

**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**

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1 **DIRECT TESTIMONY**
2 **OF**
3 **CHARLES V. FULLEM**

4 **I. INTRODUCTION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11 **Exhibit CVF-3** is a table showing, at present and proposed rates, each
12 Company's revenues, operating expenses, operating income and rate base, as
13 adjusted for ratemaking purposes, and the resulting overall rates of return for
14 the fully projected future test year ("FPFTY"), the twelve months ended April
15 30, 2016. The table also provides references to exhibits sponsored by other
16 witnesses that set forth this information in more detail.

17 **Exhibit CVF-4** provides a corporate history, including the dates of each
18 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.

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

5 **II. OVERVIEW OF THE REQUESTED DISTRIBUTION RATE INCREASES**

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

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

14 Penn Power's current distribution base rates were established pursuant to the
15 Commission's Final Order issued July 22, 1998 in the proceeding at Docket No. R-
16 00974149, in which Penn Power's bundled rates for electric service were functionally
17 unbundled. Prior to unbundling, Penn Power's fully bundled rates had been established
18 in a general base rate increase proceeding at Docket No. R-870732, which concluded
19 with a Final Order entered on May 3, 1988.

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

1 increased its base rates pursuant to the Commission's Final Order entered December 29,
2 1994 in a general base rate proceeding at Docket No. R-00942986.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	<u>Requested Revenue Change</u>			
	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 Rates¹	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.

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

4 A. The Companies' proposed distribution rates are designed to recover the Companies' costs
5 to provide distribution service and provide them the opportunity to earn fair returns on
6 their investments in distribution assets. As explained in more detail in the direct
7 testimony of Michael J. Vilbert, Ph.D. (Met-Ed/Penelec/Penn Power/West Penn
8 Statement No. 9) and Steven R. Staub (Met-Ed/Penelec/Penn Power/West Penn
9 Statement No. 10), the increases in distribution base rate revenues proposed by the
10 Companies would provide each of them an opportunity to earn a 10.90% return on equity.
11 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%

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

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

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

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

9 A. The table below shows for each Company: (1) a September 2014 monthly bill for a
10 residential default service customer using 1,000 kWh; (2) the increase for September that
11 would result from the proposed base rates; and (3) the new total September bill under
12 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

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

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

10 **III. INITIATIVES TO MANAGE COSTS, ENHANCE CUSTOMER SERVICE AND**
11 **MAINTAIN RELIABLE ELECTRIC SERVICE**

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

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

18 **1. Capturing economies of scale and maximizing merger-related synergies.**

19 FirstEnergy, the parent of the Companies, was formed on November 7, 1997,
20 when Ohio Edison Company (“Ohio Edison”) acquired Centerior Energy
21 Corporation (“Centerior”). That merger formed a single holding company
22 structure that included Centerior’s operating utilities (The Cleveland Electric
23 Illuminating Company (“CEI”) and The Toledo Edison Company (“Toledo

1 Edison”)) and Ohio Edison, which was itself an operating utility, and its
2 Pennsylvania subsidiary, Penn Power. In 2001, GPU, Inc. (“GPU”) merged with
3 FirstEnergy, which added Met-Ed, Penelec and Jersey Central Power & Light
4 Company (“JCP&L”) to FirstEnergy’s family of operating electric utilities. In
5 2011, Allegheny Energy, Inc. (“Allegheny Energy”) merged with FirstEnergy,
6 which added to the holding company system Allegheny Energy’s operating
7 subsidiaries, consisting of Monongahela Power Company, Potomac Edison
8 Company and West Penn.

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

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

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

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

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

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

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

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

- 6 i. The call centers initiated “virtualization” of certain types of location-
7 specific calls, which enabled those calls to be routed to an available agent
8 in any call center regardless of where the call originated. This change
9 increased, from approximately 200 to approximately 400, the number of
10 agents that could take outage, move-in and move-out calls at a given time.
- 11 ii. The utilization of agents was increased by routing to the next available
12 agent whatever caller had been waiting the longest, regardless of the
13 caller’s location.
- 14 iii. By integrating the call centers, calls could be routed from one center to
15 another as necessary to reduce “busy outs” and increase business
16 continuity/disaster recovery capabilities. A busy out occurs when a
17 customer calling the Company gets a busy signal as the capacity of the
18 call center has been reached or exceeded.
- 19 iv. The call centers adopted the same technology for monitoring and reporting
20 performance to ensure that call volumes, call types, service levels, agent
21 performance, busy outs, and other metrics were calculated uniformly and
22 could be meaningfully compared and assessed.

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

3 As I previously noted, in 2011, Allegheny Energy merged with FirstEnergy, which added
4 the call center serving West Penn and Allegheny Energy's other utility subsidiaries. In
5 2012, FirstEnergy integrated the technology and operations of the former Allegheny
6 Energy call center with its two other call centers, which achieved the following additional
7 efficiencies and service enhancements:

- 8 i. Further "virtualization" was achieved for outage, move-in, move-out, and
9 credit calls, which had the effect of increasing, from approximately 130 to
10 800, the number of agents available to take those types of calls for West
11 Penn and the other former Allegheny Energy utility subsidiaries at a given
12 time.
- 13 ii. Call center resources were maximized and optimized by creating the
14 capability to route calls to agents in any one of three call centers, which
15 further reduced the likelihood of busy outs and provided even better
16 business continuity/disaster and recovery capabilities.
- 17 iii. The process of integration provided the former Allegheny Energy call
18 center the capability, which it did not previously have, to monitor and
19 report performance metrics at the operating company level. Previously,
20 Allegheny Energy's utility subsidiaries could compile and report data and
21 metrics based only on their combined performance levels.

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

4 By integrating the technology and operations of multiple call centers, Met-Ed, Penelec,
5 and Penn Power have been able to answer 80% of all the calls they received within 30
6 seconds in three of the last four years. West Penn is on track to achieve the goal of
7 answering 70% of all the calls its receives within 30 seconds by 2015, which is a
8 commitment it made in the Joint Petition for Partial Settlement approved by the
9 Commission as part of the proceeding which granted approval of the
10 FirstEnergy/Allegheny Energy merger. Additionally, West Penn’s average speed of
11 answer has decreased from 145 seconds in 2011 to 104 seconds for the first six months of
12 2014.

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

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

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

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

1 competitive retail suppliers. The Companies developed their customer referral
2 programs in response to the Commission’s recommendations in its Order entered
3 on April 29, 2011 in the *Investigation of Pennsylvania’s Retail Electricity Market*
4 at Docket No. I-2011-2237952. The Companies’ customer referral programs
5 were adopted, with Commission approval, in conjunction with their default
6 service plans for the period from June 1, 2013 through May 31, 2015.²

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

13 6. **Maintaining reliable electric service.** Each of the Companies has made system
14 enhancements and implemented specific initiatives designed to enhance reliability
15 and provide customers high-quality, dependable service. The table below reflects
16 each Company’s performance measured by System Average Interruption Duration
17 Index (“SAIDI”), System Average Interruption Frequency Index (“SAIFI”) and
18 Customer Average Interruption Duration Index (“CAIDI”) and shows how the
19 Companies’ performance compares to the Commission’s benchmark and to the
20 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

1
2 Over the last five years, the Companies' reliability metrics have been better than the
3 Commission's 12-month standard in 94% of the comparisons and better than the
4 Commission's Benchmark in 32% of the comparisons.

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

	T&D Capital - Reported under Section 57.195(b)(8)						5-Year Total
	Dollars in Millions						
	2009	2010	2011	2012	2013		
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
8 **7. Smart Meter Implementation.** Under their Smart Meter Plans, the Companies
9 will be providing 95% of their customers with smart meters by mid-2019. To

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

5 **IV. REASONS FOR REQUESTED RATE RELIEF**

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

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

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

1 indication of the additional investment the Companies have made in net
 2 distribution plant in service since their last base rate cases, which also confirms
 3 that growth in rate base is a significant driver of their requested distribution rate
 4 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.

5
 6 **2. Depreciation expense associated with increased investment in plant in**
 7 **service.** The increases in new distribution plant in service result in corresponding
 8 increases in depreciation expense.

9 **3. Increase in depreciation expense related to retirement of legacy meters.** Act
 10 129 of 2008 added Section 2807(f) to the Pennsylvania Public Utility Code,
 11 requiring EDCs to adopt and implement smart meter and AMI technology for all
 12 customers. As I previously discussed, the Companies are implementing
 13 Commission-approved Smart Meter Plans under which they will replace 95% of
 14 all existing meters with smart meters by mid-2019, or approximately three years
 15 from the end of the FPFTY. Absent the Smart Meter mandate of Section 2807(f)
 16 and the adoption of the Companies' Smart Meter Plans, the Companies' existing
 17 "legacy" meters would have remained in service and continued to be depreciated

1 over the average remaining lives of between twenty-three and forty-eight years, as
2 reflected in the Companies' existing distribution base rate revenue requirements.

3 The Companies are proposing to recover their remaining investment in their
4 legacy meters over five years, which produces a material increase in depreciation
5 expense.

6 4. **Deferred Storm Damage Expense Recovery.** The Companies' service areas
7 have experienced numerous severe storm events which caused extensive damage
8 to their distribution systems and required the expenditure of significant storm
9 damage recovery expenses. Because those storm damage expenses were
10 extraordinary, non-recurring and material for some of the Companies, those
11 Companies requested, and the Commission granted, approval to defer those
12 expenses. Specifically, Met-Ed, Penelec and Penn Power deferred costs for
13 distribution non-capital storm expenses that exceeded 125% of storm costs
14 included in base rates between the period of February 25, 2011 through
15 September 30, 2012 pursuant to the terms of the Joint Petition for Partial
16 Settlement approved by the Commission as part of the FirstEnergy/Allegheny
17 Energy merger proceeding. These deferrals included amounts associated with
18 Hurricane Irene, the October 2011 snowstorm, and Tropical Storm Lee, among
19 other events. In addition, orders were issued granting the requests to approve
20 deferrals for certain storm costs incurred by Met-Ed associated with Winter Storm
21 Nika (Docket No. P-2014-2412229) and Hurricane Sandy (Docket No. P-2013-
22 2351260) and by West Penn Power associated with the February 5-16, 2010
23 winter storm (Docket No. P-2010-2216111). In this proceeding, the Companies

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

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

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

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

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

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

21

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.

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

2 A. Due in large part to their substantial investment in utility plant, and notwithstanding their
3 success in containing O&M expenses, the Companies' overall rates of return, at present
4 rates, are projected to be 2.10% (Met-Ed), 3.98% (Penn Power), 4.01% (Penelec) and
5 4.78% (West Penn) for the FPFTY. More importantly, the indicated returns on common
6 equity under present rates are anticipated to be 1.0% (Met-Ed) 2.56% (Penn Power),
7 2.38% (Penelec) and 4.18% (West Penn), which are inadequate by any reasonable
8 standard. Returns at those levels are simply not sufficient to fully support the substantial
9 amounts of additional investment the Companies will be required to make to maintain
10 and enhance reliability, replace aging infrastructure, and fully implement their Smart
11 Meter Plans while benefitting customers with continued safe, reliable and high-quality
12 service. Accordingly, it is critically important that the Companies obtain the rate relief
13 they are requesting in this case.

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

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

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

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

8 A. Yes, it concludes my direct testimony at this time. However, I would like to reserve the
9 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:

<i>Case Nos.</i>	<i>Case Name</i>
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., Complainants, v. The Cleveland Electric Illuminating Company and FirstEnergy Corp., Respondents)

PaPUC Cases:

<i>Docket No.</i>	<i>Case Name</i>
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)

PENNSYLVANIA ELECTRIC 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:

**Pennsylvania Electric Company
Statement of Reasons for Rate Changes**

Introduction

Pennsylvania Electric Company (“Penelec” 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”). Penelec 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 1986.

The Rate Plan proposes rates that would produce an increase in Penelec’s annual distribution revenue of \$119.8 million based on a fully projected future test year ending April 30, 2016 and reflecting the Company’s proposed overall rate of return of 8.31% and a rate of return on the common equity portion of its capital structure of 10.90%. The average total-bill increases under the proposed rates vary by class of customers, and average class increases range from approximately 1.47% to 19.24% 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 \$120.46 to \$140.04.

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.**

Penelec’s investment in electric plant in service has increased by \$611 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 \$40 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 Penelec, 95% of its customers will have Smart Meters installed by mid-2019. As a result, Penelec’s investment in existing “legacy” meters has to be

recovered over their now much shorter remaining service lives, which added \$8.6 to Penelec's annual depreciation expense.

- 4. Deferred Storm Damage Expense.** Penelec'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, Penelec is seeking to amortize \$12.8 million of deferred storm expenses and has requested a return on the unamortized balance.

Notably, the factors driving Penelec's need for rate relief explained above have been partially offset by reductions in other components of Penelec's revenue requirement. Specifically, as a result of carefully managing operating and maintenance ("O&M") expenses and, in particular, administrative and general expenses, Penelec's O&M expenses, excluding depreciation and Smart Meter costs, are actually \$12.0 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, Penelec's overall rate of return, at present rates, is projected to be only 4.01% for the fully projected future test year. More importantly, the indicated return on common equity under present rates is anticipated to be 2.38%, 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.** Penelec 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.** Penelec 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 Penelec'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.** Penelec 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"). Penelec 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, Penelec 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 Penelec 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. Penelec 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.** Penelec, together with its affiliated EDCs in Pennsylvania (Metropolitan Edison 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, services and rules in Penelec’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, services and rules are not applicable to the provision of unbundled distribution service or are obsolete for other reasons and, therefore, Penelec proposes to eliminate them.

The following table shows the composition of Penelec’s proposed revenue increase by component:

	\$ Thousands
Distribution Base Rates	116,499
Smart Meter Roll-In	3,817
DSS and HPS Riders	(524)
Total Revenue Increase	119,792
Percentage Increase Over Revenues At Existing Rates¹	8.60%

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 Penelec’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 \$140.04. That amount

approximates, or is 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 Penelec,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.

PENNSYLVANIA ELECTRIC 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:

<u>Witness</u>	<u>Statement Designation</u>	<u>Area of Testimony</u>
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

PENNSYLVANIA ELECTRIC 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* <u>Jurisdictional</u> (\$ millions)	Total Distribution At Proposed Rates* <u>Jurisdictional</u> (\$ millions)
	(Exhibit RAD-2 Page 1, Column 14)	(Exhibit RAD-2 Page 3, Column 34)
Operating Revenues	\$ 323	\$ 443
Operating Expenses	\$ 261	\$ 315
Operating Income	\$ 62	\$ 128
Rate Base	\$1,540	\$1,540
Rate of Return (produced)	4.01%	8.31%

*There is a difference in the total revenue requirements because of slight changes in the Default Service Support Rider of \$(524).

PENNSYLVANIA ELECTRIC 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:

Pennsylvania Electric Company (“Penelec” or the “Company”), a Pennsylvania corporation, traces its roots back to 1880, when a group of Johnstown businessmen indicated their intent to form an electric light company. Between 1901 and 1925, a series of various mergers and acquisitions led to the formation of what became Penn Public Service Corporation. In 1927, the name was changed to Pennsylvania Electric Company. During the next few years many small companies were acquired and merged with Penelec, and in 1944, the trade name “Penelec” was adopted.

In 1946, General Public Utilities, Inc. (later “GPU Inc.”) was created, forming the umbrella under which Metropolitan Edison Company, Penelec and Jersey Central Power & Light Company conducted business.

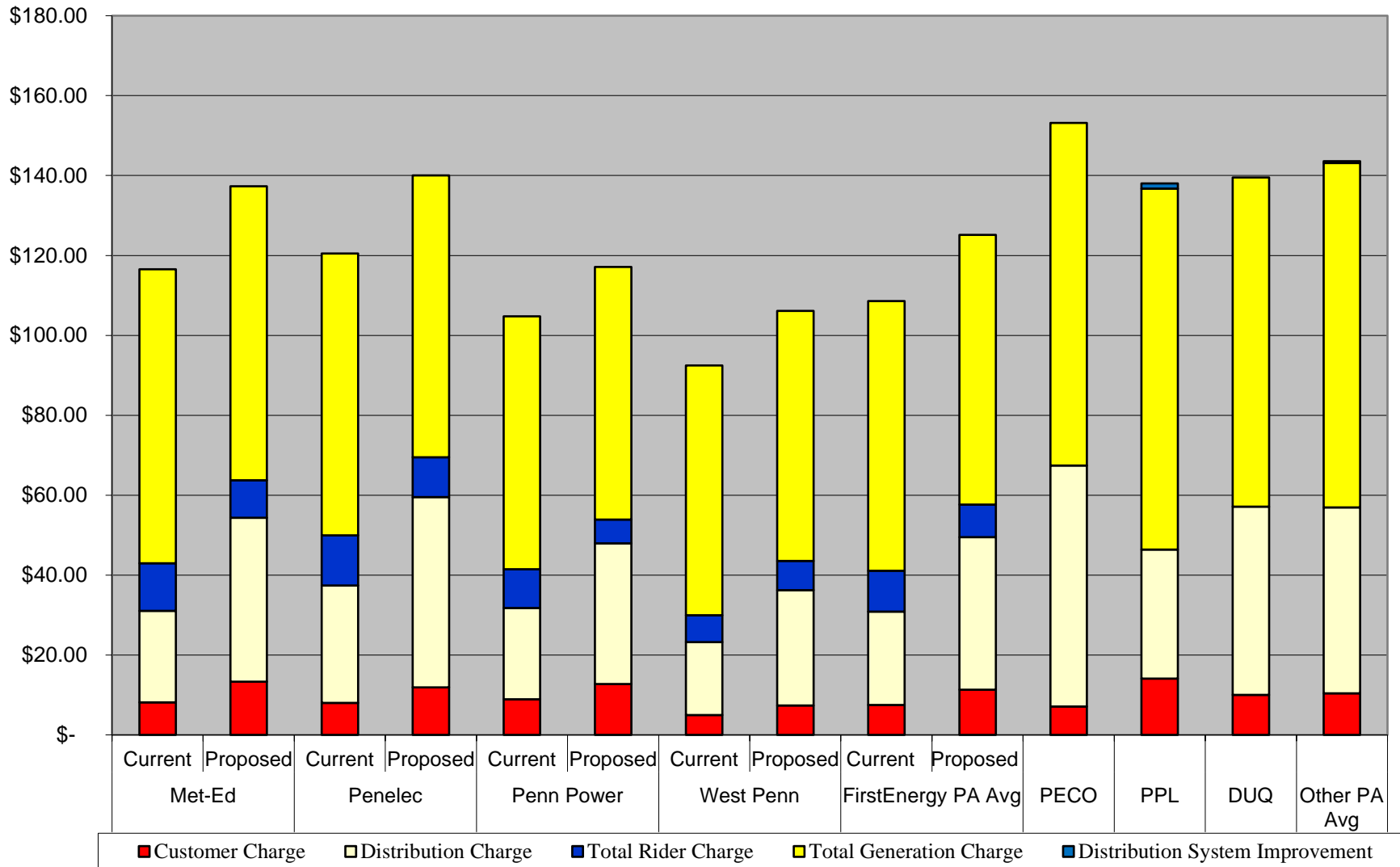
In 1956, Penelec’s service territory was increased by more than one-third through a merger with Northern Pennsylvania Power Company (“North Penn”). As lessee of a subsidiary, The Waverly Electric Light and Power Company, North Penn also served the Village of Waverly, New York and vicinity. Brockway Light, Heat & Power Company and Colver Electric companies were added in 1958. Three other additions to the Penelec system included Waterford Electric Company in 1976, Rockingham Light, Heat & Power Company and Windber Electric Corporation in 1978.

On November 7, 2001, GPU merged with FirstEnergy Corp. Since that merger, Penelec has been a wholly owned subsidiary of FirstEnergy Corp.

The Company’s principal business is the transmission, distribution and sale of electricity in northern Pennsylvania and the Waverly District of New York. Penelec is affiliated with three other Pennsylvania electric distribution utilities (Metropolitan Edison Company, 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 586,000 customers in all or portions of thirty-three counties in the northern and 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. 81.

PA 1,000 kWh Residential Default Service Bill Comparison



PA 1,000 kWh Residential Delivery Bill Comparison

