAS 109 Gross-Up	0
FAS 109	0

Total Reconciling Items 1,395

Balance Sheet (RAD-54) @ 4/30/16	114,175
Adjustments needed for RAD-35	7,806
Adjusted Balance Sheet (RAD-35) @4/30/16	121,981
Total APB11 Deferreds on Rollforward Schedule @ 4/30/16	116,594

Difference 5,387

Reconciling Items:

State Deferreds	0
State Offset Deferreds	0
B/S one month behind Rollforward Schedule	148
Smart Meters per RAD-35	2,663
Deferred Tax Pro-Ration on Rollforward Schedule	2,576
FAS 109 Gross-Up	0
FAS 109	0

Total Reconciling Items 5,387

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-24:

“Provide detailed computations by vintage year showing State and Federal deferred income taxes resulting from the use of accelerated tax depreciation associated with post-1969 public utility property, ADR rates, and accelerated tax depreciation associated with post-1980 public utility property under the Accelerated Cost Recovery System (ACRS).

- (a) Reconcile and explain any differences in the base used to calculate State and Federal deferred income taxes.
- (b) State whether tax depreciation is based on all rate base items claimed as of the end of the test year, and whether it is the annual tax depreciation at the end of the test year.
- (c) Reconcile differences between the deferred tax balance, as shown as a reduction to rate base, and the deferred tax balance as shown on the balance sheet.”

RESPONSE:

- (a) See Penn Power RAD-41 Attachment A. No basis difference, however, there is a timing difference due to PA disallowance in year one of the 50% Federal Bonus Depreciation.
- (b) See Penn Power RAD-41 Attachment A. Tax depreciation for the future test year is based on all electric plant in service claimed as of 4/30/16 and the annual tax depreciation is based on the same plant.
- (c) See Penn Power RAD-41 Attachment B

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-25:

“Submit a schedule showing a breakdown of accumulated and unamortized investment tax credits, by vintage year and percentage rate, together with calculations supporting the amortized amount claimed as a reduction to pro forma income taxes. Provide details of methods used to write-off the unamortized balances.”

RESPONSE:

Investment Tax Credit Balances, Provision and Amortization
(\$000)

	<u>4% and 10%</u>
Balance 3/31/13	\$ 580
12 Months ended 3/31/14 Amortization	<u>(189)</u>
Balance 3/31/14	\$ 391
12 Months ending 3/31/15 Amortization	<u>(135)</u>
Balance 3/31/15	<u>\$ 256</u>
Amortization 1 month ending 4/30/15	(4)
Balance 4/30/15	\$ 252
12 Months ending 4/30/16 Amortization	<u>(50)</u>
Balance 4/30/16	<u>\$ 202</u>

Investment Tax Credit

Penn Power is amortizing the deferred credit previously created by a ratable flow-through to income over the useful life of the property. The company has been examined by the IRS for the years in which this tax credit originated and is in compliance with paragraph (2) of Section 46(e) of the Internal Revenue Code of 1954, as amended, for allowance, with respect to public utility property, of the credit as allowed by Section 38 of the Code. Section 46(e) provides (a) to reduce the cost of service for ratemaking purposes on in its regulated books of account by no more than ratable portion of the credit allowable by Section 38, and (b) not to reduce the base to which its rate of return is applied for ratemaking purposes by any portion of the credit allowable by Section 38.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-26:

“Explain in detail by statement or exhibit the appropriateness of claiming any additional items, not otherwise specifically explained and supported in the statement of operating income.”

RESPONSE:

The appropriateness of claiming the various items included in the statement of operating income is explained in the supporting schedules to Penn Power Exhibit RAD-2 and the testimony and exhibits of the Company's witnesses.

PENNSYLVANIA POWER COMPANY

FILING REQUIREMENT II-D-27:

“If the utility’s operations include non-jurisdictional activities, provide a schedule which demonstrates the manner in which rate base and operating income date have been adjusted to develop the jurisdictional test year claim.”

RESPONSE:

Not Applicable