**Met-Ed/Penelec/Penn Power/West Penn**
**Statement No. 1**

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**PENNSYLVANIA ELECTRIC COMPANY**
**DOCKET NO. R-2014-2428743**

**PENNSYLVANIA POWER COMPANY**
**DOCKET NO. R-2014-2428744**

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

# Direct Testimony
# of
# Charles V. Fullem

## List of Topics Addressed

**Overview of Distribution Base Rate Case Filing**
**Initiatives to Manage Costs, Enhance Customer Service and Assure Reliable Service**
**Reasons for the Requested Increases**
**Organization of the Filing and Introduction of Witnesses**
**Importance of Adequate Rate Relief to the Companies**

**TABLE OF CONTENTS**

**Page**

**DIRECT TESTIMONY**
**OF**
**CHARLES V. FULLEM**

## I. INTRODUCTION

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

A. My name is Charles V. Fullem, and my business address is 2800 Pottsville Pike, Reading, Pennsylvania 19612.

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

A. I am employed by FirstEnergy Service Company, which is a direct subsidiary of FirstEnergy Corp. ("FirstEnergy"). I am the Director, Rates and Regulatory Affairs – Pennsylvania. The Pennsylvania Rate Department of FirstEnergy Service Company provides regulatory support for each of FirstEnergy's wholly-owned Pennsylvania operating companies: Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (collectively, the "Companies").

I am responsible to the Vice President of Rates and Regulatory Affairs for the development, coordination, preparation and presentation of the Companies' rate-related matters before the Pennsylvania Public Utility Commission ("Commission") and the New York Public Service Commission, including the default service programs. My responsibilities encompass the preparation of various statements and reports addressing, among other things, distribution revenue requirement, energy costs, non-utility generation costs, quarterly earnings, and other financial matters. I am also responsible for

administering the Companies' tariffs, including developing retail electric rates, rules and regulations and ensuring their uniform application and interpretation.

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

A. I received a Bachelor of Science degree in Mineral Economics from the Pennsylvania State University in November 1981. I have over thirty years of experience with FirstEnergy and its predecessor companies. My work experience is more fully described in my professional biography, which is attached as Appendix A.

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

A. I am testifying on behalf of Met-Ed, Penelec, Penn Power and West Penn.

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

A. The purpose of my testimony is to provide an overview of the distribution base rate increase requests that the Companies are proposing for approval by the Commission. I will explain why the proposed distribution rate increases will provide a fair return to shareholders and benefit customers by establishing the groundwork for enhanced reliability and customer service.

In addition to the Introduction, my testimony is divided into four subsequent substantive sections: Section II provides an overview of the Companies' requested rate increases. In Section III, I discuss the Companies' initiatives to manage costs and enhance customer service and reliability. In Section IV, I set forth the primary reasons the Companies are requesting increases in rates. In Section V, I describe the organization of the Companies'

rate filings, introduce the Companies' witnesses submitting direct testimony, and explain the importance of this case to the Companies and their customers.

**Q. Are you sponsoring any exhibits?**

A. Yes, I am sponsoring Exhibits CVF-1 through CVF-4 for each of the Companies, which consist of the following:[1]

**Exhibit CVF-1** provides a summary of the rate request and specific reasons for each rate increase. This exhibit also identifies and quantifies the major components of each Company's proposed revenue increase.

**Exhibit CVF-2** identifies the witnesses submitting direct testimony, their corresponding statement numbers and their areas of responsibility.

**Exhibit CVF-3** is a table showing, at present and proposed rates, each Company's revenues, operating expenses, operating income and rate base, as adjusted for ratemaking purposes, and the resulting overall rates of return for the fully projected future test year ("FPFTY"), the twelve months ended April 30, 2016. The table also provides references to exhibits sponsored by other witnesses that set forth this information in more detail.

**Exhibit CVF-4** provides a corporate history, including the dates of each Company's original incorporation and subsequent mergers and acquisitions.

[1] Exhibits CVF-1 through CVF-4 respond to filing requirements outlined in 52 Pa. Code § 53.53(a)(3). Specifically, these exhibits respond to requirements I-A-1, 2 and 3 and I-B-1 of Exhibit C to Section 53.53.

I am also sponsoring Met-Ed/Penelec/Penn Power/West Penn Exhibit CVF-5, which depicts a comparison of residential customer bills at the Companies' existing and proposed base rates to residential customer bills, at the same usage levels, of Duquesne Light Company, PECO Energy Company and PPL Electric Utilities Corporation.

## II. OVERVIEW OF THE REQUESTED DISTRIBUTION RATE INCREASES

**Q. Please explain when the Companies' base rates were last increased.**

A. The current distribution base rates of Met-Ed and Penelec were established pursuant to the Commission's Final Order entered January 11, 2007 at Docket Nos. R-00061366 and R-00061367, which were the last base rate proceedings for those Companies. Notably, that proceeding resulted in a **decrease** in Met-Ed's and Penelec's distribution base rates. Consequently, Penelec's base rates have not increased since 1986 and Met-Ed's base rates have not increased since 1992, when their fully bundled base rates were last increased.

Penn Power's current distribution base rates were established pursuant to the Commmission's Final Order issued July 22, 1998 in the proceeding at Docket No. R-00974149, in which Penn Power's bundled rates for electric service were functionally unbundled. Prior to unbundling, Penn Power's fully bundled rates had been established in a general base rate increase proceeding at Docket No. R-870732, which concluded with a Final Order entered on May 3, 1988.

West Penn's current distribution base rates were established when West Penn's base rates were functionally unbundled pursuant to the Commission's Final Order entered November 19, 1998 at Docket No. R-00973981. Prior to that case, West Penn had last

increased its base rates pursuant to the Commission's Final Order entered December 29, 1994 in a general base rate proceeding at Docket No. R-00942986.

As the summary above shows, the distribution base rate increases proposed by the Companies would be, when they become effective, their first general base rate increases in over twenty-one to twenty-nine years, depending on the Company.

**Q. Please describe the increases and changes in rates for distribution service that the Companies are proposing.**

A. The Companies are proposing increases in their distribution base rates that constitute general rate increases under Section 1308(d) of the Public Utility Code. In addition, the Companies are proposing to adopt new riders and to change several existing riders that set forth reconcilable adjustment clauses established or proposed to be established under Section 1307 of the Public Utility Code. Certain of these riders and changes in existing riders affect distribution base rate revenue.

**Q. Please identify the principal new riders and principal changes in existing riders that affect distribution base rate revenue in this case.**

A. West Penn is proposing to adopt a Universal Service Cost ("USC") Rider to recover the cost of its Universal Service programs. West Penn's proposed USC Rider mirrors the USC Riders that the Commission approved for Met-Ed and Penelec in their last distribution base rate cases. The Commission approved a similar USC Rider for Penn Power in its order entered April 11, 2008 at Docket Number R-00072437. West Penn's proposed USC Rider is discussed in more detail in the direct testimony of Kimberlie L. Bortz (Met-Ed/Penelec/Penn Power/West Penn Statement No. 3). As Ms. Bortz explains,

the USC Rider is needed to help West Penn continue to meet the needs of its low-income customers.

West Penn is also proposing a revision to its Default Service Support ("DSS") Rider and its Hourly Pricing Default Service ("HPS") Rider. As explained by Laura W. Gifford in Met-Ed/Penelec/Penn Power/West Penn Statement No. 7, the DSS Rider and HPS Rider, as revised, will include components to recover default service-related uncollectible accounts expense for residential and commercial customers and industrial customers, respectively. These changes are being made to unbundle default service-related uncollectible accounts expense by removing that expense from West Penn's distribution base rate revenue requirement and recovering it through West Penn's DSS and HSP Riders. As Ms. Gifford also explains, Met-Ed, Penelec and Penn Power, all three of which previously unbundled their default service-related uncollectible accounts expenses, are proposing revisions to their DSS and HPS Riders so that default service-related uncollectible accounts expense for industrial customers will be recovered in their HPS Riders rather than as they are currently being recovered through their DSS Riders.

Each of the Companies currently has a Smart Meter Technologies Charge ("SMT-C") Rider that sets forth a Commission-approved adjustment clause imposing a SMT-C to recover the costs of implementing their Smart Meter Deployment Plan ("Smart Meter Plan"). The Companies are proposing to include in their distribution base rate revenue requirements their test period costs to implement their Smart Meter Plans, to recover those costs in their distribution base rates, and to reduce their SMT-C Rider rates to zero. The SMT-C Rider will remain in the Companies' tariffs as the mechanism to recover the

costs of implementing their Smart Meter Plan, net of savings, in excess of such costs being recovered in base rates in the future.

**Q. Are the Companies proposing to adopt any additional riders or revise any existing rider?**

A. Yes, they are. Each of the Companies is proposing to adopt: (1) a Storm Damage Charge Rider, to recover the cost of storm damage in excess of that recovered in base rates; (2) a Partial Service Rider, to recover the cost of back-up and auxiliary services furnished to customers operating behind-the-meter generation that does not qualify for net metering; and (3) a Cogeneration and Small Power Production Qualifying Facility Rider, which will provide the terms on which each of the Companies will purchase electricity generated by "qualifying facilities" with maximum generating capacity under 500 kW. The Storm Damage Charge Rider is described in more detail in Ms. Bortz's direct testimony. The Partial Service Rider and Cogeneration and Small Power Production Qualifying Facility Rider are described in more detail in the direct testimony of Kevin M. Siedt (Met-Ed/Penelec/Penn Power/West Penn Statement No. 4).

In addition, Met-Ed and Penelec are each proposing to adopt a Time-of-Use Default Service Rider as an option available to all residential customers that obtain default service from the Company. The proposed Time-of-Use Default Service Rider is similar to the Time-of Use-Default Rider and Time-of-Use Rider approved by the Commission for Penn Power and West Penn, respectively, in the Commission's Final Order at Docket Nos. P-2011-2273650, et al., which approved the Companies' default service programs

for the period June 1, 2013 through May 31, 2015. West Penn's Time-of-Use Default Service Rider is described in more detail in Mr. Seidt's direct testimony.

Finally, as explained by Ms. Bortz, Penn Power is proposing to revise its existing USC Rider simply to make its terms uniform with those of the existing, Commission-approved USC Riders of Met-Ed and Penelec.

**Q. Please summarize the effect that the proposed increases and changes in distribution rates and riders will have on the Companies' pro forma revenues at current rates for the FPFTY.**

A. The effect of the proposed increases and changes in distribution rates and riders on the Companies' pro forma revenues at current rates for the FPFTY is provided in the table below:

| | Requested Revenue Change | | | |
|---|---|---|---|---|
| | **Met-Ed** | **Penelec** | **Penn Power** | **West Penn** |
| | **($ Thousands)** | **($ Thousands)** | **($ Thousands)** | **($ Thousands)** |
| **Distribution Base Rates** | 149,328 | 116,499 | 25,379 | 66,825 |
| **USC Rider** | | | | 29,565 |
| **DSS and HPS Riders** | (716) | (524) | (1,074) | 7,351 |
| **Smart Meter** | 3,315 | 3,817 | 4,178 | 11,794 |
| **Total Revenue Increase** | 151,927 | 119,792 | 28,483 | 115,535 |
| **Percentage Change Over Revenues At Existing Rates[1]** | 11.5% | 8.6% | 8.7% | 8.4% |

[1] The percentage was calculated based on total estimated revenue for the fully projected future test year consisting of distribution revenue as well as generation service revenue, with the latter reflecting generation rates equivalent to the Companies' prices for applicable default service.

**Q. What are the overall rates of return and the rate of return on common equity that the Companies propose as the basis for calculating each of their revenue requirements in this case?**

A. The Companies' proposed distribution rates are designed to recover the Companies' costs to provide distribution service and provide them the opportunity to earn fair returns on their investments in distribution assets. As explained in more detail in the direct testimony of Michael J. Vilbert, Ph.D. (Met-Ed/Penelec/Penn Power/West Penn Statement No. 9) and Steven R. Staub (Met-Ed/Penelec/Penn Power/West Penn Statement No. 10), the increases in distribution base rate revenues proposed by the Companies would provide each of them an opportunity to earn a 10.90% return on equity. The overall rates of return requested for each of the Companies are as follows:

| | |
|---|---|
| Met-Ed | 8.05% |
| Penelec | 8.31% |
| Penn Power | 8.51% |
| West Penn | 8.14% |

**Q. You indicated earlier that the Companies are proposing certain new riders and revisions to existing riders. Will those new or revised riders, if approved, increase the Companies' rates of return?**

A. No, they will not. The costs proposed to be recovered under the new or revised riders are not included in the Companies' distribution base rate revenue requirements. Those costs, which are clearly identifiable, volatile, and not within the Companies' control, would be recovered under the proposed riders on a dollar-for-dollar basis, neither more nor less. Because the riders would only recover actual costs, they will not augment the rates of

return forming the basis for the Companies' proposed distribution base rates in this case. For those reasons and because the proposed new and revised riders reflect adjustment clauses that, either in form or concept, have been previously approved by the Commission, the Companies' new and revised riders should be approved.

**Q. How will the proposed distribution rate increases impact the total bill of a typical residential customer using 1,000 kWh per month for each Company and how do the Companies' bills to residential customers at proposed rates compare to existing bills of other Pennsylvania electric distribution companies ("EDCs")?**

A. The table below shows for each Company: (1) a September 2014 monthly bill for a residential default service customer using 1,000 kWh; (2) the increase for September that would result from the proposed base rates; and (3) the new total September bill under proposed base rates.

| | **September Bill** | **Increase** | **Total Bill After Increase** |
|---|---|---|---|
| **Met-Ed** | $116.56 | $20.78 | $137.34 |
| **Penelec** | $120.46 | $19.58 | $140.04 |
| **Penn Power** | $104.76 | $12. 39 | $117.15 |
| **West Penn** | $92.47 | $13.62 | $106.09 |

Using rates in effect as of July 19, 2014 for the other three major Pennsylvania EDCs (those companies' September 2014 default service rates were not publicly available when the comparison was prepared), a residential customer using 1,000 kWh per month would pay a monthly bill of between $137.05 and $153.19. Thus, even at the Companies' proposed base rates, residential customers receiving default service from the Companies would pay either approximately the same or considerably less than customers of the other

three major Pennsylvania EDCs at a similar usage level. Page 1 of Met-Ed/Penelec/Penn Power/West Penn Exhibit CVF-5 graphically depicts the billing comparison I just described. Page 2 of the exhibit graphically depicts the same comparison of monthly bills, excluding generation and transmission-related costs. Based on that comparison, West Penn, Penn Power and Met-Ed, at their existing distribution base rates, are the three lowest-priced electric utilities in Pennsylvania. At the proposed distribution base rates, the average of the bills of residential customers of the Companies using 1,000 kWh is approximately equal to the average of the bills of residential customers with comparable usage of the other three major Pennsylvania EDCs at their existing distribution rates.

## III. INITIATIVES TO MANAGE COSTS, ENHANCE CUSTOMER SERVICE AND MAINTAIN RELIABLE ELECTRIC SERVICE

**Q. Please describe the principal initiatives the Companies have implemented to control operating and maintenance ("O&M") expenses.**

A. The Companies have implemented various initiatives that have allowed them to control O&M expenditures and, in particular, administrative and general ("A&G") costs, since their base rates were last increased. Some of the initiatives that have had the most significant impacts are the following:

1. **Capturing economies of scale and maximizing merger-related synergies**. FirstEnergy, the parent of the Companies, was formed on November 7, 1997, when Ohio Edison Company ("Ohio Edison") acquired Centerior Energy Corporation ("Centerior"). That merger formed a single holding company structure that included Centerior's operating utilities (The Cleveland Electric Illuminating Company ("CEI") and The Toledo Edison Company ("Toledo

Edison")) and Ohio Edison, which was itself an operating utility, and its Pennsylvania subsidiary, Penn Power. In 2001, GPU, Inc. ("GPU") merged with FirstEnergy, which added Met-Ed, Penelec and Jersey Central Power & Light Company ("JCP&L") to FirstEnergy's family of operating electric utilities. In 2011, Allegheny Energy, Inc. ("Allegheny Energy") merged with FirstEnergy, which added to the holding company system Allegheny Energy's operating subsidiaries, consisting of Monongahela Power Company, Potomac Edison Company and West Penn.

FirstEnergy Service Company was established in its current form to capture economies of scale by providing various services on a shared basis across all of FirstEnergy's subsidiaries. In addition, FirstEnergy has implemented standardized programs and business processes that adopt the best practices identified among its various operating subsidiaries. These practices have maximized the savings achievable by eliminating duplication and from capturing economies of scale, which were made possible by the mergers that formed the current FirstEnergy utility holding company system.

2. **Aggressive management of indirect labor-related costs.** Most of the Other Post-Employment Benefits ("OPEBs") formerly provided to FirstEnergy Service Company employees and utility supervisory, management, and non-bargaining unit employees have been eliminated. This measure and other measures to aggressively manage employee benefit costs while maintaining a competitive compensation package have helped the Companies contain their labor-related costs. Consequently, the Companies are only claiming the service cost

component associated with OPEBs, which represents the actuarial present value of the benefit liabilities accrued under the plan benefit formula, for services rendered during the FPFTY in this proceeding.

3. **A sharper, renewed focus on maintaining and enhancing reliability.** The Companies' sharper, renewed focus on reliability has resulted in higher levels of capital expenditures for distribution system enhancements. In addition to enhancing reliability and, thereby, directly reducing maintenance expenses, a secondary consequence of this renewed focus on reliability-related capital improvements has been to increase the percentage of total costs that are capitalized rather than charged to O&M expense.

**Q. Please describe the Companies' initiatives to improve customer service and maintain or improve reliability and their significant accomplishments in those areas.**

A. The Companies have implemented many more customer service and reliability-related enhancements than I can reasonably identify and describe in my testimony. Consequently, I will focus on major initiatives and accomplishments since 2006, which is a reasonable starting point because it was the last time Met-Ed and Penelec filed a base rate case and because it predates the FirstEnergy/Allegheny merger. Those major initiatives and accomplishments consist of the following:

1. **Integration of three call centers.** Between the completion of the FirstEnergy/GPU merger and 2007, two call centers were operating independently to serve the customers of FirstEnergy's utility subsidiaries. One call center served

CEI, Ohio Edison, Penn Power and Toledo Edison customers, and another served Met-Ed, Penelec, and JCP&L customers . In 2007, after careful review and detailed planning, FirstEnergy integrated the technology and operations of the two call centers, enabling the following steps to create efficiencies and enhance performance:

i. The call centers initiated "virtualization" of certain types of location-specific calls, which enabled those calls to be routed to an available agent in any call center regardless of where the call originated. This change increased, from approximately 200 to approximately 400, the number of agents that could take outage, move-in and move-out calls at a given time.

ii. The utilization of agents was increased by routing to the next available agent whatever caller had been waiting the longest, regardless of the caller's location.

iii. By integrating the call centers, calls could be routed from one center to another as necessary to reduce "busy outs" and increase business continuity/disaster recovery capabilities. A busy out occurs when a customer calling the Company gets a busy signal as the capacity of the call center has been reached or exceeded.

iv. The call centers adopted the same technology for monitoring and reporting performance to ensure that call volumes, call types, service levels, agent performance, busy outs, and other metrics were calculated uniformly and could be meaningfully compared and assessed.

v. Call flows were standardized in order to decrease average handle time and improve the quality of customers' experience.

As I previously noted, in 2011, Allegheny Energy merged with FirstEnergy, which added the call center serving West Penn and Allegheny Energy's other utility subsidiaries. In 2012, FirstEnergy integrated the technology and operations of the former Allegheny Energy call center with its two other call centers, which achieved the following additional efficiencies and service enhancements:

i. Further "virtualization" was achieved for outage, move-in, move-out, and credit calls, which had the effect of increasing, from approximately 130 to 800, the number of agents available to take those types of calls for West Penn and the other former Allegheny Energy utility subsidiaries at a given time.

ii. Call center resources were maximized and optimized by creating the capability to route calls to agents in any one of three call centers, which further reduced the likelihood of busy outs and provided even better business continuity/disaster and recovery capabilities.

iii. The process of integration provided the former Allegheny Energy call center the capability, which it did not previously have, to monitor and report performance metrics at the operating company level. Previously, Allegheny Energy's utility subsidiaries could compile and report data and metrics based only on their combined performance levels.

iv. FirstEnergy implemented "virtual hold" at the former Allegheny Energy call center. Virtual hold is a technology that allows customers to choose to receive a callback rather than waiting on line to speak to an agent.

By integrating the technology and operations of multiple call centers, Met-Ed, Penelec, and Penn Power have been able to answer 80% of all the calls they received within 30 seconds in three of the last four years. West Penn is on track to achieve the goal of answering 70% of all the calls its receives within 30 seconds by 2015, which is a commitment it made in the Joint Petition for Partial Settlement approved by the Commission as part of the proceeding which granted approval of the FirstEnergy/Allegheny Energy merger. Additionally, West Penn's average speed of answer has decreased from 145 seconds in 2011 to 104 seconds for the first six months of 2014.

2. **Enhanced communication during major storms.** The Companies have materially enhanced communication with customers, local governments, emergency service providers and first responders during major storm events by adopting and effectively using social media and internet-based access to storm and restoration-related information. For the second year in a row, FirstEnergy's mobile-optimized website and Smart Phone "app" have been recognized among the top performers in a customer satisfaction survey conducted by J.D. Power. Specifically, in J.D. Power's 2014 Utility Website Evaluation Study, FirstEnergy received the third highest score for overall customer satisfaction when its utility subsidiaries' websites were viewed from a mobile device (FirstEnergy's mobile website and SmartPhone app for Apple® iPhone® and Android™ devices

received a score of 425 out of 500 points). FirstEnergy also was among the top three performers for mobile websites in J.D. Power's 2013 study. In 2013, the number of customers visiting the FirstEnergy website(s) via a Smart Phone or tablet tripled over the previous year, which is why the Companies are continuing to make it easier to manage electric accounts and report power outages using mobile tools.

3. **Recognition for customer service.** The Companies, as part of the FirstEnergy family of utilities, were recognized by the Edison Electric Institute's National Key Accounts Customer Advisory Group for providing outstanding customer service in 2014. This is the second time FirstEnergy received honors in this category, having won similar recognition in 2006. In addition, Met-Ed, Penelec and Penn Power have on average seen a five percent increase in overall customer satisfaction between 2010 and 2014 as measured by the J.D. Power 2014 Electric Utility Residential Customer Satisfaction Study released July 16, 2014 when compared to the same study in 2010 (West Penn did not have a rating in the J.D. Power survey in 2010). All of the Companies earned scores that were above their segment average in the J.D. Power 2014 Electric Utility Residential Customer Satisfaction Study, and Penn Power ranked second in overall satisfaction in the East Region: Midsize Segment Customer Satisfaction Index in that same survey of customer satisfaction by J.D. Power.

4. **Customer referral programs.** The Companies have successfully implemented customer referral programs that, since their implementation in August 2013, have enrolled over 100,000 residential and small commercial customers with

competitive retail suppliers. The Companies developed their customer referral programs in response to the Commission's recommendations in its Order entered on April 29, 2011 in the *Investigation of Pennsylvania's Retail Electricity Market* at Docket No. I-2011-2237952. The Companies' customer referral programs were adopted, with Commission approval, in conjunction with their default service plans for the period from June 1, 2013 through May 31, 2015.[2]

5. **Portable Customer Assistance Program ("CAP") benefits.** The Companies have offered fully portable CAP benefits since generation rate caps have expired, which has enabled their low income customers to access competitive retail electric markets while preserving their ability to take full advantage of the benefits available under the Companies' Universal Service programs, regardless of their shopping status.

6. **Maintaining reliable electric service**. Each of the Companies has made system enhancements and implemented specific initiatives designed to enhance reliability and provide customers high-quality, dependable service. The table below reflects each Company's performance measured by System Average Interruption Duration Index ("SAIDI"), System Average Interruption Frequency Index ("SAIFI") and Customer Average Interruption Duration Index ("CAIDI") and shows how the Companies' performance compares to the Commission's benchmark and to the twelve-month standard for each of those reliability indices:

[2] *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of Their Default Service Programs*, Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669 and P-2011-2273670 (Final Order entered August 16, 2012).

| Company | 12 month rolling | Benchmark | 12-Month Standard | Pennsylvania 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|
| | **SAIDI** | 135 | 194 | 134 | 181 | 142 | 155 | 115 |
| | **SAIFI** | 1.15 | 1.38 | 1.21 | 1.51 | 1.21 | 1.29 | 1.09 |
| | **CAIDI** | 117 | 140 | 111 | 120 | 117 | 120 | 105 |
| | **SAIDI** | 113 | 162 | 87 | 95 | 143 | 133 | 188 |
| | **SAIFI** | 1.12 | 1.34 | 0.75 | 1.01 | 1.03 | 1.17 | 1.35 |
| | **CAIDI** | 101 | 121 | 116 | 95 | 138 | 114 | 140 |
| | **SAIDI** | 148 | 213 | 143 | 162 | 233 | 194 | 174 |
| | **SAIFI** | 1.26 | 1.52 | 1.22 | 1.31 | 1.40 | 1.41 | 1.48 |
| | **CAIDI** | 117 | 141 | 117 | 124 | 167 | 138 | 117 |
| | **SAIDI** | 179 | 257 | 161 | 191 | 211 | 241 | 222 |
| | **SAIFI** | 1.05 | 1.26 | 0.97 | 1.00 | 1.40 | 1.07 | 1.21 |
| | **CAIDI** | 170 | 204 | 166 | 190 | 151 | 226 | 183 |

| | | |
|---|---|---|
| 32% | 19 | Exceed Benchmark |
| 62% | 37 | Between Benchmark and Standard |
| 7% | 4 | Below Standard |

Over the last five years, the Companies' reliability metrics have been better than the Commission's 12-month standard in 94% of the comparisons and better than the Commission's Benchmark in 32% of the comparisons.

Further, the table below shows a total capital outlay by the Companies to enhance or maintain reliability between 2009 and 2013 of nearly $ 1.9 billion.

| | T&D Capital - Reported under Section 57.195(b)(8) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Dollars in Millions | | | | |
| | 2009 | 2010 | 2011 | 2012 | 2013 | | 5-Year Total |
| Penn Power | $ 21.10 | $ 24.90 | $ 24.90 | $ 31.60 | $ 24.80 | | $ 127.30 |
| Penelec | $ 124.30 | $ 126.40 | $ 126.60 | $ 156.00 | $ 140.10 | | $ 673.40 |
| Met-Ed | $ 95.80 | $ 101.50 | $ 107.50 | $ 156.50 | $ 90.20 | | $ 551.50 |
| West Penn | $ 71.70 | $ 86.90 | $ 128.20 | $ 149.30 | $ 102.80 | | $ 538.90 |
| | | | | | | | |
| Total | $ 312.90 | $ 339.70 | $ 387.20 | $ 493.40 | $ 357.90 | | $ 1,891.10 |

7. **Smart Meter Implementation.** Under their Smart Meter Plans, the Companies will be providing 95% of their customers with smart meters by mid-2019. To

implement those plans, the Companies will make capital expenditures totaling approximately $667 million for smart meters and advanced metering infrastructure ("AMI") designed to allow customers to better manage their energy usage.

## IV. REASONS FOR REQUESTED RATE RELIEF

**Q. What are the principal factors driving the Companies' needs to increase their distribution base rates?**

A. There are four principal factors driving the Companies' needs to increase their distribution base rates, as follows:

1. **Growth in the Companies' distribution rate bases**. The single biggest factor driving the need for rate relief is the growth in the Companies' rate bases attributable to increases in net investment in distribution plant in service. This is shown in the table below which provides a comparison of net distribution plant in service as of April 30, 2016, derived from each Company's Exhibit RAD-1, to their net investments in distribution plant in service from a point in time that corresponds with their last base rate cases. For Met-Ed and Penelec, the historic point of comparison is the net investment in distribution plant in service established by the Commission's January 11, 2007 Order in their 2006 distribution base rate cases. For Penn Power and West Penn, the data source is each Company's FERC Form 1 for the year of their last change in base rates, as explained in footnote (a) to the table. The differences between the earlier timeframe and the period depicted in Exhibits RAD-1 provide a reasonable

indication of the additional investment the Companies have made in net distribution plant in service since their last base rate cases, which also confirms that growth in rate base is a significant driver of their requested distribution rate increases.

| | MET-ED | PENELEC | PENN POWER | | WEST PENN | |
|---|---|---|---|---|---|---|
| **Year of Last Base Rate Case** | 2007 | 2007 | 1988 | | 1994 | |
| **Net Plant in Service** | 1,007,085 | 1,155,461 | 87,447 | (a) | 635,246 | (a) |
| **Net Plant in Service at 4/30/2016 (From Exs. RAD-1)** | 1,514,554 | 1,766,868 | 420,106 | | 1,408,494 | |
| **Growth in Net Plant** | 50.39% | 52.91% | 380.41% | | 121.72% | |

(a) Penn Power's and West Penn's last rate cases occurred before restructuring of the electric industry in Pennsylvania, and the net plant in service reflected in their supporting data and the Commission's final orders in those cases included generation, transmission and distribution plant. Therefore, the net plant shown above for Penn Power and West Penn for 1988 and 1994, respectively, was obtained from each Company's FERC Form 1 for those years and reflects total distribution plant plus an allocable portion of general and intangible plant.

2. **Depreciation expense associated with increased investment in plant in service.** The increases in new distribution plant in service result in corresponding increases in depreciation expense.

3. **Increase in depreciation expense related to retirement of legacy meters**. Act 129 of 2008 added Section 2807(f) to the Pennsylvania Public Utility Code, requiring EDCs to adopt and implement smart meter and AMI technology for all customers. As I previously discussed, the Companies are implementing Commission-approved Smart Meter Plans under which they will replace 95% of all existing meters with smart meters by mid-2019, or approximately three years from the end of the FPFTY. Absent the Smart Meter mandate of Section 2807(f) and the adoption of the Companies' Smart Meter Plans, the Companies' existing "legacy" meters would have remained in service and continued to be depreciated

over the average remaining lives of between twenty-three and forty-eight years, as reflected in the Companies' existing distribution base rate revenue requirements. The Companies are proposing to recover their remaining investment in their legacy meters over five years, which produces a material increase in depreciation expense.

4. **Deferred Storm Damage Expense Recovery.** The Companies' service areas have experienced numerous severe storm events which caused extensive damage to their distribution systems and required the expenditure of significant storm damage recovery expenses. Because those storm damage expenses were extraordinary, non-recurring and material for some of the Companies, those Companies requested, and the Commission granted, approval to defer those expenses. Specifically, Met-Ed, Penelec and Penn Power deferred costs for distribution non-capital storm expenses that exceeded 125% of storm costs included in base rates between the period of February 25, 2011 through September 30, 2012 pursuant to the terms of the Joint Petition for Partial Settlement approved by the Commission as part of the FirstEnergy/Allegheny Energy merger proceeding. These deferrals included amounts associated with Hurricane Irene, the October 2011 snowstorm, and Tropical Storm Lee, among other events. In addition, orders were issued granting the requests to approve deferrals for certain storm costs incurred by Met-Ed associated with Winter Storm Nika (Docket No. P-2014-2412229) and Hurricane Sandy (Docket No. P-2013-2351260) and by West Penn Power associated with the February 5-16, 2010 winter storm (Docket No. P-2010-2216111). In this proceeding, the Companies

are proposing to recover the deferred expenses in their distribution revenue requirement by amortizing the deferrals over three years, as explained in more detail in the direct testimony of Richard A. D'Angelo (Met-Ed/Penelec/Penn Power/West Penn Statement No. 2).

**Q. Are the factors you discussed above offset in part by reductions in any other components of the Companies' revenue requirement?**

A. Yes. As I previously explained, the Companies have been carefully managing their O&M expenses and, in particular, their A&G expenses. In the case of Met-Ed and Penelec, for which comparisons can readily be made between the O&M expense claims in this case and their prior distribution base rate cases, O&M expenses excluding depreciation claimed for the FPFTY and smart meter costs are actually lower than the O&M expenses excluding depreciation those Companies incurred during the future test year in their 2006 base rate cases when, of course, they had no smart meter costs.

## V. ORGANIZATION OF THE FILING, WITNESSES AND THE IMPORTANCE OF THIS CASE TO THE COMPANIES AND THEIR CUSTOMERS

**Q. Please identify the other witnesses presenting direct testimony on behalf of the Companies and the principal subjects they address.**

A. The Companies are submitting the direct testimony of ten witnesses including myself. The other witnesses submitting direct testimony and the principal subjects they address are as follows:

| | | |
|---|---|---|
| **Richard A. D'Angelo** | Statement No. 2 | Development of the Companies' revenue requirements, including sponsoring and explaining the Companies' principal accounting exhibits. |
| **Kimberlie L. Bortz** | Statement No. 3 | Proposed changes to tariff Rules And Regulations; proposed Storm Damage Charge Riders; proposed West Penn USC Rider. |
| **Kevin M. Siedt** | Statement No. 4 | Development of normalized sales and revenues; development of the Companies' proposed rate design; description of proposed Time-Of-Use Default Service Riders, Partial Service Riders And Cogeneration and Small Power Production Qualifying Facility Riders. |
| **Hillary E. Stewart** | Statement No. 5 | Development of the Companies' cost of service studies; separation studies; cost of service at existing rates. |
| **Patricia M. Larkin** | Statement No. 6 | Development of the Companies' claims for cash working capital. |
| **Laura W. Gifford** | Statement No. 7 | Unbundling of West Penn default service uncollectible accounts expense and associated revisions to West Penn's DSS and HPS Riders; updating Met-Ed's, Penelec's and Penn Power's DSS and HPS Riders to recover industrial default service-related uncollectible accounts expenses through the HPS Riders. |
| **Christopher D. Ciccone** | Statement No. 8 | Proposed LED Street Lighting Rate Schedules. |
| **Michael J. Vilbert, Ph.D.** | Statement No. 9 | Cost of common equity. |
| **Steven R. Staub** | Statement No. 10 | Capitalization ratios; cost rates of long-term debt and common equity; overall cost of capital. |

**Q. Please explain the importance of the proposed rate increases to the Companies?**

A. Due in large part to their substantial investment in utility plant, and notwithstanding their success in containing O&M expenses, the Companies' overall rates of return, at present rates, are projected to be 2.10% (Met-Ed), 3.98% (Penn Power), 4.01% (Penelec) and 4.78% (West Penn) for the FPFTY. More importantly, the indicated returns on common equity under present rates are anticipated to be 1.0% (Met-Ed) 2.56% (Penn Power), 2.38% (Penelec) and 4.18% (West Penn), which are inadequate by any reasonable standard. Returns at those levels are simply not sufficient to fully support the substantial amounts of additional investment the Companies will be required to make to maintain and enhance reliability, replace aging infrastructure, and fully implement their Smart Meter Plans while benefitting customers with continued safe, reliable and high-quality service. Accordingly, it is critically important that the Companies obtain the rate relief they are requesting in this case.

**Q. Given the importance of this case to the financial health of the Companies and their ability to continue to invest in plant and equipment to maintain and enhance reliability and customer service, do you have a recommendation regarding the rate of return that should be approved for the Companies?**

A. Yes, I do. It is important that the Commission adopt a rate of return at the top of the range of rates of return on common equity developed by Dr. Vilbert. In addition to providing the Companies the level of income they need to maintain and increase their level of investment in distribution infrastructure, a rate of return at the top of Dr. Vilbert's recommended range will properly recognize the Companies' efficiency, their focus on customer service, their dedication to maintaining and enhancing reliability, and

their support of Pennsylvania's competitive retail energy market, all of which are exhibited by the initiatives and accomplishments discussed in Section III of my testimony. Additionally, a top-of-range rate of return on equity would also properly recognize the quality of the Companies' management decisions and, in particular, their success in controlling O&M expenses, which has enabled the Companies to extend the period between base rate cases, to the benefit of their customers.

**Q. Does this conclude your direct testimony?**

A. Yes, it concludes my direct testimony at this time. However, I would like to reserve the right to supplement my direct testimony should it become necessary to do so

**Biography**
**Charles V. Fullem**
**Director – Rates & Regulatory Affairs/Pennsylvania**

Charles V. Fullem is Director- Rates & Regulatory Affairs/Pennsylvania, a position he was appointed to on January 22, 2006. In that capacity, he is responsible for developing the default service plans of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company, as well as all retail tariff filings and financial reports to the Pennsylvania Public Utility Commission ("PaPUC") and the New York State Public Service Commission. He has over 30 years of experience in the energy industry, with a background in rates and regulation, marketing, unregulated retail pricing and regulated tariffs, contract development and negotiations of both wholesale and retail electric service contracts.

From December 2000 through January 2006, he served in various positions, including Director of Energy Consulting Operations for The E Group, the energy consulting subsidiary of FirstEnergy Corporation ("FirstEnergy"). As Director, he managed technical staff teams and was responsible for delivering all aspects of The E Group's client services for an over one billion dollar client energy spend, including energy management, bill and rate analysis, development of energy procurement strategies, preparation of requests for proposal, evaluation of bids, contract development and implementation, open market analysis, and negotiations with suppliers and utilities and utility bill payment.

From November 1999 through December 2000, Mr. Fullem was Director, Pricing and Regulatory Affairs, in FirstEnergy's rate department, where he was responsible for tariff administration and pricing programs serving over 2.2 million customers in Ohio and Pennsylvania. In this capacity, Mr. Fullem developed and implemented the unbundled tariffs designed to implement Customer Choice in Ohio, coordinated the development of FirstEnergy's Supplier Tariff and Net Metering Rider, and participated in the Operational Support Plan (OSP) workgroups. The OSP workgroups were collaborative working groups charged with establishing the various rules and policies of retail choice in Ohio.

From December 1994 through November 1999, Mr. Fullem served in various roles in FirstEnergy's marketing department, including Director, Planning and Strategy, and Director of Centerior Energy's Competitive Analysis Department, where he developed and implemented successful marketing programs targeted to commercial and industrial customers and mass market customers in both competitive generation markets and traditional areas of competition between fully integrated electric utility providers.

From 1982 through December 1994, Mr. Fullem served in various roles in rates and regulation at Centerior Energy and Cleveland Electric Illuminating Company, including the roles of Director, Planning & Strategy, and Director of Rates & Contracts. In these roles, Mr. Fullem managed and performed cost of service studies, load research, customer requirements analyses, designed rates and tariffs, participated in the development of revenue requirements, and performed financial analyses.

Mr. Fullem holds his Bachelor of Science degree in Mineral Economics from the Pennsylvania State University. Mr. Fullem is a Certified Energy Procurement Professional by the Association of Energy Engineers. He has provided expert testimony before the Public Utilities Commission of Ohio ("PUCO"), the PaPUC, The New York State Public Service Commission and the Federal Energy Regulatory Commission ("FERC").

Mr. Fullem has prepared and presented testimony in the following rate-related cases:

**PUCO Cases:**

| ***Case Nos.*** | ***Case Name*** |
|---|---|
| 85-521-EL-COI | (In the Matter of the Investigation into the Perry Nuclear Power Station) |
| 88-170-EL-AIR | (In the Matter of the Application of the Cleveland Electric Illuminating Company for Authority to Amend and to Increase Certain of its Filed Schedules Fixing Rates and Charges for Electric Service) |
| 88-171-El-AIR | (In the Matter of the Application of the Toledo Edison Company for Authority to Amend and to Increase Certain of its Filed Schedules Fixing Rates and Charges for Electric Service) |
| 91-1528-EL-CSS | (In the Matter of the Complaint of Toledo Premium Yogurt, Inc., dba Freshens Yogurt, Complainant, v. Toledo Edison Company, Respondent) |
| 91-2308-EL-CSS | (Board of Education, Cleveland City Schools v. Cleveland Electric Illuminating Company) |
| 92-504-EL-CSS | (Board of Education, Cleveland City Schools v. Cleveland Electric Illuminating Company) |
| 95-02-EL-ABN | (In the Matter of the Application of the City of Clyde Requesting Removal of Certain Electric Distribution Facilities of the Toledo Edison Company from Within Clyde's Corporate Limits) |
| 01-174-EL-CSS | (In the Matter of the Complaint of the City of Cleveland and WPS Energy Services, Inc., Complaints, v. The Cleveland Electric Illuminating Company and FirstEnergy Corp., Respondents) |

**PaPUC Cases:**

| ***Docket No.*** | ***Case Name*** |
|---|---|
| R – 850267 | (Pennsylvania Public Utility Commission, et al. v. Pennsylvania Power Company) |
| R – 860378 | (Pennsylvania Public Utility Commission, et al. v. Duquesne Light Company) |
| 87-1160 | (Duquesne Light Company and Pennsylvania Power Company, Appellants v. David M. Barasch, etc., et al.) |
| P-00072305 | (Petition of Pennsylvania Power Company for Approval of Interim Default Service Supply Plan) |
| P-2008-2066692 | (Voluntary Prepayment Plan) |
| P-2009-2093053 | (Metropolitan Edison Company Default Service Programs) |
| P-2009-2093054 | (Pennsylvania Electric Company Default Service Programs) |
| I-2009-2099881 | (Compliance of Commonwealth of Pennsylvania with Section 410(a) of the American Recovery and Reinvestment Act 2009) |
| M-2009-2092222 | (Petition of Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company for approval of its Energy Efficiency and Conservation Plans) |
| M-2009-2112952 | (Petition of Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company for approval of its Energy Efficiency and Conservation Plans) |
| M-2009-2112956 | (Petition of Metropolitan Edison Company, Pennsylvania Electric Company, & Pennsylvania Power Company for approval of its Energy Efficiency and Conservation Plans) |
| A-2010-2176520 | (Joint Application of West Penn Power Company, Trans-Allegheny Interstate Line Company & FirstEnergy Corp.) |
| A-2010-2176732 | (Joint Application of West Penn Power Company, Trans-Allegheny Interstate Line Company & FirstEnergy Corp.) |
| P-2011-2273650 | (Metropolitan Edison Company Default Service Programs) |

| | |
|---|---|
| P-2011-2273668 | (Pennsylvania Electric Company Default Service Programs) |
| P-2011-2273669 | (Pennsylvania Power Company Default Service Programs) |
| P-2011-2273670 | (West Penn Power Company Default Service Programs) |

**NY PSC Cases:**

| ***Docket No.*** | ***Case Name*** |
|---|---|
| Case 11-E-0594 | (Pennsylvania Electric Company Waverly District – moving POLR rates to market supply) |

**FERC Cases:**

| ***Docket No.*** | ***Case Name*** |
|---|---|
| ER93-471-000 | (COS – FERC Rate Case: Cleveland Electric Illuminating Company v. Cleveland Public Power) |

METROPOLITAN EDISON COMPANY

FILING REQUIREMENT I-A-1:

> "Provide a summary discussion of the rate change request, including specific reasons for each increase or decrease. Also provide a breakdown which identifies the revenue requirement value of the major items generating the requested rate change."

RESPONSE:

**Metropolitan Edison Company**
**Statement of Reasons for Rate Changes**

## Introduction

Metropolitan Edison Company ("Met-Ed" or the "Company") has filed a new tariff and accompanying supporting data setting forth a proposed distribution base rate increase and other proposed tariff revisions ("Rate Plan") for approval by the Pennsylvania Public Utility Commission ("Commission"). Met-Ed has not filed a general base rate case since 2006, which resulted in a distribution base rate decrease, and has not increased its base rates since 1992.

The Rate Plan proposes rates that would produce an increase in Met-Ed's annual distribution revenue of $151.9 million based on a fully projected future test year ending April 30, 2016 and reflecting the Company's proposed overall rate of return of 8.05% and a rate of return on the common equity portion of its capital structure of 10.9%. The average total-bill increases under the proposed rates vary by class of customers, and average class increases range from approximately 1.8% to 19.96% for customers that

receive default service from the Company. The monthly bill of a residential default service customer using 1,000 kilowatt-hours ("kWh") per month would increase from $116.56 to $137.34.

**Principal Reasons For The Proposed Increase In Rates**

Four principal factors are driving the Company's need to increase its distribution rates:

1. **Significant Growth In The Company's Investment In Plant In Service.** Met-Ed's investment in electric plant in service has increased by $507 million since it last filed a general base rate case.
2. **Increase In Depreciation Expense.** The growth in utility plant investment has caused the Company's annual depreciation expense to increase by $38 million for the fully projected future test year in this case as compared to the annual depreciation expense that the Company was permitted to recover in the rates established in its 2006 rate case.
3. **Unrecovered Investment In Meter Costs.** Depreciation expense has also increased as a result of the legislative mandate imposed by Act 129 of 2008, which added Section 2807(f) to the Pennsylvania Public Utility Code. Section 2807(f) requires electric distribution companies ("EDCs") to install Smart Meters for all customers. Under the Commission-approved Smart Meter Deployment Plan for Met-Ed, 95% of its customers will have Smart Meters installed by mid-2019. As a result, Met-Ed's investment in existing "legacy" meters has to be

recovered over their now much shorter remaining service lives, which added $8.4 to Met-Ed's annual depreciation expense.

4. **Deferred Storm Damage Expense.** Met-Ed's service area has experienced several severe storm events over the last four years, which caused extensive damage to its distribution system and caused the Company to incur significant storm damage remediation costs. With the Commission's prior approval, those expenditures were deferred for recovery in the Company's next base rate case. Therefore, in this case, Met-Ed is seeking to amortize $65 million of deferred storm expenses and has requested a return on the unamortized balance.

Notably, the factors driving Met-Ed's need for rate relief explained above have been partially offset by reductions in other components of Met-Ed's revenue requirement. Specifically, as a result of carefully managing operating and maintenance ("O&M") expenses and, in particular, administrative and general expenses, Met-Ed's O&M expenses, excluding depreciation and Smart Meter costs, are actually $4.0 million lower than the O&M expense, excluding depreciation, that the Company incurred during the future test year in its 2006 base rate case.

Due in large part to its substantial investment in utility plant and notwithstanding its success in containing O&M expenses, Met-Ed's overall rate of return, at present rates, is projected to be only 2.10% for the fully projected future test year. More importantly, the indicated return on common equity under present rates is anticipated to be (1.0)%, which is inadequate by any reasonable standard.

**Principal Components of the Rate Plan**

The Company's Rate Plan consists of the following principal components:

1. **Increased Distribution Base Rates**. Met-Ed is proposing distribution base rates that reflect its costs to furnish distribution service during the fully projected future test year and to provide a reasonable return on its investment in plant dedicated to public service.
2. **Storm Damage Charge Rider**. Met-Ed is proposing a Storm Damage Charge Rider that will add to its tariff an adjustment clause authorized by Section 1307(a) of the Pennsylvania Public Utility Code. The adjustment clause will impose a charge or credit on customers' bills to reflect the difference, on an annual basis, between storm damage expenses recovered in Met-Ed's base rates and the storm damage expense it actually incurs. The Storm Damage Charge Rider is a reasonable means for the Company to recover its actual storm damage costs – neither more nor less – on a timely basis.
3. **Roll-In To Base Rates Of Smart Meter Costs.** Met-Ed currently has a Smart Meter Technologies Charge Rider containing a Commission-approved adjustment clause that imposes a Smart Meter Technologies Charge to recover the costs of implementing its Smart Meter Deployment Plan ("Smart Meter Plan"). Met-Ed is proposing to include in its distribution base rate revenue requirement its fully projected future test year costs to implement its Smart Meter Plan and to recover those costs in its distribution base rates. Accordingly, Met-Ed is also proposing to reduce its Smart Meter Technologies Charge to zero. The Smart Meter

Technologies Charge Rider will remain in the Company's tariff as the mechanism to recover the cost of implementing its Smart Meter Plan, net of savings, in excess of such costs being recovered in base rates. Additionally, the roll-in to base rates will enable Met-Ed to clearly establish baselines for the Smart Meter costs being recovered in base rates and for those cost categories that it will need to track to determine future savings produced by the implementation of its Smart Meter Plan.

4. **Updating "Unbundled" Default Service-Related Uncollectible Accounts Expense**. Met-Ed recovers "unbundled" uncollectible accounts expense associated with providing default service, including its Purchase of Receivables Program for electric generation suppliers' accounts receivable, under its Default Service Support ("DSS") Rider and Hourly Pricing Default Service ("HPS") Rider. The charges imposed under the applicable provisions of the DSS Rider and HPS Rider are being updated in this filing to reflect current cost levels and to reconcile prior period costs and revenues.

5. **New Rules And Regulations**. Met-Ed, together with its affiliated EDCs in Pennsylvania (Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company), which are making contemporaneous distribution base rate filings, is proposing to adopt Rules and Regulations that will be uniform across all four companies. Establishing uniform Rules and Regulations will extend to the Companies' tariffs and tariff administration a level of standardization that will help create a uniform customer experience across their

Pennsylvania service territories; streamline their practices; and help to control administration costs.

6. **Elimination Of Certain Riders, Rate Schedules And Tariff Rules.** Certain riders, rate schedules and rules in Met-Ed's current tariff are legacies of the era when the Company furnished fully "bundled" generation, transmission and distribution service. Following the restructuring of the electric industry in Pennsylvania, those riders, rate schedules and rules are not applicable to the provision of unbundled distribution service or are obsolete for other reasons and, therefore, Met-Ed proposes to eliminate them.

The following table shows the composition of Met-Ed's proposed revenue increase by component:

| | **$ Thousands** |
|---|---|
| **Distribution Base Rates** | 149,328 |
| **Smart Meter Roll-In** | 3,315 |
| **DSS and HPS Riders** | (716) |
| **Total Revenue Increase** | 151,927 |
| **Percentage Increase Over Revenues At Existing Rates**[1] | 11.5% |

1. The percentage was calculated based on total estimated revenue for the fully projected future test year consisting of distribution revenue and generation service revenue, assuming all customers receive default service at the Company's applicable default service rates.

**Customer Impact/Bill Comparisons**

As previously noted, if Met-Ed's proposed rates were fully implemented, a residential customer of the Company using 1,000 kWh of electricity per month and receiving default service would pay a total monthly bill of $137.34. That amount is

approximately the same as, or lower than, the monthly bills of default service customers using 1,000 kWh per month served by the three other major EDCs in Pennsylvania not affiliated with Met-Ed,[1] which range from $138.05 to $153.19 under those companies' existing rates.

**Conclusion**

The Rate Plan reflects the Company's need for adequate and timely rate relief to support the substantial amounts of additional investment it will be required to make to maintain and enhance reliability, replace aging infrastructure, and fully implement its Smart Meter Plan while continuing to furnish its customers the safe, reliable and high-quality electric service they have come to expect. Accordingly, it is critically important for both the Company and its customers that the Rate Plan be approved.

[1] Duquesne Light Company, PECO Energy Company and PPL Electric Utilities Corporation.

METROPOLITAN EDISON COMPANY

FILING REQUIREMENT I-A-2:

"Identify the proposed witnesses for all statements and schedules of revenues, expenses, taxes, property, valuation, and the like."

RESPONSE:

| Witness | Statement Designation | Area of Testimony |
|---|---|---|
| C. Fullem | Statement 1 | Overview of Distribution Base Rate Case Filing |
| R. D'Angelo | Statement 2 | Revenue Requirements |
| K. Bortz | Statement 3 | General Rules and Regulations, and New Riders |
| K. Siedt | Statement 4 | Sales & Revenue Normalization and Rate Design |
| H. Stewart | Statement 5 | Cost of Service |
| P. Larkin | Statement 6 | Cash Working Capital |
| L. Gifford | Statement 7 | Unbundled Uncollectible Expense, Smart Meters |
| C. Ciccone | Statement 8 | New LED Streetlighting Schedule |
| Dr. M. Vilbert | Statement 9 | Rate of Return |
| S. Staub | Statement 10 | Cost of Capital and Rate of Return |

METROPOLITAN EDISON COMPANY

FILING REQUIREMENT I-A-3:

"Provide a single page summary table showing, at present and at proposed rates, together with references to the filing information, the following as claimed for the fully adjusted test year:

Revenues
Operating Expenses
Operating Income Rate Base
Rate of Return (produced)"

RESPONSE:

| | Total Distribution At Present Rates* ($ millions) (Exhibit RAD-2 Page 1, Column 13) | Total Distribution At Proposed Rates* ($ millions) (Exhibit RAD-2 Page 3, Column 33) |
|---|---|---|
| Revenues | $ 285 | $ 438 |
| Operating Expenses | $ 255 | $ 324 |
| Operating Income | $ 30 | $ 114 |
| Rate Base | $1,413 | $1,413 |
| Rate of Return (produced) | 2.10% | 8.05% |

*There is a difference in the total revenue requirements because of slight changes in the Default Service Support Rider of $(716).

# METROPOLITAN EDISON COMPANY

FILING REQUIREMENT I-B-1:

> "Provide a corporate history including the dates of original incorporation, subsequent mergers and acquisitions. Indicate all counties, cities and other governmental subdivisions to which service is provided, including service areas outside this Commonwealth, and the total number of customers or billed units in the areas served."

RESPONSE:

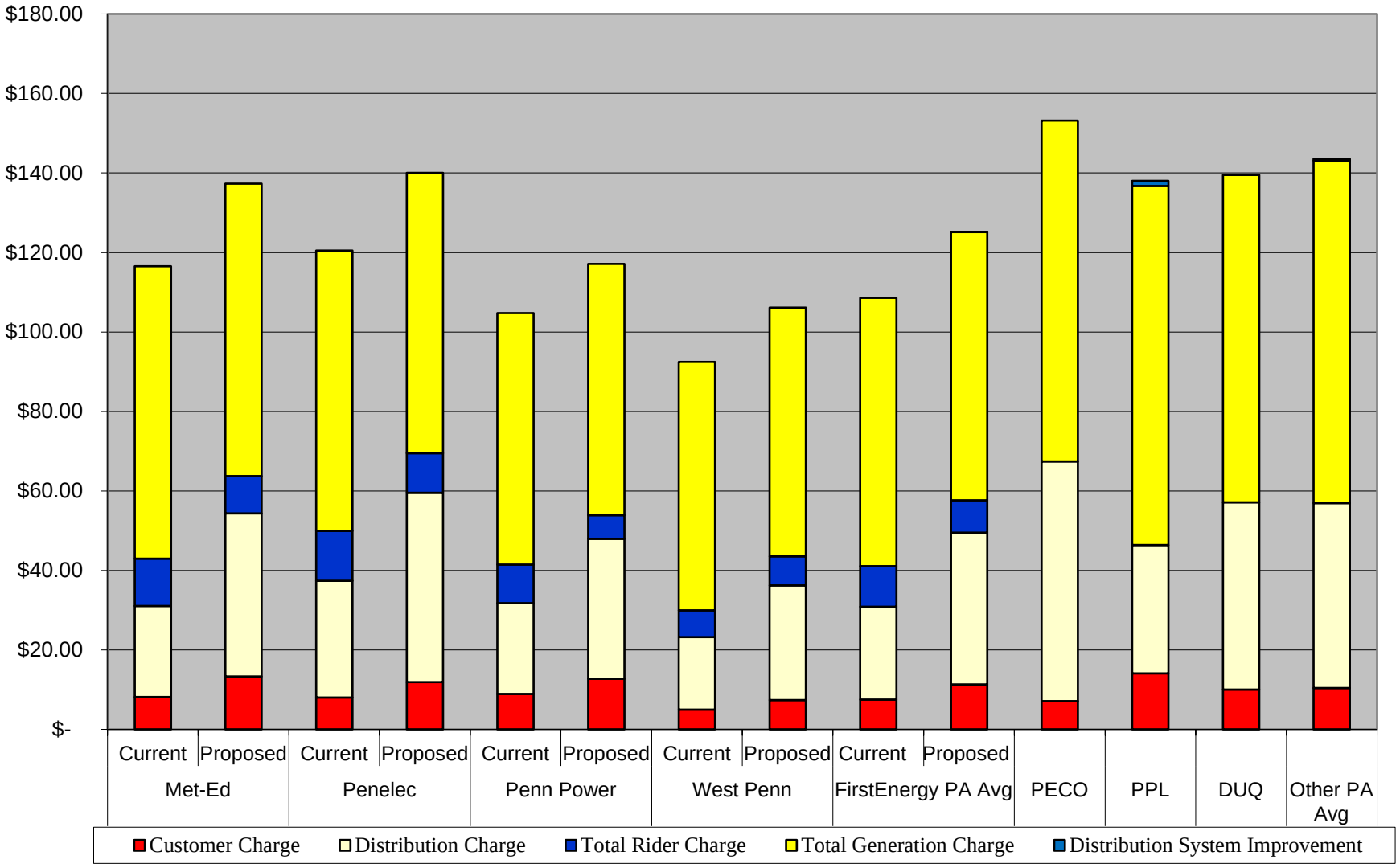
Metropolitan Edison Company ("Met-Ed" or "Company"), a Pennsylvania corporation, was formed by a consolidation and merger of Metropolitan Edison Company (a predecessor constituent company of the same name as Met-Ed) and Metropolitan Electric Light & Power Company by an agreement dated June 8, 1922 in accordance with the provisions of the Action of 1909, P. L. 408, and letters patent were issued to Met-Ed on July 24, 1922. That predecessor constituent company of the same name as Met-Ed was likewise formed as the result of various successive mergers and consolidations. Since its incorporation, Met-Ed has acquired by purchase the properties and franchises of numerous electric light, heat and power and water power companies chartered to serve various parts of the area now embraced within Met-Ed's territory.

In 1946, General Public Utilities, Inc. (later "GPU Inc.") was created, forming the umbrella under which Met-Ed, Pennsylvania Electric Company ("Penelec") and Jersey Central Power & Light Company conducted business. On November 7, 2001, GPU merged with FirstEnergy Corp. Since that merger, Met-Ed has been a wholly owned subsidiary of FirstEnergy Corp.

The Company's principal business is the transmission, distribution and sale of electricity in eastern and south central Pennsylvania. Met-Ed is affiliated with three other Pennsylvania electric distribution utilities (Penelec, Pennsylvania Power Company and West Penn Power Company), as well as six additional sister distribution utilities in New Jersey, Ohio, Maryland and West Virginia. Other affiliates include FirstEnergy Service Company (a service company) and various regulated transmission and unregulated competitive energy companies.

The Company provides retail service to approximately 557,000 customers in all or portions of fourteen counties in the eastern and south central parts of Pennsylvania. The municipalities which the Company serves are listed in the Company's filed Electric Service Tariff, Electric Pa. P.U.C. No. 52.

## PA 1,000 kWh Residential Default Service Bill Comparison



## PA 1,000 kWh Residential Delivery Bill Comparison