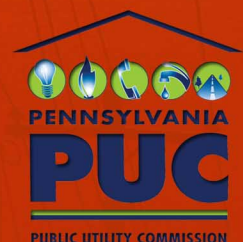


**FOCUSED MANAGEMENT
AND
OPERATIONS AUDIT
OF
METROPOLITAN EDISON COMPANY
PENNSYLVANIA ELECTRIC COMPANY
PENNSYLVANIA POWER COMPANY
WEST PENN POWER COMPANY
(COLLECTIVELY REFERRED TO AS THE
FIRSTENERGY PENNSYLVANIA COMPANIES)**

**Prepared by the
Pennsylvania Public Utility Commission
Bureau of Audits**

Issued November 2014

**Docket Nos. D-2013-2365991, D-2013-2365992,
D-2013-2365993, D-2013-2365994**



**FIRSTENERGY PENNSYLVANIA COMPANIES
FOCUSED MANAGEMENT AND OPERATIONS AUDIT**

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I. INTRODUCTION

In accordance with the Pennsylvania Public Utility Commission's (PUC or Commission) program to identify improvements in the management and operations of fixed utilities under its jurisdiction, it was determined that a focused management and operations audit should be conducted of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies). Met-Ed, Penelec and West Penn Power are owned by FirstEnergy Corp. (FirstEnergy). Penn Power is a subsidiary of Ohio Edison Company, which is also owned by FirstEnergy. As each of the FE-PA Companies are owned and jointly operated by FirstEnergy, the focused management and operations audits were conducted concurrently. Management and operational reviews, which are required of certain utility companies pursuant to 66 Pa. C.S. § 516(a), come under the Commission's general administrative power and authority to supervise and regulate all public utilities in the Commonwealth, 66 Pa. C.S. § 501(b). More specifically, the Commission can investigate and examine the condition and management of any public utility, 66 Pa. C.S. § 331(a).

This report represents the written product of the focused management and operations audit and contains the resultant findings and recommendations for improvement in the management and operations of the FE-PA Companies. The findings presented in the report identify certain areas and aspects where weaknesses or deficiencies exist. In all cases, recommendations have been offered to improve, correct, or eliminate these conditions. The final and most important step in the management audit process is to initiate actions toward implementation of the recommendations.

A. **Objectives and Scope**

The objectives of this focused management and operations audit were threefold:

- To provide the Commission, the FE-PA Companies, and the public with an assessment of the efficiency and effectiveness of the FE-PA Companies' operations, management methods, organization, practices, and procedures.
- To identify opportunities for improvement and develop recommendations to address those opportunities.
- To provide an information base for future regulatory and other inquiries into the management and operations of FE-PA Companies.

The scope of this audit was limited to certain areas of the FE-PA Companies as explained in Section B, Audit Approach.

B. Audit Approach

This focused management and operations audit was performed by the Management Audit Staff of the PUC's Bureau of Audits (Audit Staff). The audit process began with a pre-field work analysis as outlined below:

- A five-year internal trend and ratio analysis (see Appendices A through H) was completed using financial and operational data obtained from the FE-PA Companies, Commission, and other available sources. This analysis, which focused on the period 2008-2012, was supplemented by comparisons to a panel of electric utilities for the period 2008-2012 (see Appendix I).
- Input was solicited from Commission Bureaus and Offices, certain external parties, and the FE-PA Companies regarding any concerns or issues they would like to have addressed during the course of our review.
- Prior management and operations audits, follow-up management efficiency investigations, implementation plans, implementation plan progress reports, other Commission conducted audits, annual diversity reports, and other available documents were reviewed.

Information from the above steps was used to initially focus the Audit Staff's work efforts in the field. Specifically, the following areas or functions were selected for an in-depth analysis and are included in this report:

- Executive Management and Organizational Structure
- Corporate Governance
- Affiliated Relationships and Cost Allocations
- Financial Management
- Electric Operations
- Emergency Preparedness
- Materials Management
- Customer Service
- Human Resources
- Information Technology
- Fleet Management
- Facilities Management
- Risk Management
- Legal and External Affairs

The pre-field work analysis should not be construed as a comprehensive evaluation of the management or operations in the functional areas not selected for in-depth examination. Had we conducted a thorough review of those areas,

weaknesses or deficiencies may have come to our attention that was not identified in the limited pre-field work review.

The actual fieldwork began on July 16, 2013 and continued intermittently through April 22, 2014. The principal components of the fact gathering process included:

- Interviews with FirstEnergy, FE-PA Companies and other affiliate personnel as well as other Commission Bureaus.
- Analysis of records, documents, and reports of a financial and operational nature. This analysis focused primarily on the period 2009-2013, and the year 2014, as available.
- Visits to the corporate offices of FirstEnergy and each of the FE-PA Companies, a customer contact center, a lineworker training center, a Regional Dispatch Office, various service centers and substation locations, and observation of selected work practices.

C. Functional Area Ratings

For the functions or areas of the FE-PA Companies that were selected for in-depth examination, the Audit Staff rated the actual operating or performance level relative to the expected performance level at the time of the audit. This expected performance level is the state at which each area or function should be operating given the FE-PA Companies' resources and general operating environment. Expected performance is not a "cutting edge" operating condition; rather, it is management of an area or function such that it produces reasonably expected operating results.

Presented below are the evaluative categories utilized to rate each function or area's actual operating or performance level relative to its expected performance level:

- Meets Expected Performance Level
- Minor Improvement Necessary
- Moderate Improvement Necessary
- Significant Improvement Necessary
- Major Improvement Necessary

Our ratings for each function or area reviewed in-depth can be found in Exhibit I-1 on the next page.

Exhibit I – 1
FirstEnergy Pennsylvania Companies
Focused Management and Operations Audit
Functional Rating Summary

Functional Area	Meets Expected Performance Level	Minor Improvement Necessary	Moderate Improvement Necessary	Significant Improvement Necessary	Major Improvement Necessary
Executive Management and Organizational Structure			X		
Corporate Governance		X			
Affiliated Relationships and Cost Allocations			X		
Financial Management		X			
Electric Operations				X	
Emergency Preparedness	X				
Materials Management			X		
Customer Service				X	
Human Resources			X		
Information Technology	X				
Fleet Management			X		
Facilities Management		X			
Risk Management	X				
Legal and External Affairs	X				

D. Benefits

Where possible, the Audit Staff attempts to quantify the potential savings that would be expected from effectively implementing the recommendations made in this report. The audit report contains potential annual cost savings of approximately \$3.7-\$3.8 million and one-time cost savings of approximately \$19.2 million from effective implementation of the recommendations. We try to identify, whenever it is reasonably practical, the potential savings net of the projected costs for implementation. Some of these savings could be considered an actual reduction in costs, avoided costs or increased revenues; whereas others would result from better deployment and/or use of existing resources. These quantifications require some judgment and may require efforts beyond the scope of the audit for further refinement. Therefore the actual benefits from effective implementation of the recommendations are subject to some degree of uncertainty, and could be higher or lower than the amounts estimated by the Audit Staff. An overall summary of the annual and one-time cost savings quantified in the audit report are shown in Exhibit I-2.

Exhibit I – 2
FirstEnergy Pennsylvania Companies
Focused Management and Operations Audit
Quantifiable Savings Summary

Recommendation	Annual Savings	One-Time Savings
Conduct a staffing study accounting for future retirements to determine the proper staffing levels of craft workers to reduce overtime to the target level of 15% and improve reliability.	Met-Ed: \$535,000 Penelec: \$244,000 Penn Power: \$160,000 West Penn Power: \$337,000	-
Establish annual inventory turnover goals to a minimum of 2.0 turns and strive to achieve improved inventory turnover levels.	Met-Ed: \$421,000 Penelec: \$648,000 Penn Power: \$12,000 West Penn Power: \$839,000	Met-Ed: \$4,200,000 Penelec: \$6,500,000 Penn Power: \$115,000 West Penn Power: \$8,400,000
Implement measures to improve the Contact Center performance levels including efforts to reduce Customer Service Representative turnover levels.	Met-Ed: \$67,000 - \$84,000 Penelec: \$71,000 - \$89,000 Penn Power: \$20,000 - \$25,000 West Penn Power: \$87,000 - \$109,000	-
Reduce absenteeism through appropriate enforcement of union contract language regarding provisions for sick leave as well as encouraging employee attendance.	Met-Ed: \$138,000 Penn Power: \$25,000 West Penn Power: \$92,000	-
Subtotals by Company Met-Ed Total Penelec Total Penn Power Total <u>West Penn Power Total</u> Totals for All Companies	\$1,161,000 - \$1,178,000 \$963,000 - \$981,000 \$217,000 - \$222,000 <u>\$1,355,000 - \$1,377,000</u> \$3,696,000 - \$3,758,000	\$4,200,000 \$6,500,000 \$115,000 <u>\$8,400,000</u> \$19,215,000

For the majority of recommendations, it is not possible or practical to estimate quantitative benefits as their benefits are of a qualitative nature or there was insufficient data available to quantify the impact. For example, it is difficult to estimate the actual benefit where new management practices or procedures are recommended where such did not previously exist or was not fully functional. Similarly, changes in work flow processes or to implement good business practices will result in improved effectiveness and efficiency of a specific function but cannot be easily quantified.

The FE-PA Companies will have varying ways to implement the recommendations and as a result the Audit Staff has not estimated the cost of implementation for recommendations where no savings were quantified. However, it should be noted by the reader that the cost of implementing certain recommendations could be significant.

E. Recommendation Summary

Chapters III through XVI provide findings, conclusions, and recommendations for each function or area reviewed in-depth during this focused audit. Exhibit I-3 summarizes the recommendations with the following priority assessments for implementation:

- INITIATION TIME FRAME – Estimated time frame on how quickly the FE-PA Companies should be able to initiate its implementation efforts given the FE-PA Companies' resources and general operating environment. The time necessary to complete implementation is expected to vary depending on the nature of the recommendation and the scope of the efforts necessary and resources available to effectively implement the recommendation.
- BENEFITS – Net quantifiable benefits have been provided where they could be estimated as discussed in Section D - Benefits. Our estimated overall level of benefits rankings are not solely based on quantifiable dollars but rather the Audit Staff's assessment of the potential overall impact of the recommendation on the efficiency and/or effectiveness of the FE-PA Companies and/or the services it provides.
 - HIGH BENEFITS – Implementation of the recommendation would result in major service improvements, substantial improvements in management practices and performance, and/or significant cost savings.
 - MEDIUM BENEFITS – Implementation of the recommendation would result in important service improvements, meaningful improvements in management practices and performance, and/or meaningful cost savings.
 - LOW BENEFITS – Implementation of the recommendation is likely to result in service improvements, management practices and performances, and/or enhance cost controls.

**FirstEnergy Pennsylvania Companies
Summary of Recommendations**

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter III – Executive Management				
III-1	Establish target goals for metrics used in the Executive Leadership Team Reports and/or Key Performance Indicators that are linked to the FE-PA Companies stated performance objectives and/or other regulatory requirements.	29	1-3 months	High
Chapter IV – Corporate Governance				
IV-1	Modify the Internal Audit Department reporting structure so that the Director of Internal Audits no longer reports administratively to the Chief Financial Officer.	36	6-12 months	Medium
IV-2	Periodically rebid and/or conduct cost comparisons for external audit services.	36	6-12 months	Medium
Chapter V – Affiliated Relationships and Cost Allocations				
V-1	Conduct periodic internal audits of affiliate transactions and the cost allocations process.	44	6-12 months	Medium
V-2	Perform periodic studies to determine the cost-competitiveness of affiliate services and solicit bids from other providers when costs appear to be high.	44	6-12 months	Medium
Chapter VI – Financial Management				
VI-1	Establish and document a dividend policy for each of the FE-PA Companies, and ensure that advanced notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.	54	30 days	Medium
Chapter VII – Electric Operations				
VII-1	Improve electric reliability performance at Penelec and Penn Power to achieve, at a minimum, both 12 and 36 month reliability standards and strive to achieve benchmark performance; and implement specific measures for West Penn Power to meet the reliability provisions of the 2010 Joint Petition.	108	3-6 months	High
VII-2	Conduct a staffing study accounting for future retirements to determine the proper staffing levels of craft workers to reduce overtime to the target level of 15% and improve reliability.	109	7-12 months	High Met-Ed: \$535,000 Annual Savings Penelec: \$244,000 Annual Savings Penn Power: \$160,000 Annual Savings West Penn Power: \$337,000 Annual Savings

FirstEnergy Pennsylvania Companies
Summary of Recommendations

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter VII – Electric Operations (continued)				
VII-3	Initiate policies to enforce union contract provisions which require craft worker acceptance of emergency call outs.	109	7-12 months	Medium
VII-4	Develop and implement remedial actions that effectively correct the deficiencies of circuits found on the worst performing circuits list such that the circuits do not re-appear on the list for several years.	109	3-6 months	High
VII-5	Establish a documented Damage Prevention Program to track and measure line hit incidents; recover damages for all line hit incidents; and to take proactive measures to mitigate future line hits.	109	7-12 months	Medium
VII-6	Implement and/or modify backlog reduction plans for Met-Ed and Penelec in order to effectively and efficiently reduce the number of overdue Priority 3 conditions.	109	Within 1 year	Medium
Chapter VIII – Emergency Preparedness				
	None.			
Chapter IX – Materials Management				
IX-1	Establish annual inventory turnover goals to a minimum of 2.0 turns and strive to achieve improved inventory turnover levels.	118	3-6 months	High Met-Ed: \$421,000 Annual Savings \$4.2 Million One-Time Savings Penelec: \$648,000 Annual Savings \$6.5 Million One-Time Savings Penn Power: \$12,000 Annual Savings \$115,000 One-Time Savings West Penn Power: \$839,000 Annual Savings \$8.4 Million One-Time Savings
Chapter X – Customer Service				
X-1	Improve meter reading performance levels through increased staffing and/or use of contractors while implementing smart meter technologies.	139	3-6 months	High

FirstEnergy Pennsylvania Companies
Summary of Recommendations

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter X – Customer Service (continued)				
X-2	Initiate measures to comply with PUC regulations by eliminating and/or substantially reducing the number of meters not read within six and twelve month periods.	140	3-6 months	High
X-3	Reduce billing reversals and meter estimates by implementing appropriate process and procedure improvements, and better determining the cause by beginning to classify miscellaneous billing reversals.	140	30 days	Medium
X-4	Implement measures to improve the Contact Center performance levels including efforts to reduce Customer Service Representative turnover levels.	140	3-6 months	High Met-Ed: \$67,000 - \$84,000 Annual Savings Penelec: \$71,000 - \$89,000 Annual Savings Penn Power: \$20,000 - \$25,000 Annual Savings West Penn Power: \$87,000 - \$109,000 Annual Savings
X-5	Initiate measures to eliminate or substantially reduce the frequency of residential disputes that are not responded to in 30 days as required by PUC regulations.	140	3-6 months	Medium
X-6	Expand efforts to reduce arrearages to levels comparable with a panel of PA Electric Distribution Company averages.	140	3-6 months	Medium
X-7	Monitor all new service installation performance to ensure new service installations are being completed within the targeted deadlines.	140	30 days	High
X-8	Develop and maintain a customer meter record database which provides accurate data for reporting purposes, and eliminates unknown meter location classifications as part of the AMI implementation process.	140	30 days	Low
Chapter XI – Human Resources				
XI-1	Conduct a safety culture survey in order to identify employee safety related concerns, perceptions, behaviors and implement training, methodologies, equipment, and ergonomic changes which address the primary causes of accidents at the FE-PA Companies in order to improve actual performance and ensure safety goals are aligned with corporate objectives.	157	3-6 months	Medium

**FirstEnergy Pennsylvania Companies
Summary of Recommendations**

Rec. No.	Recommendation	Page No.	Initiation Time Frame	Benefits (including \$ estimates)
Chapter XI – Human Resources (continued)				
XI-2	Reduce absenteeism through appropriate enforcement of union contract language regarding provisions for sick leave as well as encouraging employee attendance.	157	3-6 months	Medium Met-Ed: \$138,000 Annual Savings Penn Power: \$25,000 Annual Savings West Penn Power: \$92,000 Annual Savings
Chapter XII – Information Technology				
	None.			
Chapter XIII – Fleet Management				
XIII-1	Develop a written vehicle replacement policy.	171	3-6 months	Low
XIII-2	Install adequate mechanisms/controls at fueling stations to control fuel disbursements and track fuel usage by vehicle.	171	30 days	High
XIII-3	Evaluate the need and/or usefulness of vehicles that report zero monthly usage and eliminate underutilized vehicles as appropriate.	171	3-6 months	Medium
XIII-4	Initiate efforts to eliminate or minimize the level of overdue preventive maintenance jobs.	171	3-6 months	Medium
Chapter XIV – Facilities Management				
XIV-1	Develop written facilities management policies and procedures to assure business activities between corporate and regional facilities managers are consistent with FirstEnergy policies.	174	3-6 months	Low
Chapter XV – Risk Management				
	None.			
Chapter XVI – Legal and External Relations				
	None.			

II. BACKGROUND

Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are electric utility operating companies owned by FirstEnergy Corporation (FirstEnergy or FE). The background of FirstEnergy is described below.

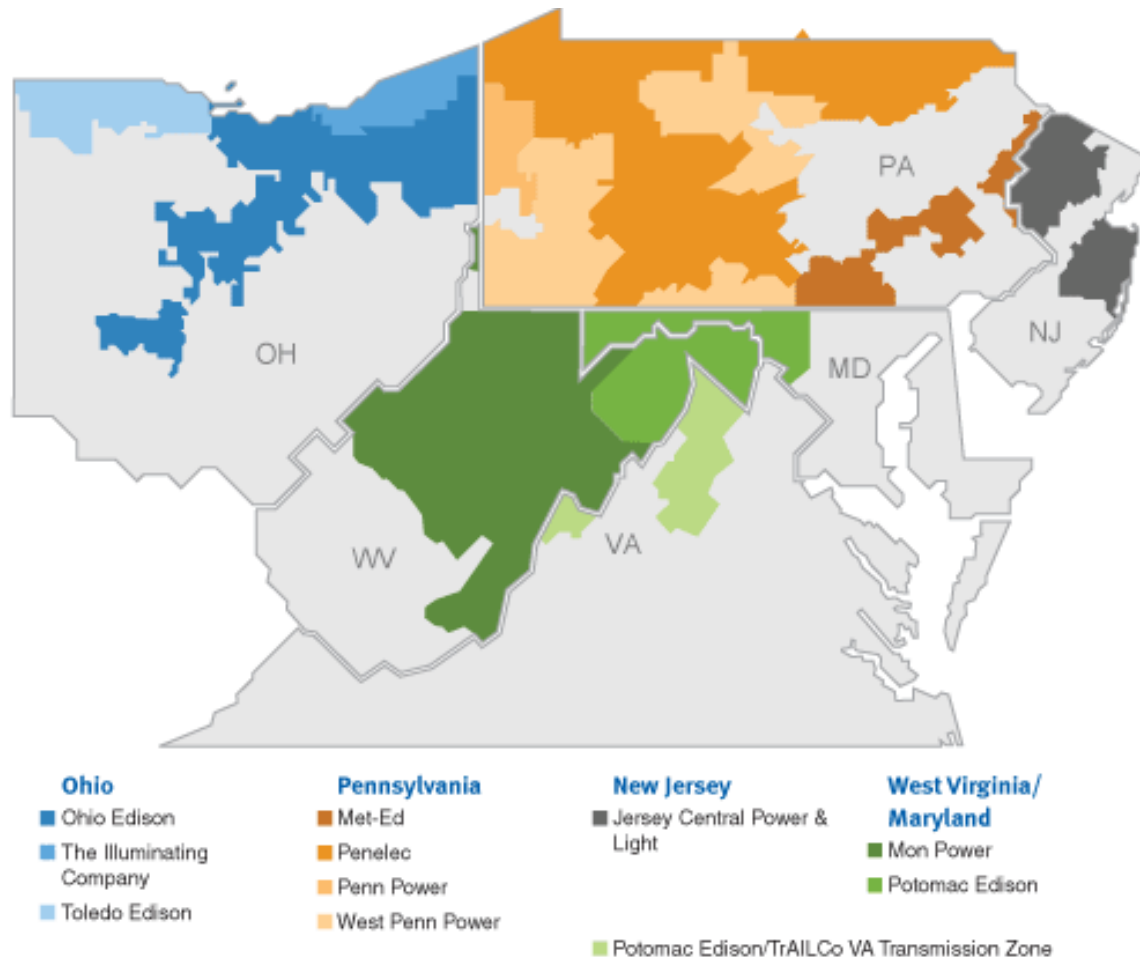
A. FirstEnergy Corporation

FirstEnergy is a registered public utility holding company headquartered in Akron, Ohio that was organized under the laws of the state of Ohio in 1996. FirstEnergy was previously subject to regulation under the Public Utility Holding Company Act (PUHCA) of 1935. Pursuant to the Energy Policy Act of 2005, Congress repealed PUHCA 1935 and charged the Federal Energy Regulatory Commission (FERC) with the responsibility of implementing the provisions of PUHCA 2005. PUHCA 2005 permits FERC access to certain books and records of holding companies and their subsidiaries. FirstEnergy was formed in 1997, when Ohio Edison Company and its subsidiary, Penn Power merged with Centerior Energy Corp. and its subsidiaries, The Cleveland Electric Illuminating Company and The Toledo Edison Company. In 2001, FirstEnergy merged with GPU, Inc., the owner of Jersey Central Power & Light Company, Penelec, and Met-Ed. In 2011, FirstEnergy merged with Allegheny Energy, Inc., the owner of Monongehela Power Company, Potomac Edison Company, and West Penn Power.

FirstEnergy's principal business segments include: Regulated Distribution, Regulated Transmission, and Competitive Energy Services. The Regulated Distribution segment distributes electricity through FirstEnergy's ten utility operating companies (FirstEnergy Utilities or FEU) serving approximately 6 million customers within 65,000 square-miles of Ohio, Pennsylvania, West Virginia, Maryland, New Jersey and New York as shown in Exhibit II-1. FirstEnergy's ten electric utility operating companies are as follows:

- Ohio Edison Company (Ohio Edison),
- The Cleveland Electric Illuminating Company (The Illuminating Company),
- The Toledo Edison Company (Toledo Edison),
- Metropolitan Edison Company (Met-Ed),
- Pennsylvania Electric Company (Penelec),
- Pennsylvania Power Company (Penn Power),
- West Penn Power Company (West Penn Power),
- Monongehela Power Company (Mon Power),
- Potomac Edison Company (Potomac Edison), and
- Jersey Central Power & Light Company (JCP&L))

Exhibit II – 1
FirstEnergy Corporation
Service Territory
As of December 31, 2013

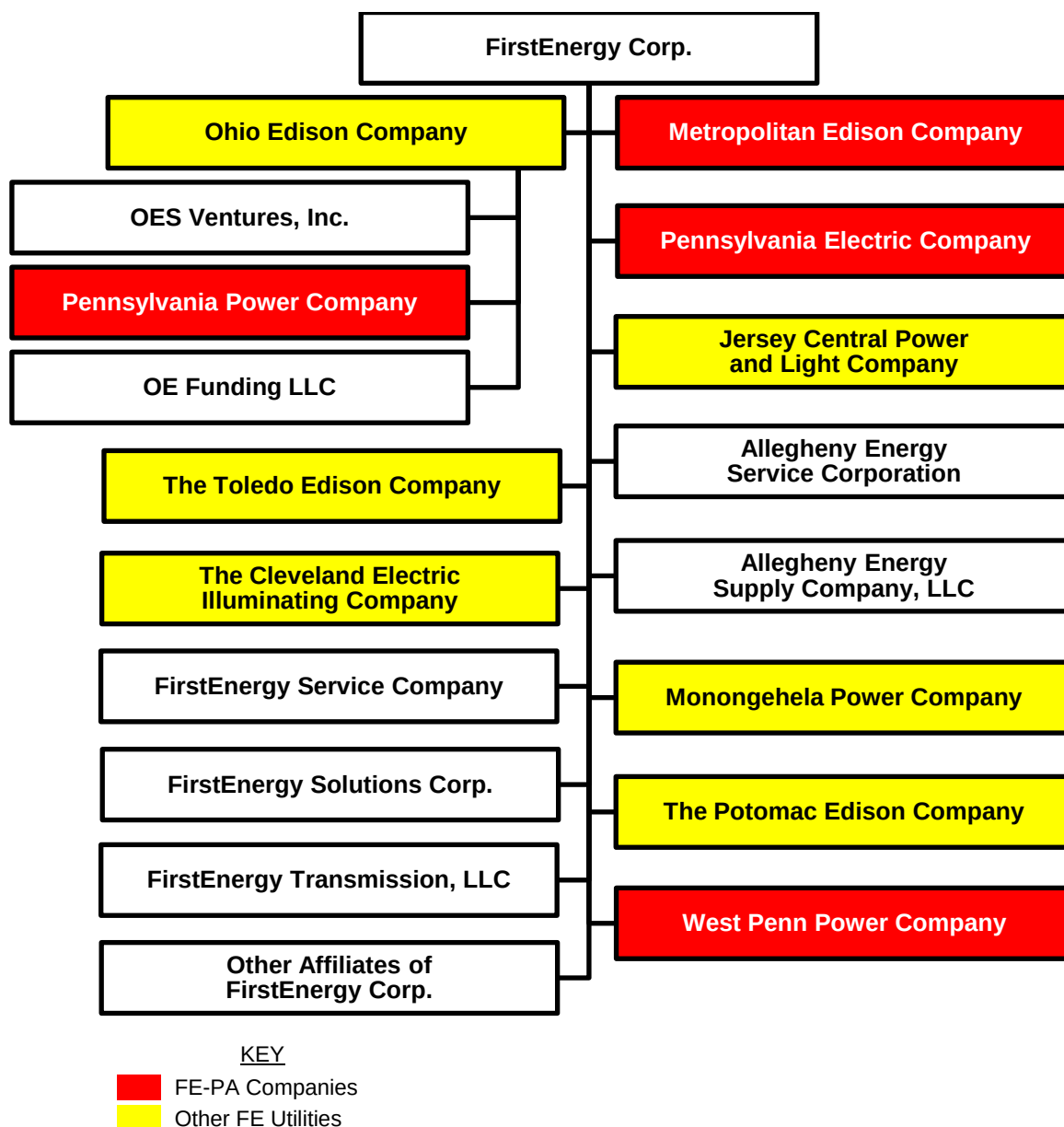


Source: FirstEnergy website at <https://www.firstenergycorp.com/about.html>

FirstEnergy's Regulated Transmission segment transmits electricity through transmission facilities owned and operated by affiliates of FirstEnergy Transmission, LLC (i.e., American Transmission Systems, Incorporated, Trans-Allegheny Interstate Line Company, and the regulatory asset associated with the abandoned Potomac-Appalachian Transmission Highline, LLC project) as well as certain transmission facilities of FirstEnergy's utilities (i.e., JCP&L, Met-Ed, Penelec, Mon Power, Potomac Edison and West Penn Power). The Competitive Energy Services segment, through FirstEnergy Solutions (FES) and Allegheny Energy Supply Company, LLC, supplies electricity to end-use customers through retail and wholesale arrangements, including competitive retail sales to customers primarily in Ohio, Pennsylvania, Illinois, Michigan, New Jersey, and Maryland, and the provision of partial provider of last resort and default service for some utilities in Ohio, Pennsylvania and Maryland, including FEU.

FirstEnergy's subsidiaries and affiliates are involved in the generation, transmission, and distribution of electricity as well as energy management and other energy-related services. FirstEnergy's first tier subsidiaries and affiliates, including the FE-PA Companies (i.e., Met-Ed, Penelec, Penn Power, and West Penn Power) are shown in Exhibit II-2. It should be noted that Allegheny Energy, Inc. was merged into FirstEnergy Corp. on January 1, 2014 and the subsidiaries of Allegheny Energy, Inc. are now direct subsidiaries of FirstEnergy.

Exhibit II – 2
FirstEnergy Corporation
Corporate Entity Chart
As of January 1, 2014



Source: Data Request No. EM-1 and Auditor Analysis

B. FirstEnergy Operating Companies in Pennsylvania

Met-Ed is a wholly owned subsidiary of FirstEnergy, headquartered in Reading, Pennsylvania that provides service to approximately 555,000 customers in an area that covers 3,274 square miles in all or parts of 14 counties in Eastern Pennsylvania. Met-Ed has over 16,000 miles of distribution, subtransmission, and transmission lines in its system. Penelec is a wholly owned subsidiary of FirstEnergy, headquartered in Erie, Pennsylvania and provides service to approximately 589,000 customers in a 17,473 square-mile area that covers all or parts of 32 counties in Western Pennsylvania. Penelec has approximately 23,000 miles of distribution, subtransmission, and transmission lines in its system. Penn Power is a subsidiary of Ohio Edison, which is a wholly owned subsidiary of FirstEnergy. As such, Penn Power operates as a division of Ohio Edison, which is headquartered in Akron, Ohio. Penn Power serves approximately 161,000 customers in a 1,434 square-mile area that covers all or parts of 7 counties in Western Pennsylvania with approximately 6,000 miles of distribution, subtransmission, and transmission lines in its system. West Penn Power is a wholly owned subsidiary of FirstEnergy, headquartered in Greensburg, Pennsylvania, that provides service to approximately 718,000 customers in a 10,400 square-mile area that covers all or parts of 21 counties in Southwest, South Central and Northern Pennsylvania with approximately 27,000 miles of distribution, subtransmission, and transmission lines in its system. A summary of the number of employees as of December 31, 2013, at each of the FE-PA Companies is shown in Exhibit II-3. The organization and management teams of each of the FE-PA Companies are discussed in Chapter III – Executive Management and Organizational Structure.

Exhibit II – 3 FirstEnergy Pennsylvania Companies Employee Statistics As of December 31, 2013

	Met-Ed	Penelec*	Penn Power	West Penn Power
Bargaining	476	401	145	407
Non-Bargaining	163	258	52	257
Total Employees	639	659	197	664

* Due to lockout of members of utilities Workers Union of America (UWUA) Local 180 at Penelec effective November 25, 2013, the Penelec bargaining employee count was down by a total of 133.
Source: Data Request No. EM-33

A summary for each of the FE-PA Companies with respect to number of customers, usage, and revenues by customer class as of year-end 2013 is shown in Exhibit II-4. Residential customers comprise 88.0%, 85.4%, 87.4% and 86.3% of total customers; 40.1%, 32.6%, 37.3% and 36.6% of usage; and 75.1%, 65.4%, 73.8% and 66.6% of revenue for Met-Ed, Penelec, Penn Power, and West Penn Power, respectively. Commercial customers comprise 11.7%, 14.3%, 12.5% and 11.8% of total customers; 21.2%, 25.6%, 29.5% and 24.4% of usage; and 18.0%, 23.9%, 22.3% and 20.2% of revenue for Met-Ed, Penelec, Penn Power, and West Penn Power, respectively. Industrial customers comprise 0.2%, 0.2%, 0.1% and 1.8% of total

customers, 38.5%, 41.6%, 33.0% and 38.8% of usage; and 6.1%, 9.9%, 3.2% and 12.3% of revenue for Met-Ed, Penelec, Penn Power, and West Penn Power, respectively. Public, street, and highway lighting comprise less than 1% of total customers, usage, and revenue for each of the FE-PA Companies.

Exhibit II – 4
FirstEnergy Pennsylvania Companies
Customer Statistics
As of December 31, 2013

Customer Class	# of Customers	% of Customers	MWH Sold	% of MWH Sold	Revenues	% of Revenues
Metropolitan Edison Company						
Residential	487,974	88.0%	5,553,153	40.1%	\$564,820,477	75.1%
Commercial	65,157	11.7%	2,933,482	21.2%	\$135,087,330	18.0%
Industrial	875	0.2%	5,328,311	38.5%	\$46,015,279	6.1%
Public, Street, and Highway Lighting	590	0.1%	28,868	0.2%	\$6,099,704	0.8%
Totals	554,596	100.0%	13,843,814	100.0%	\$752,022,790	100.0%
Pennsylvania Electric Company						
Residential	503,617	85.4%	4,490,880	32.6%	\$468,076,241	65.4%
Commercial	84,117	14.3%	3,531,240	25.6%	\$171,460,080	23.9%
Industrial	901	0.2%	5,731,434	41.6%	\$70,675,905	9.9%
Public, Street, and Highway Lighting	767	0.1%	38,627	0.3%	\$5,739,563	0.8%
Totals	589,402	100.0%	13,792,181	100.0%	\$715,951,789	100.0%
Pennsylvania Power Company						
Residential	141,060	87.4%	1,703,976	37.3%	\$138,731,625	73.8%
Commercial	20,119	12.5%	1,348,582	29.5%	\$41,873,467	22.3%
Industrial	150	0.1%	1,508,839	33.0%	\$6,048,351	3.2%
Public, Street, and Highway Lighting	86	0.1%	6,212	0.1%	\$1,333,116	0.7%
Totals	161,415	100.0%	4,567,609	100.0%	\$187,986,559	100.0%
West Penn Power Company						
Residential	619,531	86.3%	7,318,190	36.6%	\$501,530,383	66.6%
Commercial	84,654	11.8%	4,878,138	24.4%	\$151,827,315	20.2%
Industrial	13,150	1.8%	7,776,666	38.8%	\$92,410,531	12.3%
Public, Street, and Highway Lighting	559	0.1%	47,663	0.2%	\$6,918,586	0.9%
Totals	717,894	100.0%	20,020,657	100.0%	\$752,686,815	100.0%

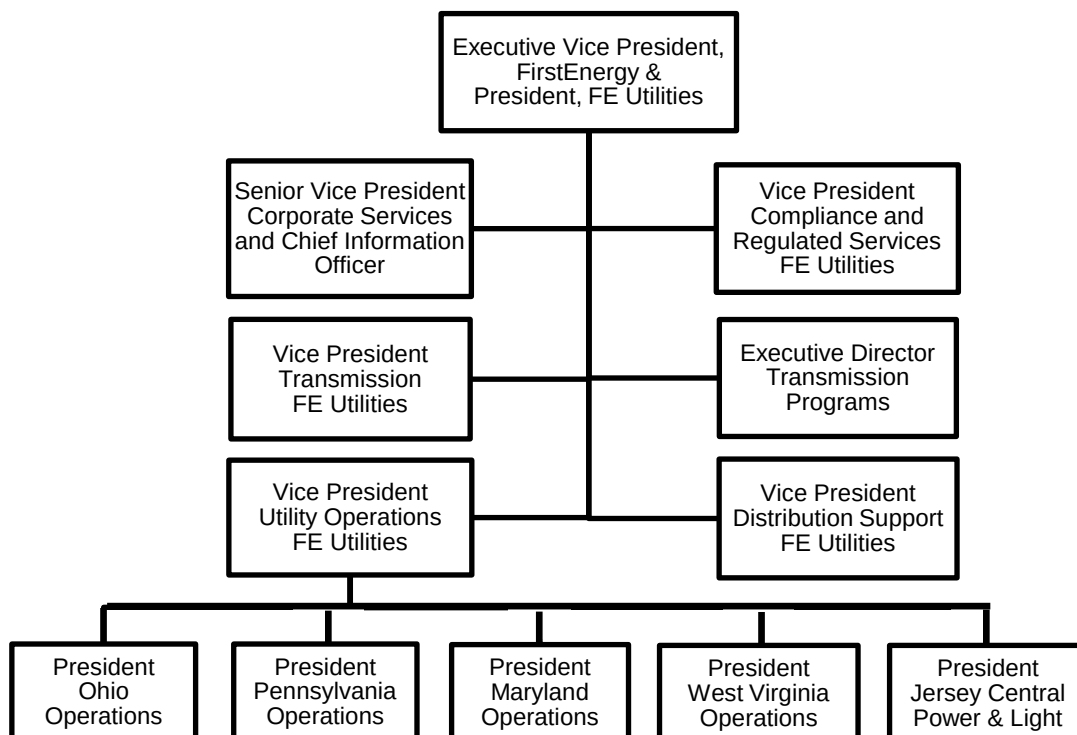
Source: Data Request No. EM-33 and Auditor's Analysis

III. EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Background

FirstEnergy Corporation (FirstEnergy or FE) was incorporated in 1996 as a diversified energy company organized under the laws of the state of Ohio. As discussed in Chapter II – Background, FirstEnergy’s Regulated Distribution business segment distributes electricity through FirstEnergy’s ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. Exhibit III-1 shows the executive management organization for FEU. The President of the Pennsylvania Operations reports to the Vice President of Utility Operations for FEU, who reports to the Senior Vice President of Utility Operations for FEU, who reports to the Senior Vice President of Utility Operations for FEU, who reports to the Senior Vice President of Utility Operations for FEU.

**Exhibit III – 1
FirstEnergy Utilities
Organization Chart
As of January 1, 2014**

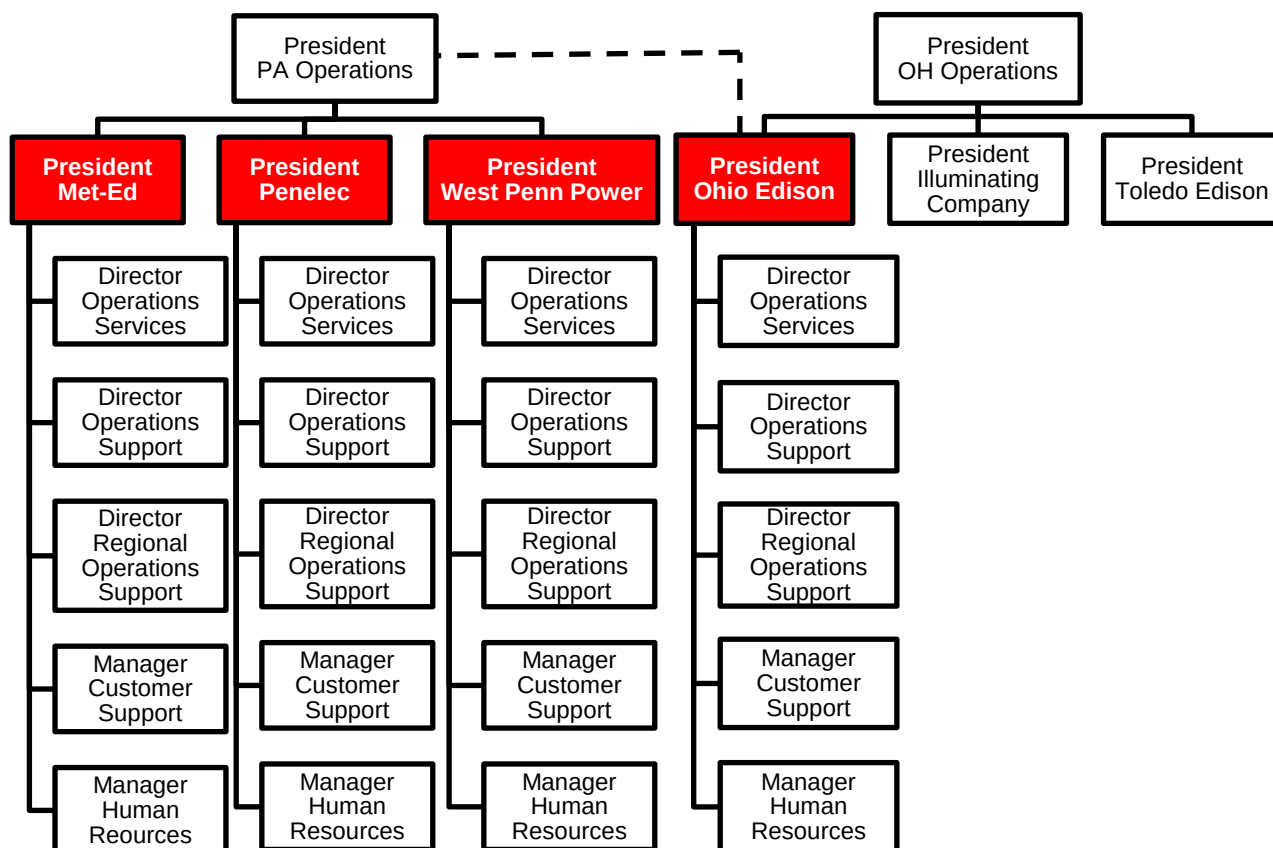


Source: Data Request Nos. EM-2, Supporting Documentation from FirstEnergy and Auditor Analysis

This executive management team is responsible for the oversight of a number of services that are centrally provided to each of the FE Utilities, including the FE-PA Companies, by FirstEnergy Service Company (FESC). FESC provides a number of administrative, accounting, financial, engineering, and operational services and consulting to FirstEnergy and its distribution operating companies as it relates to distribution company operations. The details of these various services are discussed in later chapters of this report.

The Presidents for each of the FE-PA Companies report to the President of the Pennsylvania Operations. As discuss in Chapter II – Background, Penn Power is a subsidiary of Ohio Edison, and as such, Penn Power operates as a division of Ohio Edison. The President of Ohio Edison reports to the President of the Pennsylvania Operations on matters related to Penn Power. Exhibit III-2 shows the organization structure for the FE-PA Companies and the dotted line reflects the reporting relationship between the President of Ohio Edison and the President of the Pennsylvania Operations.

Exhibit III – 2
FirstEnergy Pennsylvania Companies
Organization Chart
As of January 1, 2014



Source: Data Request Nos. EM-2, EM-3, EM-4, EM-5 and Auditor Analysis

The Presidents of the FE-PA Companies are responsible for the oversight and accountability of their respective utility's safety, reliability, finances, human resources, employee development, succession planning, and community relations. The Presidents of the FE-PA Companies have a number of directors and managers that report directly to them. The Director of Operations Services at each of the FE-PA Companies is generally responsible for distribution engineering (e.g., reliability, new growth and design, etc.) and lines operations (e.g., maintenance of the distribution system, workforce planning and damage claims, etc.). The Director of Operations Support at each of the FE-PA Companies is generally responsible for the Substation (e.g. construction and maintenance crews, and relay technicians, etc.) and the Regional Dispatch Groups. The Director of Regional Operations Support for each of the FE-PA Companies is generally responsible for vegetation management, meter reading, meter services, fleet management, and facilities management. The Manager of Customer Support at each of the FE-PA Companies is responsible for providing support to the large commercial and industrial customers as well as residential developers, or other issues from time to time. The Manager of Human Resources at each of the FE-PA Companies is generally responsible for administering the human resources policies and programs established by FirstEnergy (i.e., recruitment and placement, labor relations, administration of the compensation program, communication of the benefits programs to employees, and ensure compliance with Department of Transportation requirements for employees with driving responsibilities as part of their job). The related activities of each of these positions are discussed in more detail in later chapters of this report.

On February 24, 2011, at Docket No. A-2010-2176520, the Pennsylvania Public Utility Commission's (PUC or Commission) approved the application and settlement (Settlement Agreement) for the change in control of West Penn Power to be effected by the merger of Allegheny Energy Inc. (Allegheny Energy) and FirstEnergy. As part of the Settlement Agreement, FirstEnergy agreed to and has met several terms and conditions related to a number of topics. A number of these conditions have resulted in various benefits to the customers and employees of the FE-PA Companies. For example, since February 2011, FirstEnergy and the FE-PA Companies stated the merger with Allegheny Energy has resulted or will result in the following:

- Increased Scale, Scope and Diversification – The 10 utilities combined are able to function with increased operational flexibility by sharing common services and the ability to provide mutual assistance during storm restoration. In addition, the increased scale and scope creates opportunities to strengthen the balance sheet of the combined company, creating a larger and stronger parent company that is better positioned to compete for and attract capital on reasonable terms for its public utility subsidiaries. Also, Supply Chain was able to achieve savings (FirstEnergy estimates approximately \$40,000 to \$80,000 per month based on a sample of data) by pooling volumes of material requests together and securing the best deals between the two companies, and leveraging existing contracts. This also created opportunities to standardize materials across companies.

- Enhanced Expertise in Competitive Energy Markets, Energy Technologies, and Regional Issues – The combined company is able to draw upon the intellectual capital, technical expertise and experience of a deeper and more diverse workforce, with particular skills in managing distribution companies in competitive energy markets.
- Commitment to Employees and Enhanced Employee Opportunities – The merger has created expanded opportunities to both FirstEnergy and Allegheny Energy employees for career advancement and professional growth. In particular, many prior Allegheny Energy employees have taken advantage of upward and lateral transitions into new roles and responsibilities, including within upper management of FirstEnergy.
- Synergies, Efficiencies and Cost Savings – Synergies were tracked, measured and reported as Key Performance Indicators (KPIs) through 2011. The 2011 target of \$180 million and stretch goal of \$220 million were surpassed by realizing \$300 million in synergy savings according to FirstEnergy.
- Strong Leadership in Local Communities – The location of the regional headquarters of West Penn Power has remained in Greensburg, and its current levels of charitable support in local communities have remained constant. In addition, FirstEnergy has started a Power System Institutes ("PSIs") within West Penn Power's service territory to help students earn an associate's degree in applied science or in technical studies with a focus on electric utility technology.
- Merger Commitments – As a result of the Settlement Agreement, the merger also created additional substantial benefits, including:
 - Immediate rate credits to West Penn residential customers totaling \$3.57 million per year for three years and rate credits under existing West Penn Power Tariff 37.
 - Stay-out to any distribution rate increases for the FirstEnergy Pennsylvania Utilities through October 1, 2012.
 - West Penn Power customers benefited from expanded Universal Service, including a commitment to attaining a 55% penetration level for West Penn Power's Customer Assistance Program for the period 2011-2015 and an increase in funding for West Penn Power's Low-Income Usage Reduction Program.
 - Expanded retail market enhancements in West Penn Power's service territory were developed consistent with programs offered in the service territories of the other FE-PA Companies, including a similar purchase of receivables program.

- Adoption of Best Practices – Numerous best practices were adopted after a review of both Allegheny Energy and FirstEnergy’s operations. As a result, improved processes have been implemented across FirstEnergy including the FE-PA Companies which include, but are not limited to, the following:
 - Forestry practice improvements;
 - Transmission tower construction improvements;
 - Use of green poles;
 - Improved software systems;
 - Planning/Protection;
 - Capital Portfolio development;
 - Mutual Assistance practices during storm restoration; and
 - Allegheny Energy’s move towards a more customer and community-oriented support approach.

In addition, the Settlement Agreement provides for certain improvements at West Penn Power related to reliability and the average speed of answering customer calls. As discussed in other chapters of this report, West Penn Power’s reliability and call center performance has not yet reached those levels. West Penn Power’s reliability performance is discussed in Finding and Conclusion No. 1 of Chapter VII – Electric Operations. West Penn Power’s call center performance is discussed in Finding and Conclusion No. 4 of Chapter X – Customer Service. The Settlement agreement also discusses the deployment of Smart Metering, which is also discussed in Chapter X – Customer Service.

FirstEnergy’s Capital Portfolio serves as the basis of a three-year strategic plan for achieving the reliability and financial objectives for FirstEnergy and the FE-PA Companies. A series of planning steps take place annually at the utility level to develop budgets and strategies for achieving corporate objectives with respect to safety, distribution and transmission.

A more detailed capital budget is established for projects in the upcoming year. Multi-year projects have budget projections with less detail into the second and third years of the planning process. Budget approvals and the related strategic initiatives are ultimately approved in December of each year by the Finance Committee of FirstEnergy’s Board of Directors.

In addition to the annual strategic planning and budgeting process, the Executive Leadership Team (ELT) meets monthly to discuss the performance and strategic initiatives for each of the FirstEnergy Utilities, including the FE-PA Companies (see Finding and Conclusion No. 1 for more detail). The ELT, which is comprised of the President and Vice Presidents of FEU, the state presidents (e.g., President of the Pennsylvania Operations), and the presidents of each of the FirstEnergy Utilities, review the performance of each of the FirstEnergy Utilities related to the following FEU objectives:

- Safety – Deliver top-decile safety results; improve the safety culture through a cooperative effort between labor and management; incorporate human performance tools into the day-to-day operations to further promote employee safety.
- Reliability – Meet FEU and operating company KPIs for distribution and transmission reliability performance.
- Financial – Achieve financial goals focusing on capitalization with continued emphasis towards effectively managing costs.
- Customer – Meet the CustomerFirst Index goals.
- Regulatory Commitments – Meet all regulatory commitments as mandated by each state, the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC).
- Work Management – Continue to focus on the rollout and implementation of work management processes.

The ELT usually meets the third week of the month to discuss the prior month's performance. A monthly report is submitted for each of the FirstEnergy Utilities. Corrective measures or gap closure plans are identified with key individuals responsible when a particular utility is not achieving its specific target goals for any of the metrics or KPIs based upon current performance and/or future projections. Daily Operating Reports are also utilized by the President of the Pennsylvania Operations and the Presidents of the FE-PA Companies to further review and pin-point underlying causes to any performance problems identified in the monthly ELT Reports.

The Audit Staff evaluated the staffing levels and spans of control of the FE-PA Companies. Exhibit III-3 shows the staffing levels for each of the FE-PA Companies for the period 2009 through 2013. The total number of Met-Ed employees decreased by 9.5% for the period. As noted, effective November 25, 2013, Penelec experienced a lockout of members of the Utility Workers Union of America (UWUA) Local 180, and as such, its year-end bargaining employee count was down by a total of 133. However, even with the inclusion of these 133 bargaining employees for year-end 2013, Penelec's staffing levels decreased by 110 or 12.2% from 902 employees in 2009 to 792 employees in 2013. Penn Power's staffing levels decreased by a modest 1.5% during the period. Prior to 2012, West Penn Power was reporting data to the PUC as an affiliate of Allegheny Energy, and did not report any staffing levels, because all employees were considered to be employees of Allegheny Energy Service Corporation. Therefore, the Audit Staff could only trend West Penn Power's staffing levels for two years. West Penn Power's staff decreased by 6.5%, from 710 employees in 2012 to 664 employees in 2013. It should be noted that the staffing levels for West Penn Power during this period are in compliance with the terms of the Settlement Agreement related to the Commission's approved merger of Allegheny Energy and FirstEnergy.

Exhibit III – 3
FirstEnergy Pennsylvania Companies
Staffing Levels
As of Years Ended 2009 - 2013

Company	Year					Percentage Change Over Period
	2009	2010	2011	2012	2013	
Met-Ed	706	706	678	697	639	-9.5%
Penelec*	902	899	893	838	792	-12.2%
Penn Power	200	207	204	207	197	-1.5%
West Penn Power	NA	NA	NA	710	664	-6.5%

* Effective November 25, 2013, the Penelec bargaining employee count due to lockout of members of Utilities Workers Union of America (UWUA) Local 180 was actually down by an additional 133, therefore the total staffing level at year-end 2013 was actually 659 employees. The bargaining employees have been included in the 2013 count for trending purposes.

NA – Not Available. Prior to 2012, West Penn Power did not report any staffing figures, because all employees were considered to be employees of Allegheny Energy Service Corporation.

Source: PUC Annual Reports, Data Request No. EM-33 and Auditor's Analysis

The Audit Staff reviewed the spans of control for the management/supervisory positions of each of the FE-PA Companies. In general, for maximum organizational efficiency and effectiveness, a company should ideally aim for spans of control in the range of 1:4 to 1:9 to control layers of management and maintain effective communications. As of the end of November 2013, the reporting relationships that fall into this range for each of the FE-PA Companies varied from 50% to 80%. The Audit Staff reviewed the positions with relatively lower spans of control (below 1:4) or relatively higher spans of control (above 1:9) to determine the reasonableness of these reporting relationships. The Audit Staff determined that the positions with lower spans of control often work in specialty areas, areas working directly with external parties (e.g., government entities, contractors, etc.) or a special project on a limited-time assignment. The positions with higher spans of control were generally positions related to operations, construction, and meter reading areas. These type of positions typically have higher spans of control as the work in these areas is generally repetitive, and their productivity is quantifiable, thereby requiring less direct supervision. Therefore, from an overall perspective, the Audit Staff found these reporting relationships to be reasonable.

Succession planning is performed on a corporate-wide basis for management positions annually. FirstEnergy uses annual talent reviews to identify high performers as potential candidates for succession into different positions within the organization and create development plans for employees based upon their abilities and needs. Through this annual process, considerations for future organizational design and spans of control are also considered.

Executive compensation and benefits are discussed in Chapter X – Human Resources. In general, FirstEnergy's employee benefits are generally universal for all employees (i.e., union, salaried, and executives); with the exception of some benefits which are different for specific unions (each FE-PA Company has separate unions).

Findings and Conclusions

Our examination of the Executive Management function included a review of the Company's organizational structure; staffing levels and spans of control; the roles and responsibilities of executive management; strategic planning; and succession planning. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its executive management and organizational structure function by addressing the following:

1. The targets associated with certain metrics found in the Executive Leadership Team Reports have been established at levels that do not permit the FE-PA Companies to achieve stated goals or comply with regulatory requirements.

The Executive Leadership Team (ELT) meets monthly to discuss the performance of each of the FirstEnergy Utilities, including the FE-PA Companies, in relation to the following objectives: safety, reliability, financial performance, customer service, and work management. Specific metrics are used to measure the performance of each of these objectives and included in a monthly ELT Report for each of the FirstEnergy Utilities. FEU establishes target goals for each metric used in the monthly ELT Reports. In many instances the performance measures are also KPIs that have threshold, target and stretch goals linked to employee incentive pay. The target goals are established based upon best practices in the industry and/or regulatory requirements. In some cases, the target goals may be different for each of the FirstEnergy Utilities based upon their historical performance and unique conditions or circumstances.

The Audit Staff reviewed a sample of the monthly ELT Reports for each of the FE-PA Companies for the period January 2012 to December 2013. The review of the monthly ELT Reports revealed that in some cases, the target goals for certain metrics have been set at levels that do not permit the FE-PA Companies to achieve stated goals and comply with regulatory requirements. For example, FEU has a stated safety objective of achieving top decile performance; however, the target goals in the ELT reports associated with following safety metrics are inconsistent with meeting the stated safety objectives, such as:

- OSHA Safety Rate – the Occupational Safety and Health Administration (OSHA) Incident Rate which measures OSHA reportable incidents in the period per 100 employees. OSHA-recordable injuries are accidents that result in medical treatment, at least one day of lost time, restricted duty besides the day of injury or a fatality.
 - For this metric, lower values indicate better performance.
 - FirstEnergy uses survey data from the Edison Electric Institute (EEI) for comparison purposes. Based on 2010 EEI member company data, top decile performance for the OSHA Safety Rate is 1.08 while top quartile performance is 1.38.

- Target Goal Trends – The OSHA Safety Rate target goals for Met-Ed, Penelec, and Penn Power increased from 1.38 in January of 2012 to 1.41 in January of 2013, while West Penn Power's target decreased from 1.81 to 1.41 for the same period. The target goal remained at 1.41 for all of the FE-PA Companies as of December 2013.
- DART Rate – Measure of Days Away, Restricted work or Transferred incidents per 100 employees.
 - For this metric, lower values indicate better performance.
 - Based on 2010 EEI member company data, top decile performance for the DART Rate is 0.52 while top quartile performance is 0.78.
 - Target Goal Trends – The DART Rate target goals for the FE-PA Companies decreased from 0.78 in January 2012 to 0.69 in January 2013, and have remained at this target level as of December 2013.
- Motor Vehicle Accident Rate (MVAR) – Number of fleet vehicle accidents per million miles driven.
 - For this metric, lower values indicate better performance.
 - Based on 2010 EEI member company data, top decile performance for the MVAR is 2.16 while top quartile performance is 4.14.
 - Target Goal Trends – The MVAR target goals for the FE-PA Companies increased from 4.46 in January 2012 to 4.61 in January 2013, and have remained at this target level as of December 2013.

In practice, the FE-PA Companies are focusing their efforts upon achieving the KPI target goals for these safety metrics which will not achieve the FEU objective of attaining top decile safety performance. In some instances, the target goals for safety were set at EEI top quartile performance levels until January 2013, when the targets were changed to levels slightly below top quartile performance. Consequently, the established safety target goals have actually been amended to levels that move further away from the stated safety objective and do not put the FE-PA Companies in the best position to have their actual safety performance achieve FEU's safety objective. In fact, the FE-PA Companies have not been achieving many of the targets established for the safety metrics during the period 2009-2013 (see Finding and Conclusion No. 1 in Chapter XI – Human Resources and Safety).

Similar to safety, FEU uses a number of metrics to measure reliability objectives. FEU's objectives are to maintain its focus on reliability by achieving operating company KPIs for distribution and transmission reliability performance and meeting regulatory requirements. In particular, some of the metrics that appear in the ELT Reports to compare actual reliability performance to the stated target goals are also used by the PUC to measure reliability performance. These reliability metrics are as follows:

- System Average Interruption Frequency Index (SAIFI) – The average frequency of sustained interruptions per customer occurring during the

analysis period. It is calculated by dividing the total number of sustained customer interruptions by the total number of customers served.

$$\text{SAIFI} = \sum \text{Customers interrupted} \div \text{Total number of customers served}$$

- For this metric, lower values indicate better performance.
- Based on 2010 EEI member company data, top quartile performance for SAIFI is 0.98.
- Target Goal Trends – The SAIFI target goals established for each of the FE-PA Companies have fluctuated from January 2012 through January 2013 and have remained at these levels through December 2013 as follows:
 - Met-Ed: 1.24
 - Penelec: 1.33
 - Penn Power: 1.17
 - West Penn Power: 1.11
- The PUC has also established benchmarks and standards to measure electric distribution company (EDC) reliability performance¹. EDCs are to strive toward benchmark performance. The PUC's SAIFI 12-month benchmarks and standards for each of the FE-PA Companies are as follows:
 - Met-Ed: Benchmark = 1.15; Standard = 1.38
 - Penelec: Benchmark = 1.26; Standard = 1.52
 - Penn Power: Benchmark = 1.12; Standard = 1.34
 - West Penn Power: Benchmark = 1.05; Standard = 1.26
- Customer Average Interruption Duration Index (CAIDI) – The average interruption duration of sustained interruptions for those customers who experience interruptions during the analysis period. CAIDI represents the average time required to restore service to the average customer per sustained interruption (i.e., outages lasting more than five minutes). It is

¹ On May 11, 2004, at Docket No. M-00991220, the Commission adopted amendments to its existing regulations regarding electric reliability benchmarks and standards, which became effective on September 18, 2004 (Benchmark Order). A performance benchmark is the statistical average of an EDC's annual reliability performance index values for the five-year time period 1994-1998. The benchmark represents company-specific average of the historical reliability performance that existed prior to the restructuring of the electric utility industry. A performance standard is a numerical value established by the Commission that represents the minimal performance allowed for each reliability index for a given EDC. Performance standards established by this order are derived from and based on each EDC's historical performance as represented in performance benchmarks. Pursuant to the Benchmark Order, Met-Ed, Penelec and Penn Power filed a petition to amend their reliability benchmarks on May 26, 2004 as a result of implementing a new technology related to reporting reliability performance. The reliability benchmarks for Met-Ed, Penelec and Penn Power were subsequently amended by Commission Order at P-00042115 on February 9, 2006. West Penn Power filed a similar petition to amend its reliability benchmark on June 9, 2004 as a result of implementing a new technology related to reporting reliability performance. West Penn Power's reliability benchmark was subsequently amended by Commission Order at M-00991220F0003 on July 20, 2006. The amended reliability benchmarks and standards are reflected in this audit report, and the amended reliability benchmarks represent the company-specific average of the historical reliability performance that existed prior to the restructuring of the electric industry for each of the FE-PA Companies.

determined by dividing the sum of all sustained customer interruption durations, in minutes, by the total number of interrupted customers.

$$\text{CAIDI} = \sum \text{Customer interruption minutes} \div \sum \text{Customers interrupted}$$

- For this metric, lower values indicate better performance.
- Based on 2010 EEI member company data, top quartile performance for CAIDI is 88.
- Target Goal Trends – The CAIDI target goals established for each of the FE-PA Companies have remained constant except for Penn Power, which increased from 104 to 106 from January 2012 through January 2013 and have remained at these levels through December 2013 as follows:
 - Met-Ed: 121
 - Penelec: 123
 - Penn Power: 106
 - West Penn Power: 179
- The PUC's CAIDI 12-month benchmarks and standards for each of the FE-PA Companies are as follows:
 - Met-Ed: Benchmark = 117; Standard = 140
 - Penelec: Benchmark = 117; Standard = 141
 - Penn Power: Benchmark = 101; Standard = 121
 - West Penn Power: Benchmark = 170; Standard = 204
- System Average Interruption Duration Index (SAIDI) – The average duration of sustained customer interruptions per customer during the analysis period. It is the average time customers were without power. It is determined by dividing the sum of all sustained customer interruption durations, in minutes, by the total number of customers served. Mathematically, it is also the product of SAIFI and CAIDI.

$$\begin{aligned}\text{SAIDI} &= \sum \text{Customer interruption minutes} \div \text{Total number of customers served} \\ &= \text{SAIFI} \times \text{CAIDI}\end{aligned}$$

- For this metric, lower values indicate better performance.
- Based on 2010 EEI member company data, top quartile performance for SAIDI is 89.
- Target Goal Trends – The SAIDI target goals established for each of the FE-PA Companies have fluctuated from January 2012 through January 2013 and have remained at these levels through December 2013 as follows:
 - Met-Ed: 149
 - Penelec: 164
 - Penn Power: 124
 - West Penn Power: 198
- The PUC's SAIDI 12-month benchmarks and standards for each of the FE-PA Companies are as follows:
 - Met-Ed: Benchmark = 135; Standard = 194
 - Penelec: Benchmark = 148; Standard = 213

- Penn Power: Benchmark = 113; Standard = 162
- West Penn Power: Benchmark = 179; Standard = 257

The Audit Staff compared the reliability target goals established for each of the FE-PA Companies to the EEI survey data as well as the PUC benchmarks and standards. Although FEU utilizes the EEI survey data for relative comparisons to industry performance, the Audit Staff has focused primarily upon the benchmarks established by the PUC as the target goals the FE-PA Companies should be striving to achieve, since benchmark performance represents the average level of performance that existed prior to the restructuring of the electric utility industry and the PUC has a mandate to ensure the levels of reliability that were present prior to the restructuring of the electric utility industry would continue post restructuring². Exhibit III-4 summarizes and compares the reliability target goals of SAIFI, CAIDI, and SAIDI for each of the FE-PA Companies with the EEI survey data as well as the PUC benchmarks and standards. Although the reliability target goals established for each of the FE-PA Companies are at levels within the range of the PUC benchmarks and minimum performance standards, the FE-PA Companies should be striving toward benchmark performance, since it represents the reliability performance that existed prior to restructuring. The reliability target goals established for SAIFI, CAIDI, and SAIDI for the FE-PA Companies not only impact FEU's reliability objective, but also FEU's ability to achieve its objective to meet all regulatory commitments as mandated by each state, FERC and NERC. In this case, the established targets for SAIFI, CAIDI, and SAIDI do not put the FE-PA Companies in the best position to have their actual reliability performance achieve their benchmarks established by the PUC. In fact, some of the FE-PA Companies have not achieved one or more of their reliability target goals or the PUC's minimum reliability standard for the period 2009-2013 (see Finding and Conclusion No. 1 in Chapter VII – Electric Operations).

FEU uses a number of metrics to measure customer service objectives, and some of the metrics found in the ELT Reports to compare actual customer service performance to the stated target goals are also related to the PUC metrics for Meters Not Read in 6 Months and 12 months. These metrics are as follows:

- Meter Read Rate – Percentage of readings obtained compared to the number of readings available.
 - For this metric, higher values indicate better performance.
 - There is no particular industry data available for comparison purposes. FEU establishes target goals based upon historical performance of the FirstEnergy Utilities.

² The Electricity Generation Customer Choice and Competition Act (Act), 1996, Dec. 3, P.L. 802, No. 138 §4, became effective January 1, 1997. The Act amends Title 66 of the Pennsylvania Consolidated Statutes (Public Utility Code) by adding Chapter 28 to establish standards and procedures to create direct access by retail customers to the competitive market for the generation of electricity, while maintaining the safety and reliability of the electric system. Specifically, the Commission was given a legislative mandate to ensure that levels of reliability that were present prior to the restructuring of the electric utility industry would continue in the new competitive markets. 66 Pa. C.S. §2802(12).

Exhibit III – 4
FirstEnergy Pennsylvania Companies
Reliability Target Goals vs PUC Reliability Benchmarks and Standards
January 2012 through December 2013

Reliability Metric	FEU Established Target		EEI Top Quartile Performance	PUC Benchmark	PUC Standard	Target Achieves Goal/Objective?
	January 2012	December 2013				
Metropolitan Edison Company						
SAIFI	1.20	1.24	0.93	1.15	1.38	No
CAIDI	121	121	88	117	140	No
SAIDI	145	149	89	135	194	No
Pennsylvania Electric Company						
SAIFI	1.34	1.33	0.93	1.26	1.52	No
CAIDI	123	123	88	117	141	No
SAIDI	165	164	89	148	213	No
Pennsylvania Power Company						
SAIFI	1.15	1.17	0.93	1.12	1.34	No
CAIDI	104	106	88	101	121	No
SAIDI	120	124	89	113	162	No
West Penn Power Company						
SAIFI	1.12	1.11	0.93	1.05	1.26	No
CAIDI	179	179	88	170	204	No
SAIDI	200	198	89	179	257	No

Source: Data Request Nos. EM-10, EM-26, EM-29, and Auditor Analysis

- Target Goal Trends – The Meter Read Rate target goals for three of the FE-PA Companies (Met-Ed, Penelec, and West Penn Power) have had the same target of 94% while Penn Power’s target is 75%.
- Consecutive Meter Reading Estimate Rate – Number of meters with consecutive estimated reading planned per 100,000 customers.
 - For this metric, lower values indicate better performance.
 - There is no particular industry data available for comparison purposes. FEU establishes target goals based upon historical performance of the FirstEnergy Utilities.
 - Target Goal Trends – The Consecutive Meter Reading Estimate Rate target goals for three of the FE-PA Companies (Met-Ed, Penelec, and West Penn Power) had the same target of 700 in January 2012 with an increase to 850 in January 2013 while Penn Power’s target of 1,225 in January 2012 decreased to 850 in January 2013. All of the FE-PA Companies have the same target of 850 as of December 2013.

Although the FE-PA Companies have been achieving the target goals for these two metrics, the FE-PA Companies do not have metrics associated with or monitor their regulatory compliance efforts with respect to PUC regulations for the number of meters not read in 6 month and 12 month intervals. More specifically, pursuant to 52 Pa. Code § 56.12(4)(ii), a utility may estimate the bill of a residential customer if utility personnel are unable to gain access to obtain an actual meter reading. However, at least every six months, the utility must obtain an actual meter reading or customer-supplied reading

to verify the accuracy of prior estimated bills. In addition, under § 56.12(4)(iii), a utility may estimate the bill of a residential customer if utility personnel are unable to gain access to obtain an actual meter reading. However, at least once every 12 months, the company must obtain an actual meter reading to verify the accuracy of either the estimated or customer-supplied readings. The FE-PA Companies (West Penn Power in particular) have not been meeting these requirements based on their reported performance to the PUC's Bureau of Consumer Services (see Finding and Conclusion No. 2 in Chapter X – Customer Service for further details). Consequently, a metric of this nature explicitly induces performance non-compliant with regulatory requirements and inconsistent with best practices.

In each of the examples described herein, the FE-PA Companies have established target goals for various metrics which are not commensurate with stated objectives and/or comply with various regulatory requirements. Furthermore, compensation incentives for individuals are associated with these target goals thus creating the appearance of a culture in which underperformance is pervasive, acceptable, and rewarded.

Recommendation

- 1. Establish target goals for metrics used in the Executive Leadership Team Reports and/or Key Performance Indicators that are linked to the FE-PA Companies stated performance objectives and/or other regulatory requirements.**

IV. CORPORATE GOVERNANCE

Background

As discussed in Chapter II – Background, Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are owned by FirstEnergy Corporation (FirstEnergy or FE), an energy holding company. FirstEnergy is a publicly traded company listed on the New York Stock Exchange (NYSE) under the symbol “FE”. Therefore, FirstEnergy is subject to the corporate governance requirements contained in both the Sarbanes-Oxley Act of 2002 (SOX) and the rules of NYSE.

As of the end of 2013, FirstEnergy had a 14-member Board of Directors (Board) comprised of the President and Chief Executive Officer (CEO) of FirstEnergy and 13 independent Board members (including the Chairman of the Board). FirstEnergy’s shareholders elect members of the Board for one-year terms at the annual shareholder meeting. As of the end of 2013, the average tenure of the FirstEnergy Directors was approximately eight years with four of the Directors having served three years or less. The Board has adopted independence guidelines, as part of FirstEnergy’s Corporate Governance Policies, to assist the Board in determining director independence in accordance with NYSE and Securities and Exchange Commission (SEC) requirements. The Board has determined, based on its guidelines, that 13 of the 14 board members are independent. The Board conducts its business by using the following committees:

- Audit Committee – Responsible for monitoring the integrity of FirstEnergy’s financial statements, the independent auditors’ qualifications and independence, performance of FirstEnergy’s internal audit function and the independent auditors; and compliance by FirstEnergy with legal and regulatory requirements. As of the end of 2013, the Audit Committee was comprised of six independent members and the committee met 8-9 times annually during the years 2009-2013.
- Finance Committee – Oversees and monitors FirstEnergy’s financial resources and strategies, with emphasis on those issues that are long-term in nature. As of the end of 2013, the Finance Committee was comprised of five independent members and the committee met 4-5 times annually during the years 2009-2013.
- Corporate Governance Committee – Responsible for recommending to the Board the compensation for directors, annually assessing the size and composition of the Board and Board committees, identifying individuals qualified to be nominated or re-nominated as Board members, recommending to the Board director nominees for election, developing and recommending to the Board a set of corporate governance principles applicable to FirstEnergy,

and overseeing the evaluation of the performance of the Board, the CEO and the CEO's executive direct reports. At the end of 2013, the Corporate Governance Committee was comprised of six independent members and the committee met 5-7 times annually during the years 2009-2013.

- Compensation Committee – Assists the Board in discharging its responsibilities relating to compensation and benefits of certain senior-level officers of FirstEnergy, including the CEO, and other non-CEO executive officers. The Compensation Committee endorses a compensation philosophy and objectives that support competitive pay for performance. The committee annually oversees the evaluation of management. The Compensation Committee is comprised of five independent members and the committee met 4-8 times annually during the years 2009-2013.
- Nuclear Committee – Monitors and oversees FirstEnergy's nuclear program and the operation of all nuclear units in which FirstEnergy or any of its subsidiaries has an ownership or leasehold interest. The Nuclear Committee is comprised of five independent members and the committee met 7-9 times annually during the years 2009-2013.

Each of the FE-PA Companies has the identical three-member Board of Directors which is comprised of the President and CEO of FirstEnergy, Senior Vice President and Chief Financial Officer (CFO) of FirstEnergy, and the Executive Vice President of FirstEnergy and President of FirstEnergy Utilities (FEU). There are no Board of Director committees utilized by any of the FE-PA Companies, and the Board of Directors meet as needed to discuss issues that impact the FE-PA Companies. Financing and operational issues are generally forwarded to FirstEnergy's Board for approval. As previously discussed in Chapter III – Executive Management and Organizational Structure, in addition to FirstEnergy's Board and the Board of Directors for each of the FE-PA Companies, there is an Executive Leadership Team (ELT) which is comprised of the President and Vice Presidents of FEU, the state Presidents (e.g., President of the Pennsylvania Operations), and the Presidents of each of the FirstEnergy Utilities, including the FE-PA Companies. The ELT meets monthly to discuss the performance and strategic initiatives for each of the FirstEnergy Utilities.

FirstEnergy has a Board of Directors' Code of Ethics and Business Conduct that prohibits Board members from doing any type of business with FirstEnergy (outside of their roles as Board members) for any type of personal gain. The FirstEnergy Code of Business Conduct (Code of Conduct) provides guidelines for appropriate business conduct and formal method of addressing accountability for noncompliance for all employees of FirstEnergy and its subsidiaries. All employees of FirstEnergy are provided training in regards to the Code of Conduct. FirstEnergy's Chief Ethics Officer is responsible for the administration of the Code of Conduct. Employees can report improprieties to their supervisor, call FirstEnergy's concerns line (a toll free telephone number), or contact the Chief Ethics Officer directly.

Corporate governance guidelines and related documents are available for review by the shareholders and public at large on FirstEnergy's website. Documents available on the website include:

- Overview of Ethics and Business Conduct at FirstEnergy
- Conflicts of Interest Policy
- Code of Business Conduct
- Board of Directors Code of Conduct
- Insider Trading Policy
- Corporate Political Activity Policy
- Corporate Governance Policies
- Audit Committee Charter
- Compensation Committee Charter
- Corporate Governance Committee Charter
- Finance Committee Charter
- Nuclear Committee Charter
- Board of Directors Overview
- FirstEnergy's Leadership Team
- Contacts for the FirstEnergy Board

As discussed in Chapter II – Background, FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy. FESC is an affiliate of the FE-PA Companies that provides various corporate products and services to all affiliates including the Internal Audit function. The Executive Director of the Internal Audit Department is accountable to FirstEnergy executive management and the Audit Committee. The Executive Director of the Internal Audit Department reports functionally to the Audit Committee and administratively to the CFO. Letters and reports are distributed by the Internal Audit Department to FirstEnergy executive management and the Audit Committee; typically five times annually. A section of FirstEnergy Business Practices was provided to the Audit Staff that describes the business need, authority and responsibility, scope, and references of the Internal Audit Department. All 34 staff members of the Internal Audit Department are members of the Institute of Internal Auditors. The Audit Committee oversees the Internal Audit Department and approves the Internal Audit Plan each year. A 2014 Internal Audit Plan was provided to the Audit Staff that showed 78 internal audits scheduled for 2014 that focus or relate to one or more of the FE-PA Companies ranging in size and scope as various types of operational audits, compliance audits and financial audits.

The Audit Committee operates pursuant to a written charter consistent with the applicable standards of the SEC and the NYSE. As required by the SEC under its final rules issued January 2003, a public company must disclose in its annual report that it has or does not have at least one audit committee financial expert. Pursuant to Section 303A.07 of the NYSE's Listed Company Manual, each member of the Audit Committee must be financially literate, or must become financially literate, within a reasonable period of time after his or her appointment to the Audit Committee. In addition, at least

one member of the Audit Committee must have accounting or related financial management expertise. All members of the Audit Committee are “financially literate” in accordance with NYSE rules. The Audit Committee Chairman has been designated as the “audit committee financial expert” per SEC rules. The Audit Committee makes regular reports to the board including an annual review of its own performance. The Audit Committee Charter was most recently updated on September 17, 2013.

The Audit Committee has the sole authority to appoint, retain or replace the external auditor, which is presently PricewaterhouseCoopers, LLP (PwC). The Audit Committee is directly responsible for the compensation and oversight of the work of the external auditor. The external auditor reports directly to the Audit Committee and quarterly reports are provided from the external auditor to the Audit Committee each year. Annually, the FirstEnergy shareholders vote whether or not to ratify the appointment of PwC to continue as the external auditor. PwC has been used since April 2002 when it replaced Arthur Andersen as the external audit firm. FirstEnergy is in compliance with SOX in that the external audit firm partners responsible for the audit are rotated every five years. After the Merger with Allegheny Energy in 2011, FirstEnergy was solicited by other auditing firms with bids for their services and PwC was able to match the competitors’ prices and thus was retained by FirstEnergy.

Findings and Conclusions

Our examination of the Corporate Governance function included a review of FirstEnergy’s and the FE-PA Companies’ Boards of Directors organization including composition, committee structure and charters; Board fee structures; Director independence; business conduct and ethics codes; relationship with the independent auditor and policies related to rotation of audit firms; the Internal Audit Department’s reporting relationships and recent reviews; and documents related to corporate governance, annual reports; etc. Based on our review, the FE-PA Companies should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its Corporate Governance function by addressing the following:

1. The administrative reporting relationship between FirstEnergy’s Executive Director of Internal Audits and the Chief Financial Officer may hinder the Internal Audit function’s independence.

The Executive Director of Internal Audits reports administratively to the Chief Financial Officer (CFO) and functionally to the Audit Committee of the Board of Directors. During both the Stratified Management and Operations Audit issued in 2007 and the follow-up Management Efficiency Investigation (MEI) issued in May 2011, recommendations were issued to modify the administrative reporting relationship between Internal Audits and the CFO in which the Company rejected on both occasions. On February 16, 2012 the Pennsylvania Public Utility Commission (PUC or Commission) issued a Final Order on the MEI and the FE-PA Companies’ Implementation Plan responding to each of the Audit Staff’s follow-up

recommendations. In the Final Order, although the Commission strongly recommended that the chain of command for reporting authority be changed in order to better ensure the independence of the Director of Internal Audits, it did not direct FirstEnergy to make this change. Instead, the FE-PA Companies were directed to provide the FirstEnergy Audit Committee's annual assessment of the reporting relationship where the Director of Internal Audit functionally reports to the Audit Committee and administratively to the CFO to the Commission on an annual basis. This was based upon the FE-PA Companies noting that the role of the Director of Internal Audits as well as the administration of the position is governed by the current Charter of the Audit Committee (Charter).

One of the purposes of the Audit Committee is to assist the Board of Directors' oversight of the performance of FirstEnergy's internal audit function. The Charter has very specific details in regards to the responsibilities of the Audit Committee in relation to the internal audit function. The Charter requires the Audit Committee to periodically assess the overall reporting relationship of the Director of Internal Audits (the title of this position is now the Executive Director of Internal Audits) both administratively to the CFO and functionally to the Audit Committee. The Executive Director of Internal Audits discusses this reporting relationship annually with the Audit Committee. Performance reviews of the Executive Director of Internal Audits are made by the CFO, with oversight by the Audit Committee. The Audit Committee played a key role in the selection of the current Executive Director of Internal Audits and has the authority to remove him from the position, if necessary. In the FE-PA Companies July 1, 2013 Annual Implementation Plan Progress Report it was stated that at the May 6, 2013 Audit Committee meeting, the Audit Committee formally reviewed the reporting relationship of the Executive Director of Internal Audits and reaffirmed that it should continue as is. The reaffirmations are documented in the Audit Committee meeting minutes.

FirstEnergy maintains that its current reporting structure is a common practice exhibited by other companies in which the head of the Internal Audit Department reports administratively to the CFO and substantively to the Board's Audit Committee. FirstEnergy also contends that it has sufficient internal controls to ensure the Internal Audit function maintains appropriate independence as well as adequate checks and balances. The Audit Committee and the external audit firm who are both aware of this issue have not recognized this conflict of interest or taken steps to eliminate it.

Changes in reporting relationships stemming from SOX/SEC/NYSE rules have been established by corporations to emphasize the importance of establishing and maintaining Internal Audit's independence. As a result, the Executive Director of Internal Audits is required by SOX/SEC/NYSE to report functionally to the Audit Committee, however, the rules do not provide guidelines regarding who the Executive Director of Internal Audits should report to on administrative matters. However, according to a February 2013 Journal of Accountancy article, the Board of Governors of the Federal Reserve System (Federal Reserve) issued a January 2013 Supplemental Policy Statement (2013 Supplemental Policy Statement) as a result of the 2008 financial crisis on the 2003 Policy Statement on the Internal Audit Function and its Outsourcing in

order to promote objectivity in the internal audit function. The 2013 Supplemental Policy Statement states in part:

“Internal audit is an independent function that supports the organization's business objectives and evaluates the effectiveness of risk management, control, and governance processes. The 2003 Policy Statement addressed the structure of an internal audit function, noting that it should be positioned so that an institution's board of directors has confidence that the internal audit function can be impartial and not unduly influenced by managers of day-to-day operations. Thus, the member of management responsible for the internal audit function should have no responsibility for operating the system of internal control and should report functionally to the audit committee. A reporting arrangement may be used in which the Chief Audit Executive (CAE) is functionally accountable and reports directly to the audit committee on internal audit matters (that is, the audit plan, audit findings, and the CAE's job performance and compensation) and reports administratively to another senior member of management who is not responsible for operational activities reviewed by internal audit. When there is an administrative reporting of the CAE to another member of senior management, the objectivity of internal audit is served best when the CAE reports administratively to the chief executive officer (CEO). If the CAE reports administratively to someone other than the CEO, the audit committee should document its rationale for this reporting structure, including mitigating controls available for situations that could adversely impact the objectivity of the CAE. In such instances, the audit committee should periodically (at least annually) evaluate whether the CAE is impartial and not unduly influenced by the administrative reporting line arrangement. Further, conflicts of interest for the CAE and all other audit staff should be monitored at least annually with appropriate restrictions placed on auditing areas where conflicts may occur.”

(Emphasis added)

The article according to the President and CEO of the Institute of Internal Auditors (IIA) further states although CAEs in U.S. companies typically report administratively to the Chief Financial Officer (CFO) there are inherent risks in this reporting relationship.

Moreover, this reporting relationship trend over the past ten years has diminished as more CAEs have begun reporting to the CEO and in some cases administratively to the general counsel, chief risk officer or chief operating officer. The IIA President also noted that although this administrative reporting relationship is not required by IIA

standards, he anticipates the CAE to CEO administrative reporting model to become more widely adopted not only in the banking industry but in other industries as well.

Consequently, the Audit Staff believes that the Executive Director of Internal Audits should report to the CEO or other senior officer other than the CFO on administrative matters to eliminate actual or perceived ties to the Accounting and Finance organization.

The Audit Staff is concerned that the current reporting relationship creates a potential risk of undue influence, or at least the appearance thereof, over the objectivity of the Internal Audit function with respect to accounting and financial reporting matters and the scope or timing of the work efforts. FirstEnergy has a sufficient number of senior executives other than the CFO who could perform this administrative responsibility.

2. FirstEnergy has not sought to rebid its external audit services on a periodic basis.

As mentioned in the Background section of this chapter, after its merger with Allegheny Energy, FirstEnergy was solicited by other auditing firms with bids for their services. Ultimately, PwC elected to match the competitors' prices and thus was retained by FirstEnergy. However, FirstEnergy has not sought to rebid external audit services on a periodic basis. A formal process of rebidding or performing a thorough cost comparison of external audit fees should be conducted periodically (i.e., every three to five years). Competitive bidding is a vehicle to ensure high-quality services (e.g., oversight) at the best overall value. It is also a way of encouraging fresh and more independent views/points of view.

Recommendations

- 1. Modify the Internal Audit Department reporting structure so that the Executive Director of Internal Audits no longer reports administratively to the CFO.**
- 2. Periodically rebid and/or conduct cost comparisons for external audit services.**

V. AFFILIATED RELATIONSHIPS AND COST ALLOCATIONS

Background

Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), deliver transmission and distribution electric service in Pennsylvania and are owned by FirstEnergy Corporation (FirstEnergy or FE). The FE-PA Companies are part of FirstEnergy's Regulated Distribution business segment, which is also referred to as FirstEnergy Utilities (FEU). An entity chart of FirstEnergy, the FE-PA Companies and other subsidiaries is shown on Exhibit II-2 (see Chapter II – Background). As part of normal business activities, the FE-PA Companies conduct business with FirstEnergy and its subsidiaries, including FirstEnergy Service Company (FESC), which provides various administrative and general services for the FE-PA Companies and other affiliated companies.

On August 13, 2012, at Docket No. G-2010-2318787, FirstEnergy submitted a Revised Amended and Restated Mutual Assistance Agreement (Revised MAA), an affiliated interest agreement between the FE-PA Companies and other affiliated companies, for approval by the Pennsylvania Public Utility Commission (PUC or Commission). On September 17, 2012, the Commission extended the period for consideration of the Revised MAA until further action by the Commission. On November 16, 2012, the FE-PA Companies submitted amendments to the Revised MAA reflecting corrections to certain pricing provisions and the definition of Engineering Services. On January 10, 2013, the FE-PA Companies submitted additional amendments to the revised MAA, at Docket No. G-2012-2318787, to reflect the change in name of FirstEnergy Generation Corp. to FirstEnergy Generation, LLC and correcting the title of Allegheny Energy Service Company to reflect its accurate title of Allegheny Energy Service Corporation. As of April 30, 2014, the Revised MMA had not yet been approved by the Commission.

The Revised MAA is the FE-PA Companies primary affiliated interest agreement as it generally addresses the transactions between FirstEnergy, the FE-PA Companies, and their affiliates, including FESC. FirstEnergy has also submitted a Revised and Restated Utility Money Pool Agreement (Restated Agreement), dated September 21, 2011, to coordinate and provide for short-term cash and working capital requirements (i.e., borrowing funds from or lending funds to the Utility Money Pool on a short-term basis). The FE-PA Companies filed a request on March 18, 2011 for the Commission to approve the addition of West Penn Power and Trans-Allegheny Interstate Line Company (TrAILCo) to the Restated Agreement, at G-00020956. By Secretarial Letter dated June 21, 2011, the Commission granted the request and authorized the addition of West Penn Power and TrAILCo to the Restated Agreement. On December 17, 2012, the FE-PA Companies requested an extension of the term of the Restated Agreement for an additional three years through December 31, 2015, and for an increase in the borrowing limits for Met-Ed and Penn Power. By Secretarial Letter dated April 29, 2013,

the Commission approved the extension of the term of the Restated Agreement through December 31, 2015, as well as the change in the borrowing limits to Met-Ed and Penn Power. The Audit Staff found that the affiliated interest agreements filed with the Commission correspond with the business activity taking place between the FE-PA Companies, FirstEnergy and other affiliates during the period 2011 through 2013, and 2014 as available. A review of the charges to and from each of the FE-PA Companies for the years 2011 through 2013 is shown in Exhibits V-1 through V-8.

Exhibit V – 1
Metropolitan Edison Company
Charges to Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
Met-Ed Funding LLC	\$ 1,243,166	\$ 0	\$ 0	-100.00%
Cleveland Electric	\$ 298,314	\$ 265,832	\$ 252,769	-7.95%
Ohio Edison	\$ 375,233	\$ 332,753	\$ 305,144	-9.82%
Penelec	\$ 3,087,367	\$ 3,047,275	\$ 3,044,932	-0.69%
JCP&L	\$ 5,020,177	\$ 4,882,361	\$ 4,858,631	-1.62%
Total Charges to Affiliates	\$10,024,257	\$ 8,528,221	\$ 8,461,476	-8.13%

Source: Data Request No. AI-1 and Auditor Analysis

Exhibit V – 2
Metropolitan Edison Company
Charges from Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
FirstEnergy Service Co	\$ 51,195,393	\$ 51,092,135	\$ 46,282,162	-4.92%
Met-Ed Funding LLC	\$ 6,343,150	\$ 0	\$ 0	-100.00%
FirstEnergy Corp.	\$ 818,032	\$ 1,342,813	\$ 456,706	-25.28%
West Penn Power	\$ 0	\$ 266,422	\$ 307,113	NA
GPU Nuclear, Inc.	\$ 1,648,781	\$ 1,884,805	\$ 1,681,113	0.98%
Allegheny Energy Service Corp	\$ 2,102,893	\$ 449,032	\$ 0	-100.00%
Total Charges from Affiliates	\$62,108,249	\$ 55,035,207	\$ 48,727,094	-11.43%

NA – Not Applicable

Source: Data Request No. AI-1 and Auditor Analysis

Exhibit V – 3
Pennsylvania Electric Company
Charges to Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
Penelec Funding LLC	\$ 953,011	\$ 0	\$ 0	-100.00%
FE Generation	\$ 266,000	\$ 266,000	\$ 266,000	0.00%
Total Charges to Affiliates	\$1,219,011	\$ 266,000	\$ 266,000	-53.29%

Source: Data Request No. AI-2 and Auditor Analysis

Exhibit V – 4
Pennsylvania Electric Company
Charges from Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
FirstEnergy Service Corp	\$ 49,526,515	\$ 49,361,243	\$ 50,469,326	0.95%
FirstEnergy Corp	\$ 516,992	\$ 695,094	\$ 0	-100.00%
Penelec Funding LLC	\$ 4,566,245	\$ 0	\$ 0	-100.00%
Metropolitan Edison	\$ 3,087,367	\$ 3,047,275	\$ 3,044,932	-0.69%
West Penn Power	\$ 0	\$ 251,603	\$ 335,169	NA
GPU Nuclear, Inc.	\$ 824,390	\$ 942,402	\$ 840,556	0.98%
Allegheny Energy Service Corp	\$ 1,867,753	\$ 606,432	\$ 0	-100.00%
Total Charges from Affiliates	\$ 60,389,262	\$ 54,904,049	\$54,689,983	-4.84%

NA – Not Applicable

Source: Data Request No. AI-2 and Auditor Analysis

Exhibit V – 5
Pennsylvania Power Company
Charges to Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
ATSI	\$ 1,321,506	\$ 1,321,506	\$ 1,310,361	-0.42%
FirstEnergy Corp	\$ 0	\$ 332,756	\$ 367,845	NA
Total Charges to Affiliates	\$ 1,321,506	\$ 1,654,262	\$ 1,678,206	12.69%

NA – Not Applicable

Source: Data Request No. AI-3 and Auditor Analysis

Exhibit V – 6
Pennsylvania Power Company
Charges from Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
FirstEnergy Service Corp	\$ 9,945,958	\$ 10,141,451	\$ 10,201,610	1.28%
Allegheny Energy Service Corp	\$ 314,654	\$ 0	\$ 0	-100.00%
Total Charges from Affiliates	\$10,260,612	\$ 10,141,451	\$ 10,201,610	-0.29%

Source: Data Request No. AI-3 and Auditor Analysis

Exhibit V – 7
West Penn Power Company
Charges to Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
Allegheny Energy, Inc.	\$ 369,133	\$ 0	\$ 0	-100.00%
TrAIL	\$ 1,166,928	\$ 1,133,904	\$ 628,620	-26.60%
Monongahela Power	\$14,888,621	\$ 4,706,345	\$ 2,161,722	-61.90%
Potomac Edison	\$ 7,445,171	\$ 2,622,525	\$ 1,400,124	-56.63%
AE Supply, LLC	\$ 4,197,943	\$ 1,829,086	\$ 1,015,674	-50.81%
FE Generation	\$ 0	\$ 669,368	\$ 819,312	NA
FE Nuclear Generation	\$ 0	\$ 398,765	\$ 556,074	NA
Cleveland Electric	\$ 0	\$ 251,349	\$ 270,045	NA
JCP&L	\$ 0	\$ 487,280	\$ 627,762	NA
Metropolitan Edison	\$ 0	\$ 266,422	\$ 307,113	NA
Ohio Edison	\$ 0	\$ 330,771	\$ 457,821	NA
Penelec	\$ 0	\$ 251,603	\$ 335,169	NA
FirstEnergy Service Corp	\$ 835,904	\$ 285,787	\$ 0	-100.00%
Total Charges to Affiliates	\$28,903,700	\$13,233,205	\$ 8,579,436	-45.52%

NA – Not Applicable

Source: Data Request No. AI-4 and Auditor Analysis

Exhibit V – 8
West Penn Power Company
Charges from Affiliates
For the Years 2011 through 2013

Affiliated Company	2011	2012	2013	Compound Growth Rate
Allegheny Energy Service Corp	\$150,455,016	\$ 27,584,104	\$ 0	-100.00%
FirstEnergy Service Corp	\$ 14,904,882	\$ 42,148,800	\$ 51,403,256	85.71%
Potomac Edison	\$ 6,050,952	\$ 0	\$ 0	-100.00%
Monongahela Power	\$ 2,049,940	\$ 1,726,050	\$ 253,044	-64.87%
TrAIL	\$ 2,665,457	\$ 2,058,600	\$ 1,641,294	-21.53%
Total Charges from Affiliates	\$176,126,247	\$ 73,517,554	\$ 53,297,594	-44.99%

Source: Data Request No. AI-4 and Auditor Analysis

The costs of goods and services provided among FirstEnergy Affiliates are either directly charged or allocated based on the various allocation methods described within FirstEnergy's Cost Allocation Manual (CAM). The allocation factors for each of the allocation methods are updated annually in FirstEnergy's integrated accounting system (i.e., SAP); these factors are approved by General Accounting and also reviewed annually by the cost owner. Overhead charges may also be added to certain transactions (e.g., employee fringe benefits are applied to direct labor). The SAP system of controls is set up to ensure:

- Separation of costs between regulated and non-regulated affiliates;
- Intercompany transactions and related billings are structured such that non-regulated activities are not subsidized by regulated affiliates; and
- An adequate audit trail exists.

Monthly billing for transactions is performed, within SAP, in sufficient detail to understand the nature of each transaction. Financial settlement for the transactions occurs monthly through the Utility Money Pool. In the first quarter of 2013, the amount of direct charges for each of the FE-PA Companies ranged from a low of 20% for West Penn Power to a high of 30% for Met-Ed.

Each of the FE-PA Companies is organized and incorporated as its own separate legal entity. Each Company, therefore, maintains its own financial records, reports its own financial statements, has its own capital structure, and has its debt rated separately by the various rating agencies. If FirstEnergy or any affiliate defaults on loan or debt obligations, the FE-PA Companies as part of its ring-fencing provisions will not assume any liability for those obligations and there are no arrangements obligating them to do so. The FE-PA Companies also will not pledge their assets to secure any loan or debt

obligation of FirstEnergy or any other affiliate. Other ring-fencing measures which help to protect the FE-PA Companies include:

- Each of the FE-PA Companies must obtain appropriate regulatory authorization(s) to issue its own debt.
- Dividend limitations and restrictions exist per the Allegheny Energy – FirstEnergy Merger Settlement³. If any of the FE-PA Companies post-merger equity-to capitalization (equity-to-cap) ratio falls below 40%, the respective FE-PA Company will provide the Commission with a 12-month plan to bring its equity-to-cap ratio to 40%. If the ratio remains below 40% after the 12-month period, the FE-PA Company will not pay a dividend to its parent until the ratio is 40% or greater. In addition, the FE-PA Companies may not pay any dividend or cash distribution to the unregulated parent that will cause the equity-to-cap ratio to decline below 40% of the total capital. Dividend limitations and restrictions also exist per the various credit agreements, covenant restrictions, and Federal Energy Regulatory Commission (FERC) limitations.
- Separate money pools are maintained for regulated and unregulated operations.
- Affiliated interest agreements exist for transactions between the FE-PA Companies and their affiliates for any transactions that occur between them. These agreements are drafted to ensure transactions are priced consistent with FERC guidelines and are reviewed and approved by the PUC.

The FE-PA Companies have established competitive safeguards to comply with PUC regulations at 52 Pa. Code §54.121 and §54.122, and FERC rules. FirstEnergy performs Code of Business Conduct training biennially, State Regulatory Codes of Conduct policy training during an employee's "on-boarding" process, and annually requires that an employee certify their knowledge of, and compliance with, those policies. The Code of Business Conduct training communicates requirements and guidelines to employees for ethical business conduct. The State Regulatory Codes of Conduct training communicates to employees how to remain in compliance with the rules of the various government agencies that regulate FirstEnergy's business.

Findings and Conclusions

Our examination of the Affiliated Interests function focused primarily on a review of the cost allocation methodologies; an examination of affiliated interest agreements and inter-company transactions; compliance with existing cost allocation policies,

³ The Merger Settlement between Allegheny Energy, Inc. and FirstEnergy Corporation is discussed in Chapter III – Executive Management and Organizational Structure.

practices, and procedures; ring-fencing efforts; and a review of competitive safeguards. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and effectiveness of its affiliated interests function by addressing the following:

1. Internal audits of affiliate transactions and the cost allocation process are not regularly performed.

The Audit Staff reviewed internal audit reports issued during the period January 1, 2008 through April 25, 2013 by both Allegheny Energy Service Corporation⁴ and FirstEnergy Service Company. Just one internal audit of affiliate transactions and the cost allocation process affecting the FE-PA Companies was performed during this time period. More specifically, the one internal audit performed, titled Corporate Allocations Engagement, was completed in May 2009 by Allegheny Energy and would have impacted West Penn Power as a subsidiary of Allegheny Energy at the time. The audit noted a minor control weakness related to SAP, which was the accounting system used by Allegheny Energy. No other such internal audits were performed during this period by either Allegheny Energy or FirstEnergy. Internal audits of affiliate transactions and the cost allocation process should be performed periodically to assure that amounts billed for affiliate transactions fairly represent the costs of the products and services received or provided and, in particular, that cross-subsidization of affiliates by the regulated utilities does not occur.

Internal Auditing, which resides within FirstEnergy Service Company and reports to the Senior Vice President and Chief Financial Officer, uses a risk-based approach to develop its annual internal audit plan. Risks to FirstEnergy are identified and ranked prior to selection of the internal audits to be conducted. Internal audits concerning affiliate transactions and cost allocations have not been ranked high enough to be selected in the recent past. It should be noted that an internal audit of Jersey Central Power and Light Company (JCP&L), another FEU affiliate of the FE-PA Companies, was released in January 2014. This audit, titled Audit of the JCP&L Affiliate Relations Standards and Associated Transactions, resulted in four recommendations designed to strengthen the internal control environment to comply with state code of conduct regulatory requirements and promote accurate and more transparent FESC charges billed to JCP&L and other FirstEnergy affiliate companies. The audit was conducted in response to an outside consultant's recommendation that periodic internal audits be conducted of FirstEnergy's affiliate transactions and the associated direct billing/indirect cost allocations. Although our audit did not reveal any apparent cross-subsidization of non-regulated affiliates by the FE-PA Companies, periodic internal audits of affiliate transactions and the cost allocation process are a best practice to ensure this does not occur in the future.

⁴ Prior to the merger between FirstEnergy and Allegheny Energy, internal audits at West Penn Power were performed by Allegheny Energy Service Corporation.

2. FirstEnergy has not performed recent cost/benefit analyses to assess the provision of services by each of the FE-PA Companies or their affiliates.

It is a good business practice to conduct periodic cost/benefit reviews of the cost of affiliate services to peer groups and outsourcing options. Cost/benefit analyses related to the provision of services were not performed during the 2010 through mid-2013 timeframe. The cost of services provided to each of the FE-PA Companies by its affiliates should be periodically evaluated (e.g., every three years) to assure that such services are high quality, cost-competitive services. Such studies would confirm the cost-competitiveness of centralized corporate functions as compared to outsourcing these functions.

FirstEnergy believes that FESC functions are more efficient and effective on a centralized basis. However, without conducting periodic cost/benefit reviews, FirstEnergy is unable to demonstrate that the centralized services received from affiliates are of sufficient quality and cost-competitive with outsourcing options.

It should be noted that the revised MAA prescribes pricing for transactions with non-regulated affiliates as follows:

- If a regulated utility furnishes goods or services to an unregulated affiliate, then the regulated utility shall be paid for such goods or services at the higher of cost or market price;
- If a regulated utility receives goods or services from an unregulated affiliate, then the unregulated affiliate shall be paid for such goods or services at the lower of cost or market price.

This pricing of goods and services complies with FERC's market standards, and a periodic review of the cost of these goods and services in the market will also ensure this compliance.

Recommendations

- 1. Conduct periodic internal audits of affiliate transactions and the cost allocations process.**
- 2. Perform periodic studies to determine the cost-competitiveness of affiliate services and solicit bids from other providers when costs appear to be high.**

VI. FINANCIAL MANAGEMENT

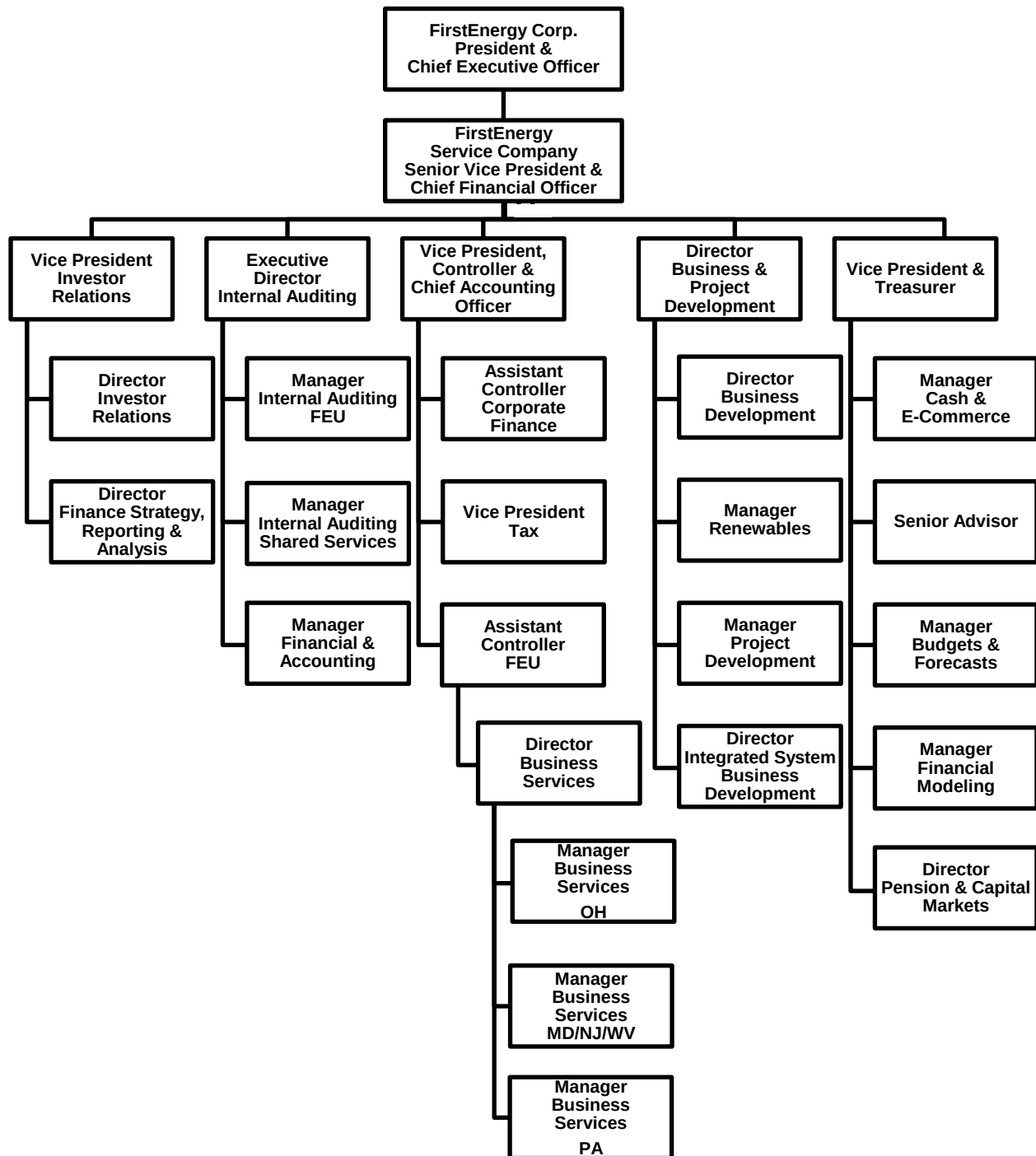
Background

Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), deliver electricity in Pennsylvania and are owned by FirstEnergy Corporation (FirstEnergy or FE). The FE-PA Companies are part of FirstEnergy's Regulated Distribution business segment, which is also referred to as FirstEnergy Utilities (FEU). An entity chart of FirstEnergy, the FE-PA Companies and other subsidiaries is shown on Exhibit II-2 (see Chapter II – Background). As part of normal business activities, the FE-PA Companies conduct business with FirstEnergy and its subsidiaries, including FirstEnergy Service Company (FESC), which provides various administrative and general services for the FE-PA Companies and other affiliated companies.

FESC's finance functions that impact the FE-PA Companies are shown in Exhibit VI-1. The Pennsylvania Business Services Department is dedicated to the FE-PA Companies and supports their accounting and finance functions. The Manager of the Pennsylvania Business Services Department oversees two Lead positions and eleven Analyst positions and reports to the Director of Business Services. In addition to the Pennsylvania Business Services Department, individuals from other FESC Departments such as Budgets and Forecasts, Cash Management, Financial Modeling, Pension and Capital Markets, Risk and Tax also support the accounting and finance functions for the FE-PA Companies. The roles and responsibilities of the various finance functions that impact the FE-PA Companies are as follows:

- Investor Relations:
 - Investor Information – compile and communicate information to investors.
 - Investor Education – target and educate potential investors to promote valuation characteristics and business strategy.
 - Regulations Compliance – ensure compliance with Securities and Exchange Commission Fair Disclosure regulations.
 - Management Education – provide education to management of business concerns and valuation issues of analysts/investors.
 - Employee Education – actively promote understanding of financial and investor relations' issues.
- Internal Auditing:
 - Audit Services – perform the following internal audit services based on risk levels and/or requests: financial, performance analysis, safeguarding of assets, computer-related and fraud investigations, compliance with laws, regulations or policies.

Exhibit VI – 1
FirstEnergy Corporation
Finance Organization
As of January 1, 2014



Source: Date Request No. FM-27, Supporting Documentation from FirstEnergy, and Auditor Analysis

- Controller:
 - Accounts Payable – non-payroll corporate disbursement services including account distribution to the general ledger; resolve problems associated with invoice processing and maintain the accounts payable system.
 - Billing Services – prepare non-retail electric billings.
 - Corporate Reporting and General Accounting – prepare corporate reports and subsidiary accounting which includes reporting and support of the ledger and SAP system.
 - Assistant Controller Corporate – responsible for business planning and budgeting, financial reporting, and ensuring that the accounting and financial records of the respective business units are maintained in conformity with Generally Accepted Accounting Principles (GAAP) and regulatory requirements.
 - Property Accounting – maintain corporate continuing property records in accordance with regulatory requirements and GAAP; provide capital versus expense guidance, depreciation studies, rate case support and allowance for funds used during construction and depreciation forecasting.
 - Strategy & Compliance – provide accounting research and consulting to ensure compliance with existing and proposed financial reporting, and regulatory accounting requirements; assist business units to determine whether proposed business acquisitions/combinations and similar transactions are desirable from a financial perspective; extensive review/analysis following preliminary review and firm intent to proceed with transaction through commitment and closing phases.
 - Tax consulting and research – conduct tax research and tax consulting to assure compliance with statutes, while evaluating alternative tax strategies within the constraints of regulations that provide additional shareholder value to FirstEnergy; provide tax-consulting advice to the business units on tax compliance and reporting issues, which includes business “start-up” support to organizations requiring assistance.
 - Tax Compliance – prepare and process all schedules and information associated with corporate and subsidiary tax returns, audits, and tax litigation, assuring compliance with tax regulations and statutes.
- Business and Project Development:
 - Mergers and Acquisitions Support – support, evaluate and assist in the management of merger, asset acquisition and asset disposition activities.
 - Internal Consulting – perform strategic analysis/business fit, economic analysis; Provide integration and transitional management services as needed.
 - Integrated Business Planning – coordinate the corporate-wide process for development of business plans, budgets, forecasts, and performance metrics; provide management reporting of actuals and variances as well as financial analysis of corporate and operating company credit metrics and financing plans.

- Strategic Performance – provide analytical and business process guidance by assisting, upon request, all business units with short-term initiatives and projects which focus on continuous improvement, financial analysis, optimization studies, and project management activities in order to drive or establish strategic, operational, and financial performance goals.
- Capital Management – coordinate the corporate-wide process for planning of capital projects; also responsible for management reporting of actuals, variances and forecasts of the capital budget and five-year portfolio.
- Treasury Organization:
 - Capital Structure Management and Administration – perform all activities related to acquiring capital; establish and administer funding, legal documentation, and record-keeping activities associated with finance programs.
 - Corporate Cash Management – plan, manage, and operate the corporate “cash-flow-cycle.”
 - Corporate Forecasting – provide regulatory support, strategy support, financial modeling and forecasting, financial and economic analysis and development of annual corporate Key Performance Indicator targets.
 - Capital Project Evaluation and Support – provide analytical support in the areas of financing, profitability, capital structure and cash flow.
 - Remittance Processing – process customer payments and deposit funds.
 - Indenture Compliance – administer FirstEnergy’s indentures.
 - Compliance and Indenture Administration - monitor and maintain compliance with debt covenants for FirstEnergy and its affiliates’ financings; manage all activities relating to FirstEnergy and its affiliates’ mortgage indentures.

The FE-PA Companies do not maintain their own bank accounts. FirstEnergy and its subsidiaries have a centralized cash management function within FESC. All receipts and disbursements for FirstEnergy and its subsidiaries flow through FESC bank accounts. FESC in turn administers a Utility Money Pool, of which the FE-PA Companies are authorized participants, to track all daily receipt and disbursement activity for each of the Utility Money Pool participants. There are separate money pools for the regulated utilities (i.e., FEU companies) and the non-utility affiliates of FirstEnergy. The Utility Money Pool is set up to coordinate and provide for short-term cash and working capital requirements of the participating FEU companies, and allows them to lend or borrow from the Utility Money Pool on a short-term basis. FirstEnergy indicated that the Utility Money Pool provides cost savings by using available internal funds prior to obtaining funds through more costly external sources. As of September 30, 2013, Penelec and Penn Power had investment balances (i.e., as a lender) in the Utility Money Pool of \$43.3 million and \$38.4 million, respectively. Met-Ed and West Penn Power had loan debts of \$1.4 million and \$300,000, respectively, from the Utility Money Pool.

The Utility Money Pool Rates are based on the Utility Money Pool Agreement, and depend on whether the daily outstanding balance of all loans during a calendar month are comprised of internal funds, externally borrowed funds, or both internal and external funds. The rate calculations are based on the following rules:

- a) If only internal funds comprise the daily outstanding balance of all loans outstanding during a calendar month, the interest rate applicable to such daily balances shall be the greater of the 30 day LIBOR⁵ rate as quoted in the Wall Street Journal or the money market rate that a lending subsidiary could have obtained if it placed its excess cash in such an investment.
- b) If only externally borrowed funds comprise the daily outstanding balance of all loans outstanding during a calendar month, the interest rate applicable to such daily balances shall be the lender's cost for such external funds calculated monthly or, if more than one party had made available external funds at any time during the month, the applicable interest rate shall be a composite rate, equal to the weighted average of the costs incurred by the respective parties for such external funds calculated monthly.
- c) In cases where the daily outstanding balances of all loans outstanding at any time during the month include both internal funds and external funds, the interest rate applicable to the daily outstanding balances for the month shall be equal to the weighted average of the (i) cost of all internal funds contributed by the parties, as determined pursuant to a) above, and (ii) the cost of all such external funds, as determined pursuant to b) above.

For the period January 2013 through June 2013, the monthly Utility Money Pool rate ranged from a low of 0.36% to a high of 0.67%. External credit facilities would have cost significantly more than the Utility Money Pool rates during that time period. For example, a Federal Reserve survey conducted in the first quarter of 2013 showed that American banks were charging an average of 2.83% on commercial and industrial loans, down from 3.4% from a year earlier. The Vice President and Treasurer indicated that external credit facilities in the first quarter of 2013 would have been calculated at LIBOR + 175 basis points or a rate of 2%.

All collections and disbursements are handled centrally at FESC as part of the Utility Money Pool. A centralized remittance processing center is used which primarily uses the accounts receivable conversion process or the image cash letter process to have receipts sent to the relevant banks electronically. These funds are available the next day and swept to a main bank account managed by FESC. The cash receipts for each participating company are then included when determining their daily cash position. A centralized Accounts Payable Department handles the majority of cash

⁵ The London Interbank Offered Rate (LIBOR) is the world's most widely-used benchmark for short-term interest rates. The LIBOR is the average interest rate estimated by leading banks in London that they would be charged if borrowing from other banks.

disbursements. Vendor invoices are entered by the Accounts Payable Department, or sent to the responsible business units to enter payments into the SAP accounts payable module. Once these invoices are approved at the appropriate level, the Accounts Payable Department initiates electronic payment through a wire transfer or automated clearing house, or to have a physical check processed. The cash disbursements for each of the FE-PA Companies are included when determining their daily cash position.

FirstEnergy's cash forecasting process ensures that short- and long-term cash needs are properly addressed and that adequate liquidity is maintained. Long term cash forecasts are performed annually from information generated from the annual budgeting process. The annual budget amounts are in turn allocated by month to produce monthly cash forecasts. Monthly cash forecasts are compared to actual results and explanations of variances are developed. Monthly cash forecasts are also used to develop a daily forecast of receipts and disbursements. Cash Operations performs a daily validity check of receipts and disbursements versus forecasts, with unreasonable differences identified and investigated.

The FE-PA Companies use the Utility Money Pool for short-term borrowing and investing prior to obtaining or placing funds through an external source. For external borrowing purposes, FirstEnergy maintains a \$2.5 billion Revolving Credit Facility, which is available to participants of the Utility Money Pool. Met-Ed and Penelec have a borrowing limit of \$300 million; West Penn Power has a borrowing limit of \$200 million; and Penn Power has a borrowing limit of \$50 million. The proceeds from long-term debt issuances are typically used to retire maturing debt, repay short-term borrowings, fund upcoming capital expenditures, and other general corporate purposes. As of March 31, 2013, FirstEnergy and each of the FE-PA Companies had a corporate credit rating of BBB-. A credit rating is Standard & Poor's opinion on the general creditworthiness of a company. BBB- is considered the lowest investment grade by market participants. Long-term debt outstanding as of June 30, 2013 for the FE-PA Companies is shown in Exhibit VI-2. It appears that the long-term debt maturities are reasonably spread over future periods.

FirstEnergy's fiscal year is based on a calendar year. The FE-PA Companies prepare one formal budget [that includes both capital and operations and maintenance (O&M)] each year, which is approved by FirstEnergy's Board of Directors, and used for management reporting during the first quarter of the following year. The FE-PA Companies also prepare three subsequent forecast updates: the 3+9 forecast is prepared using three months of actual data and nine months of forecasted data, and used for management reporting during the second quarter; the 6+6 forecast is prepared using six months of actual data and six months of forecasted data, and used for management reporting during the third quarter; the 9+3 forecast is prepared using nine months of actual data and three months of forecasted data, and used for management reporting during the fourth quarter. The Audit Staff reviewed FirstEnergy Utilities 2013 Budget Guidelines and found them to be very comprehensive. These guidelines augment the FirstEnergy Budget Guidelines produced by Corporate Budgeting. Variance reports for the FE-PA Companies are included in the management reporting prepared in each quarter. Three cost types are used for budgeting, including Capital,

Exhibit VI – 2
FirstEnergy Pennsylvania Companies
Long-Term Debt Outstanding as of June 30, 2013

Met-Ed	
PCN Series due July 15, 2021 *	\$28,500,000
Senior Note 4.875% Series due April 1, 2014	\$250,000,000
Senior Note 7.7% Series due January 15, 2019	\$300,000,000
Senior Note 3.5% Series due March 15, 2023	\$300,000,000
Long-Term Debt Total	\$878,500,000
Penelec	
PCN Series due November 1, 2020 *	\$20,000,000
PCN Series due November 1, 2025 *	\$25,000,000
Senior Note 5.125% Series due April 1, 2014	\$150,000,000
Senior Note 6.05% Series due September 1, 2017	\$300,000,000
Senior Note 6.625% Series due April 1, 2019	\$125,000,000
Senior Note 5.2% Series due April 1, 2020	\$250,000,000
Senior Note 6.15% Series due October 1, 2038	\$250,000,000
Long-Term Debt Total	\$1,120,000,000
Penn Power	
First Mtg Bond 9.74% Series due November 1, 2019	\$6,364,000
First Mtg Bond 6.09% Series due June 30, 2022	\$100,000,000
Long-Term Debt Total	\$106,364,000
West Penn Power	
First Mtg Bond 5.875% Series due August 15, 2016	\$145,000,000
First Mtg Bond 5.95% Series due December 15, 2017	\$275,000,000
First Mtg Bond Series due April 15, 2022	\$100,000,000
Long-Term Debt Total	\$520,000,000

* Variable-Rate Tax-Exempt Pollution Control Note

Source: Data Request No. FM-5

O&M (Non-Capital or Revenue), and Other Balance Sheet Items. The budgeting process begins in the February/March timeframe and, in September, culminates in an aggregated budget for all utilities. Business units are initially involved with entering budget targets; the Capital Management Group subsequently enters capital targets. The overall FirstEnergy annual budget is finalized in December.

FirstEnergy uses the SAP Enterprise Resource Planning (ERP) system which includes:

- SAP ERP Financials which includes Accounts Payable, Accounts Receivable, and General Ledger.
- SAP ERP Human Capital Management which includes Human Resources (HR) and Payroll, HR Process Management and HR Reporting.

- SAP ERP Operations, which includes Procurement and Logistic Interfaces between PowerPlant, CREWS, and SAP Project Systems. SAP can record and maintain Fixed Asset and work order management activity.

As discussed in Chapter XI – Human Resources, FirstEnergy sponsors multiple defined benefit pension plans for employees of FirstEnergy, FESC, and the FE-PA Companies. There are multiple pension plans depending upon the date of hire and eligible group (i.e., non-bargaining groups, multiple unions, etc.). The Pension Protection Act of 2006 (PPA) requires companies with under-funded pensions to pay additional premiums to the Pension Benefit Guaranty Corporation and also eliminates loopholes that allowed under-funded pensions to miss pension payments. The PPA also requires that pension plans provide more accurate assessments of their pension obligations. The pension funding status for the FE-PA Companies is shown in Exhibit VI-3.

Exhibit VI – 3
FirstEnergy Pennsylvania Companies
Pension Funding Status
As of December 31, 2013

Company	Benefit Obligation	Fair Value of Plan Assets	Funded Status
Met-Ed	\$491,700,000	\$479,199,000	97.5%
Penelec	\$567,694,000	\$452,705,000	79.7%
Penn Power	\$153,194,000	\$157,800,000	103.1%
West Penn Power	\$309,180,000	\$275,297,000	89.0%

Source: Data Request No. FM-48

Findings and Conclusions

Our examination of the Financial Management function focused primarily on short-term and long-term financing, the accounting organization and the extent of automation used in the accounting system, the internal audit process, cash management, the capital and O&M budgeting process, dividend policies, and the funding status of the pension plan. Based on our review, the Company should initiate or devote additional efforts to improving the efficiency and effectiveness of its Financial Management function by addressing the following:

1. The FE-PA Companies do not have documented internal dividend policies.

There is no written documentation related to dividend policies for the FE-PA Companies and its parent, FirstEnergy, or for any of FirstEnergy's other subsidiaries. Therefore, no expressed representation exists as to what to expect with regard to use of funds for dividend payments in the future. Relevant factors considered in determining dividend payments to the parent include applicable corporate governance and compliance documents, existing financial agreements and indentures, company

performance, financial metrics and forecasts (e.g., net income, liquidity, short-term borrowings, capital expenditures, total capitalization, retained earnings, and credit metrics), and authorized equity capitalization for ratemaking purposes. The annual dividends paid, net income and the dividend payout ratio for each of the FE-PA Companies for 2008-2013 are shown in Exhibit VI-4.

Exhibit VI – 4
FirstEnergy Pennsylvania Companies
Dividends Paid, Net Income & Dividend Payout Ratio
For the Years 2008 through 2013

Met-Ed	2008	2009	2010	2011	2012*	2013	Total
Dividends Paid (\$ 000)	\$0	\$0	\$30,000	\$25,000	\$45,000	\$0	\$100,000
Net Income (\$ 000)	\$88,033	\$65,738	\$69,613	\$94,993	\$73,848	\$84,571	\$476,796
Dividend Payout Ratio	0%	0%	43%	26%	61%	0%	21%
Penelec	2008	2009	2010	2011	2012	2013	Total
Dividends Paid (\$ 000)	\$70,000	\$50,000	\$90,000	\$70,000	\$75,000	\$0	\$355,000
Net Income (\$ 000)	\$88,170	\$74,995	\$73,593	\$96,331	\$79,464	\$90,476	\$503,029
Dividend Payout Ratio	79%	67%	122%	73%	94%	0%	71%
Penn Power	2008	2009	2010	2011	2012	2013	Total
Dividends Paid (\$ 000)	\$0	\$50,000	\$70,000	\$15,000	\$0	\$0	\$135,000
Net Income (\$ 000)	\$23,194	\$22,370	\$26,428	\$22,475	\$20,767	\$20,703	\$135,937
Dividend Payout Ratio	0%	224%	265%	67%	0%	0%	99%
West Penn Power	2008	2009	2010	2011	2012	2013	Total
Dividends Paid (\$ 000)	\$35,324	\$35,081	\$60,173	\$40,000	\$20,000	\$75,000	\$265,578
Net Income (\$ 000)	\$45,053	\$61,409	\$74,600	\$90,712	\$94,822	\$93,535	\$460,131
Dividend Payout Ratio	78%	57%	81%	44%	21%	80%	58%

* - Dividends paid in 2012 by Met-Ed and Penelec represent cash dividends as a return of capital (i.e., distribution drawn from paid-in capital rather than from retained earnings).

Source: Data Request Nos. FM-41, FM-42, FM-46, FM-49, 2013 Annual Progress Report for the Management Efficiency Investigation of Met-Ed, Penelec and Penn Power, and Auditor Analysis

Penn Power's dividend payout ratio was high in 2009 and 2010 (i.e., 224% of net income was paid out in 2009; 265% of net income was paid out in 2010) and Penelec's dividend payout ratio was high in 2010 and 2012 (i.e., 122% of net income was paid out in 2010; 94% of net income was paid out in 2012). Both the 2007 Management Audit and 2011 Management Efficiency Investigation (MEI), released in January 2007 and May 2011, respectively, identified some of these high dividend payments and recommended that the FE-PA Companies provide the Pennsylvania Public Utility Commission (PUC or Commission) with advanced notice of, and an explanation of the circumstances that warrant annual dividend payments that exceed 85 percent of net income; however, the FE-PA Companies rejected the recommendations in both the 2007 Management Audit and 2011 MEI as part of their Implementation Plan submissions. Subsequent to the release of the MEI report and the FE-PA Companies' Implementation Plan, the Commission issued a Final Order entered February 16, 2012 at Docket Nos. D-2009-2143263, D-2009-2143264, and D-2009-2143265 that indicated the PUC is charged with regulation and oversight of all public utilities doing business within Pennsylvania and therefore has an obligation to ensure that a public utility's

dividend practices do not harm service or reliability. Therefore, the Commission directed the FE-PA Companies to provide the PUC with at least 30 days advance notice of, and explanation of, the circumstances that warrant annual dividend payments that exceed 85 percent of net income. The Commission Order further directed that if the FE-PA Companies underestimate the size of dividend to be paid, and should have but did not file a report with at least 30 days advance notice, the FE-PA Companies were required to file a report within seven business days after the dividend is paid out justifying the amount of the dividends and providing both explanation and documentation of the circumstances that caused the FE-PA Companies to error in estimating the size of the dividend. The Commission Order also required the FE-PA Companies to submit annual Progress Reports on their implementation efforts until the commencement of the next Focused Management and Operations Audit performed by the Commission's Bureau of Audits. Pursuant to the Commission Order, the FE-PA Companies have submitted Progress Reports annually. In the Progress Report for the calendar year 2012, which was dated July 1, 2013, the FE-PA Companies reported the dividend payout ratios for each of the FE-PA Companies for the period February 16, 2012 through December 31, 2012. The FE-PA Companies made this distinction as the period after which the Commission Order was issued. The FE-PA Companies also indicated that Penelec issued dividends of approximately \$75 million in January of 2012 before the Commission Order was issued. As previously mentioned and noted in Exhibit VI-5, this dividend payment equated to 94% of Penelec's net income. In 2012, the other FE-PA Companies did not issue any dividends in excess of 85 percent of net income. Likewise, in 2013, the FE-PA Companies have not issued dividends in excess of 85 percent of net income.

In general, it is not a sound business practice to pay an annual dividend to a parent company that is more than 75% to 85% of the utility's net income on a consistent or long-term basis. Many regulated utilities have established an internal dividend payout ratio of 75% to 85% of net income as a reasonable target. However, there may be situations when higher than normal dividends are warranted for a particular period/year. For example, positioning Penn Power's regulatory capital structure closer to a targeted range of 45% to 55% equity was one of the key factors for its 2010 dividend as it reduced its equity from approximately 68% to 60%. A formal written dividend policy providing the framework for determination of dividends, which is consistent with regulatory practices, should be established and formally documented for each of the FE-PA Companies. The formal dividend policy should outline the policy's purpose and scope, identify responsibility for the policy, and identify financial requirements, restrictions, and procedural guidelines for determining dividend amounts as well as a target range. It should also include any steps required to deviate from this range.

Recommendation

- 1. Establish and document a dividend policy for each of the FE-PA Companies, and ensure that advanced notice and explanations are submitted to the Commission prior to making future dividend payments in excess of 85% of net income.**

VII. ELECTRIC OPERATIONS

Background

As discussed in Chapter II – Background, FirstEnergy Corporation's (FirstEnergy or FE) Regulated Distribution business segment distributes electricity through FirstEnergy's ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. Penn Power is a subsidiary of Ohio Edison Company (Ohio Edison), another FirstEnergy Utilities electric distribution operating company, and therefore operationally Penn Power is treated as a division of Ohio Edison. FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates including operations support services (which is discussed later in this chapter). Electric transmission and distribution (T&D) operations functions for the FE-PA Companies are performed by various personnel from FirstEnergy, FESC, and each of the FE-PA Companies. Although the service territories for the four FE-PA Companies are mostly contiguous, the FE-PA Companies operate independently from each other with separate unions representing the field operations work force for each of the FE-PA Companies. Additionally, separate reliability standards and benchmarks are used to monitor performance for each distribution company (this will also be discussed later in this Chapter). An overview of the service territories for each of the FE-PA Companies is displayed in Exhibit VII-1 (also see service territory map in Chapter II – Background, Exhibit II-1). The reporting structure for the applicable T&D positions from FirstEnergy and the FE-PA Companies is displayed in Exhibit VII-2.

Reporting to the President and Chief Executive Officer (CEO) of FirstEnergy is the Executive Vice President (VP) of FirstEnergy and President of FEU. Reporting to the Executive VP of FirstEnergy and President of FEU is the VP of Utility Operations who has a number of direct reports, including the two Presidents of state operations (Pennsylvania and Ohio) that include the FE-PA Companies. Also directly reporting to the Executive VP of FirstEnergy and President of FEU is the VP of Distribution Support, whose organization is comprised of FESC employees as shown in Exhibit VII-3, and the Vice President of Transmission who is discussed later in this Chapter. Since Penn Power is a subsidiary of Ohio Edison, this electric distribution company (EDC) falls under the responsibility of the President of Ohio Operations while the other three FE-PA Companies fall under the responsibility of the President of Pennsylvania Operations. The Regional Presidents for the four FE-PA Companies report to these two Presidents of State Operations. All four FE-PA Companies are structured similarly under their respective Regional Presidents. Therefore, Exhibit VII-4 displays only the West Penn Power Regional President's organization as a representation of the other Regional President organizations. Not shown in Exhibit VII-4 is a Human Resources Manager

Exhibit VII – 1
FirstEnergy Pennsylvania Companies
Service Territory Overview
As of December 31, 2013

Company	# Customers	Service Territory	Service Centers
Met-Ed	554,596	Eastern and southeastern Pennsylvania (non-contiguous) including the counties of: Adams, Berks, Bucks, Chester, Cumberland, Dauphin, Lancaster, Lebanon, Lehigh, Monroe, Montgomery, Northampton, Pike, and York	Boyertown, Dillsburg, Easton, Gettysburg, Hamburg, Hanover, Lebanon, Reading, Stroudsburg and York
Penelec	589,402	Northern and central Pennsylvania (non-contiguous) including the counties of: Armstrong, Bedford, Blair, Bradford, Cambria, Centre, Clarion, Clearfield, Crawford, Cumberland, Erie, Forest, Franklin, Huntingdon, Indiana, Jefferson, Juniata, Lebanon, Lycoming, McKean, Mifflin, Perry, Potter, Somerset, Sullivan, Susquehanna, Tioga, Venango, Warren, Wayne, Westmoreland and Wyoming	Altoona, Bradford, Clearfield, DuBois, Erie, Indiana, Johnstown, Lewistown, Mansfield, Meadville, Montrose, Oil City, Philipsburg, Shippensburg, Somerset, Towanda, and Warren
Penn Power	161,415	Western Pennsylvania including the counties of: Allegheny, Beaver, Butler, Crawford, Lawrence, Mercer, Venango	Hartstown, McDowell, Mercer, New Castle, and Zelienople
West Penn Power	717,894	Southwestern, north central, and south central Pennsylvania (non-contiguous) including the counties of: Adams, Allegheny, Armstrong, Bedford, Blair, Butler, Cameron, Centre, Clarion, Clinton, Elk, Fayette, Franklin, Greene, Indiana, Jefferson, Lycoming, McKean, Potter, Somerset, Washington, Westmoreland	Arnold, Boyce, Butler, Charleroi, Clarion, Hyndman, Jeannette, Jefferson, Kittanning, Latrobe, McConnellsburg, McDonald, Pleasant Valley, St Marys, State College, Uniontown, Washington, and Waynesboro
FE-PA Companies	2,023,307	56 of the 67 counties in Pennsylvania	50 Service Centers

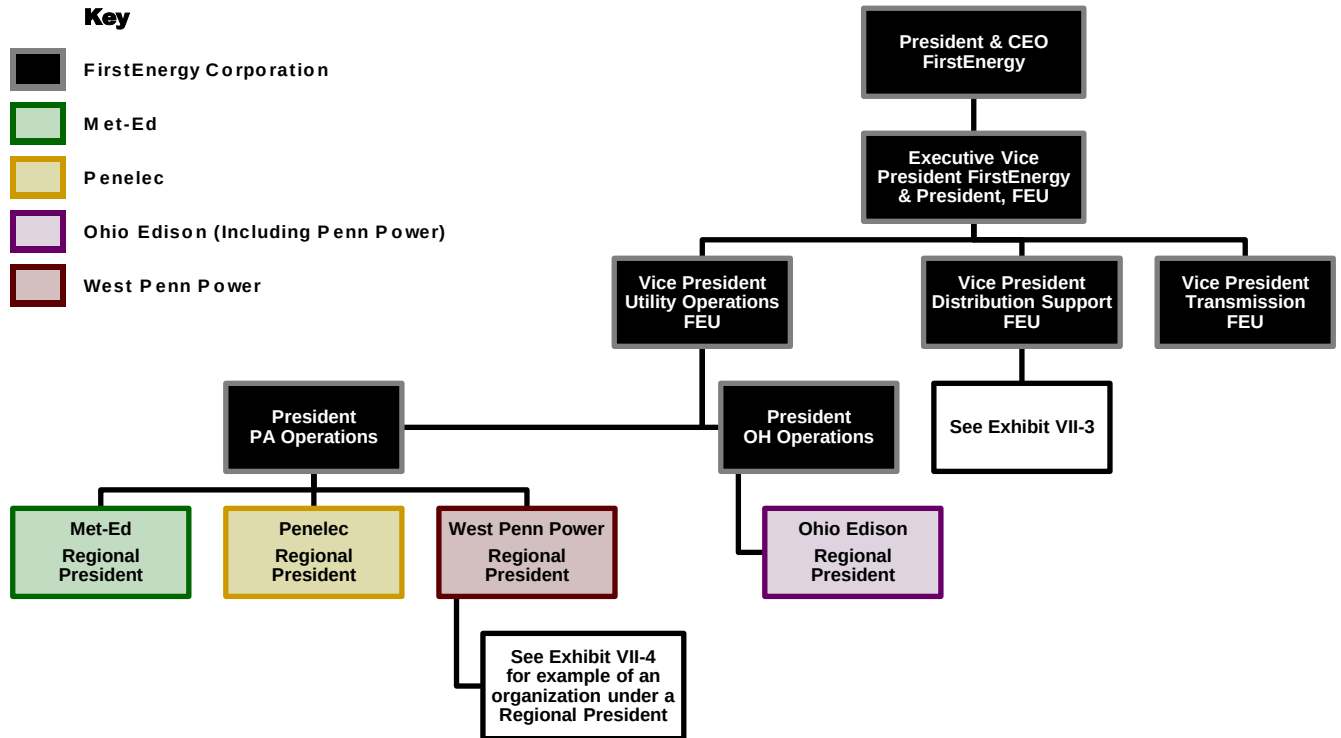
Source: Data Requests TD-2 and EM-33

that also reports to the Regional President. The roles of the Human Resource Manager is discussed further in Chapter XI – Human Resources

The FESC Distribution Support Departments provide direction and support to each of the FE-PA Companies based on regulations and on policies developed by FEU. In brief, each of the FESC Department's (as displayed in Exhibit VII-3) responsibilities are as follows:

Operations Services – provides technical, procedural, regulatory, and operational support to the FE-PA Companies including distribution standards, regulatory reporting, distribution planning, and protection as well as joint use and cable locating. The distribution maintenance programs are discussed later in this Chapter.

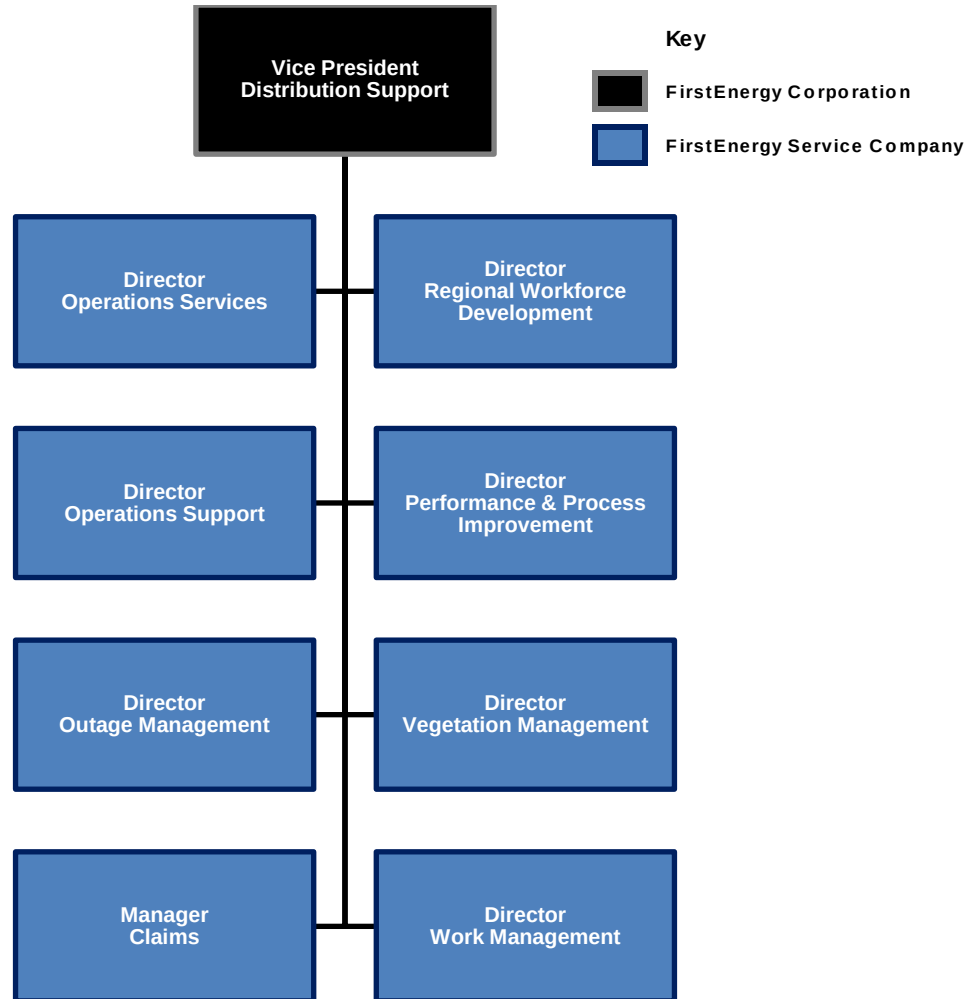
Exhibit VII – 2
FirstEnergy Corporation
Transmission and Distribution Organizational Structure
As of January 1, 2014



Source: Data Request TD-45

- Regional Workforce Development – enhances skills through comprehensive strategic planning and applies a systematic approach of training methods to ensure a competent workforce.
- Operations Support – provides strategic guidance, technical services, shop operations and warehousing to support the operating companies; additionally provides performance metrics and analysis.
- Performance & Process Improvement – provides support in the areas of process analysis, best practice identification and standardization, internal and external benchmarking, identification of operational improvement metrics and opportunities and project management of the merger integration efforts.
- Outage Management – provides support for Regional Distribution Operations (RDO) by overseeing and developing standardized RDO processes and procedures. The RDO controls and manages the FE-PA Companies' electric distribution through the Supervisory Control and Data Acquisition (SCADA) system. Each distribution company maintains its own RDO to dispatch its outage response.

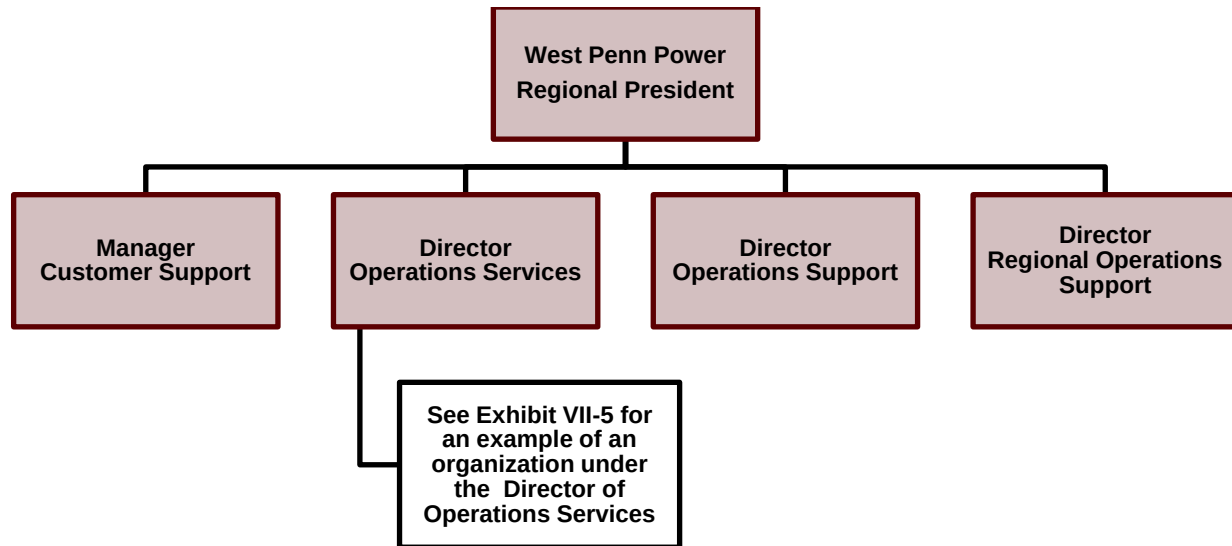
Exhibit VII – 3
FirstEnergy Corporation
Organizational Structure for FirstEnergy Utilities Distribution Support
As of January 1, 2014



Source: Data Request TD-45

- Vegetation Management – ensures cost effective reliability of the bulk transmission system through completion of an effective vegetation management program; and compliance with state regulations.
- Claims – deals with legal and financial issues involving damages.
- Work Management – supports achievement of operational efficiencies in T&D line, substation, and emergency response organizations through forecasting, planning, scheduling, execution and close out work.

Exhibit VII – 4
FirstEnergy Pennsylvania Companies
Representative Organizational Structure for Regional President*
As of January 1, 2014

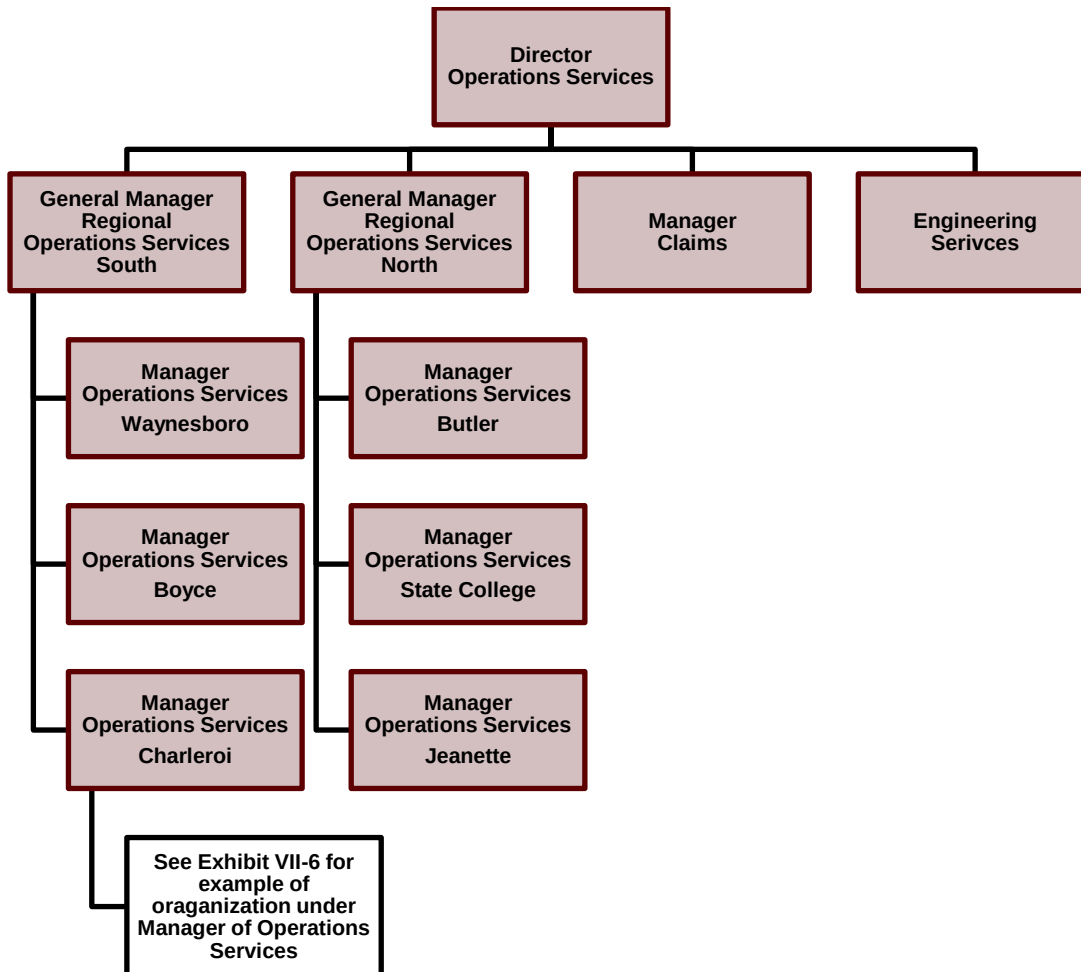


* The FE-PA Companies have similar reporting structures. West Penn Power is being used as an example.
 Source: Data Request TD-45

As shown in Exhibit VII-4, the Customer Support Manager, the Director of Operations Services, the Director of Operations Support, and the Director of Regional Operations Support report to the Regional President of West Penn Power. The Customer Support Manager is primarily responsible for issues such as customer service calls for larger accounts. The Director of Operations Services is responsible for areas relevant to the linemen, which is where much of the focus for this functional area will be. For further clarification for this position, Exhibit VII-5 displays the organizational structure for the Director of Operations Services for West Penn Power. The Director of Operations Support is responsible for the Substation Group (e.g., construction / maintenance crews and relay technicians, etc.) and the Regional Dispatch Group responsibilities. The Director of Regional Operations Support is responsible for vegetation management, meter reading and services, fleet management, and facilities management.

As shown in Exhibit VII-5, West Penn Power's Director of Operations Services has two General Managers of Regional Operations Services (North and South) as part of his direct reports. Each General Manager of Regional Operations Services has three District Managers as direct reports which include the Waynesboro, Boyce, and Charleroi Districts in the Southern Region; and the Butler, State College, and Jeannette Districts and the Northern Region. The Charleroi Manager's organization was selected as a sample District to display its organizational structure in Exhibit VII-6. Additionally the Claims and Engineering Services Departments report to the Operations Services Director with respect to processing and facilitating financial restitution from damages and Engineering Services dealing with West Penn Power's engineering needs.

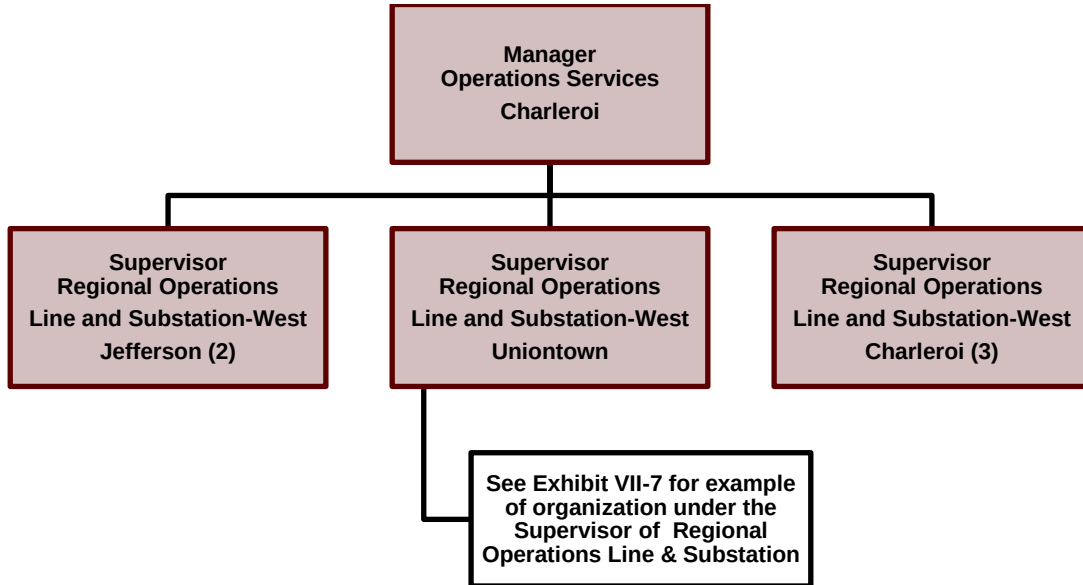
Exhibit VII – 5
FirstEnergy Pennsylvania Companies
Representative Organizational Structure for Director of Operations*
As of January 1, 2014



* The FE-PA Companies have similar reporting structures. West Penn Power is being used as an example.
 Source: Data Request TD-45

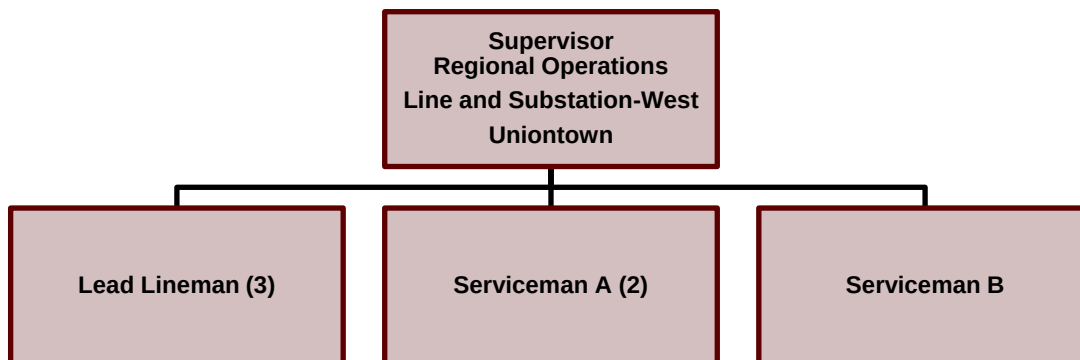
As shown in Exhibit VII-6, the Manager of Operations Services for Charleroi has six Supervisors of Regional Operations Line and Substation as direct reports. Three of these supervisors are from Charleroi, two from Jefferson, and one from Uniontown. The Uniontown Supervisor's reporting subordinates were selected as a sample organizational structure in Exhibit VII-7. The Uniontown Supervisor has three Lead Linemen, two Serviceman A positions, and one Serviceman B position as direct reports. A Lead Lineman is responsible for leading the work crew whereas a Serviceman is either responsible for a small crew or a one man job for service work such as customer trouble or service calls ("A" and "B" are based on experience).

Exhibit VII – 6
FirstEnergy Pennsylvania Companies
Representative Organizational Structure for Operations Services Manager*
As of January 1, 2014



* The FE-PA Companies have similar reporting structures. West Penn Power is being used as an example.
 Source: Data Request TD-45

Exhibit VII – 7
FirstEnergy Pennsylvania Companies
Representative Organizational Structure for
Regional Operations Line and Substations Supervisor*
As of January 1, 2014



* The FE-PA Companies have similar reporting structures. West Penn Power is being used as an example.
 Source: Data Request TD-45

Each of the FE-PA Companies develop its annual capital and operations and maintenance (O&M) budgets in conjunction with FEU through a three round process, with each round occurring at a different point in the year in preparation for the upcoming budget year. The three-round process is as follows:

- In mid-May through mid-June the first meetings typically occur. In these meetings, representatives from each of the operating companies within FEU for the following functions attend: Planning, Project Management, Protection, Reliability, New Business, Joint Use, Maintenance Programs, Inspection Programs, Forestry, Business Services, and Customer Service. Corporate personnel in attendance include representatives from Asset Management (who coordinate the overall budget process), Energy Delivery-Operations Services (for corporate guidance and business practices), Information Technology and Facilities personnel (to ensure proposed projects are discussed and integrated into regional plans), and Transmission Planning and Protection (also to ensure integration into regional plans). Typically a member of the distribution company will lead the meeting.
- In July, a second set of meetings occur. These meetings are generally attended by the same personnel from the distribution companies and Corporate as the first set of meetings. The focus is on the issues that remain from the first set of meetings.
- In mid-August through September the final set of meetings occur. In addition to previous attendees, regional management including the appropriate Regional and State Presidents attend and Corporate Directors, Vice Presidents (i.e., Utility Operations, Transmission and Distribution Support) and the Senior VP of FirstEnergy and President of FEU attend as well.

For the current budget year, capital and O&M budgets are monitored and adjusted throughout the year for each of the FE-PA Companies with quarterly forecasts and updates.

The Electricity Generation Customer Choice and Competition Act (Act), 1996, Dec. 3, P.L. 802, No. 138 §4, became effective January 1, 1997. The Act amends Title 66 of the Pennsylvania Consolidated Statutes ("Public Utility Code" or "Code") by adding Chapter 28 to establish standards and procedures to create direct access by retail customers to the competitive market for the generation of electricity, while maintaining the safety and reliability of the electric system. More, specifically, at 66 Pa.C.S. § 2802(12), the Commission was given a legislative mandate to ensure that levels of reliability that were present prior to the restructuring of the electric utility industry would continue in the new competitive markets.

In response to this legislative mandate, the Commission adopted a Final Rulemaking Order on April 23, 1998, at Docket No. L-00970120, setting forth various reporting requirements designed to ensure the continuing safety, adequacy and

reliability of the transmission and distribution of electricity in the Commonwealth (see 52 Pa. Code §§ 57.191-57.197). The Final Rulemaking Order acknowledged that the Commission could reevaluate its monitoring efforts at a later time as deemed appropriate. This reference is below:

Pa Code § 57.194. Distribution system reliability.

(e) An EDC shall design and maintain procedures to achieve the reliability performance benchmarks and minimum performance standards established by the Commission.

The Amended Reliability Benchmarks and Standards for the Electric Distribution Companies at Docket No. M-00991220 issued May 7, 2004, changed the measures for each reliability index to the current 12-month standard, 36-month standard, and benchmark. The benchmark is the value that the EDC should strive for whereas the respective standards are the minimum acceptable performance. While overall system performance trends that fall in the range between the benchmark and the standard will not be subject to compliance enforcement, the Commission will keep EDCs whose performance is within the standard, but trending away from the benchmark, under review as a precautionary measure. Reliability performance benchmarks were based upon the five-year average of reported performance for each EDC for the period 1994 through 1998. Only major events were excluded from this reported performance. In general, major events are service interruptions affecting at least 10% of the customers in an EDC's service territory during the course of an event that lasts five minutes or greater in duration. Benchmark performance represents the historical reliability performance of each EDC prior to the Act and the restructuring of the electric utility industry in Pennsylvania.

The definitions of the three reliability indices monitored by the Commission are as follows (definitions from the Institute of Electrical and Electronics Engineers or IEEE):

1. System Average Interruption Frequency Index (SAIFI)

Definition (IEEE P1366): The system average interruption frequency index calculates how often the average customer experiences a sustained interruption over a predefined period of time.

Mathematically:

$$\text{SAIFI} = \frac{\text{Total Number of Customer Interruptions}}{\text{Total Number of Customers Served}}$$

2. Customer Average Interruption Duration Index (CAIDI)

Definition (IEEE P1366): CAIDI represents the average time required to restore service.

Mathematically:

$$\text{CAIDI} = \frac{\sum \text{Customer Minutes of Interruption}}{\text{Total Number of Customer Interruptions}}$$

3. System Average Interruption Duration Index (SAIDI)

Definition (IEEE P1366): This index calculates the total duration of interruptions for the average customer during a predefined period of time.

Mathematically:

$$\text{SAIDI} = \frac{\sum \text{Customer Minutes of Interruption}}{\text{Total Number of Customers Served}}$$

SAIDI is the mathematical product of SAIFI and CAIDI.

$$\text{SAIDI} = \text{SAIFI} \times \text{CAIDI}$$

Inspection and maintenance (I&M) programs are designed and established by FirstEnergy's Energy Delivery Distribution and Transmission Services Departments. Distribution standards are established in the Operations Services Department (see Exhibit VII-3 for this organization). Transmission Services are performed under the VP of Transmission as shown in Exhibit VII-2. The programs and policies are based on regulatory requirements and current industry best practices. The T&D I&M programs are implemented and managed by the Regional Engineering Department at each operating company. The only difference between the programs is that transmission information is maintained by FEU Transmission Services. The I&M programs include various levels of planned maintenance for in-service equipment. Along with the planned maintenance, there is defined inspection cycles based on regulatory requirements and/or manufacturer recommendations. Current inspection cycles for the T&D equipment are as follows:

- Line Capacitors – visual inspection and operational test annually to verify the control unit's capability to operate.

- Line Reclosers – visually inspected and counter readings obtained annually.
- Overhead Circuits and Equipment – visually inspected on a five-year cycle (Met-Ed, Penelec, Penn Power) or a six-year cycle (West Penn Power).
- Radio Controlled Switches – semiannual visual inspection including recording operational counter readings and testing batteries.
- Underground Equipment – visually inspected on a five-year cycle.
- Distribution Poles – visually inspected on a 12-year cycle, hammer sounding on poles older than 12 years, partial excavation and boring of poles 35 years old or older.
- Transmission Line Switches – visually inspected on a ten-year cycle.
- Transmission Lines – three types of line inspections: aerial (i.e., routine and comprehensive helicopter, Corona/Infrared, and Emergency), foot patrol and climbing inspections:
 - Routine Helicopter Inspection – completed twice a year
 - Comprehensive Helicopter Inspections – completed once every four years
 - Corona/Infrared Inspections – completed once every four years
 - Emergency Helicopter Inspections – as needed
 - Foot Patrol and Climbing Inspection – as needed

Similar to I&M practices, vegetation management for all subtransmission and distribution facilities are the responsibility of FE-PA Regional Operation Support group and Forestry Services subgroup with oversight provided by FESC's Manager of Distribution Vegetation Management. Vegetation management of transmission lines are managed by an FESC Department; the Vegetation Management group as shown in Exhibit VII-3. Each of the FE-PA Companies utilize contractors for all physical vegetation management work with supervision or monitoring performed by FEU and each of the FE-PA Companies' foresters. Vegetation trimming cycles vary for each of the FE-PA Companies, but consist of either a four or five-year cycle for transmission, subtransmission and distribution. In addition to cycle trimming work, contractors are required to respond to any emergency or storm response assistance.

Findings and Conclusions

Our examination of the electric operations T&D organization included a review of emergency operations, vegetation management, system reliability, maintenance policies and procedures, staffing levels, system planning, etc. Based on our review, FirstEnergy and/or the FE-PA Companies should initiate or devote additional efforts to improving the efficiency and the effectiveness of its T&D operations by addressing the following:

1. The FE-PA Companies did not consistently achieve PUC reliability benchmarks and/or standards during the years from 2010 through 2013.

As shown in Exhibit VII-8, Met-Ed is the only FE-PA Company to have met all six PUC-measured performance standards (the 12 and 36-month standards for SAIFI, CAIDI, and SAIDI) which is the minimal required performance for 2013. Moreover, Met-Ed achieved benchmark performance for SAIFI, CAIDI, and SAIDI in 2013. Penelec did not achieve any of its 36-month standards. Penn Power did not meet any of its 12-month standards nor its 36-month CAIDI and SAIDI standards and West Penn Power did not meet its 36-month SAIFI and SAIDI standards. Additionally, actual performance relative to the standards were not consistently met for the 2008 to 2012 period for all the FE-PA Companies as shown in Exhibits VII-9 through VII-16.

**Exhibit VII – 8
FirstEnergy Pennsylvania Companies
Reliability Benchmarks, Standards, and Performance
For the Year 2013**

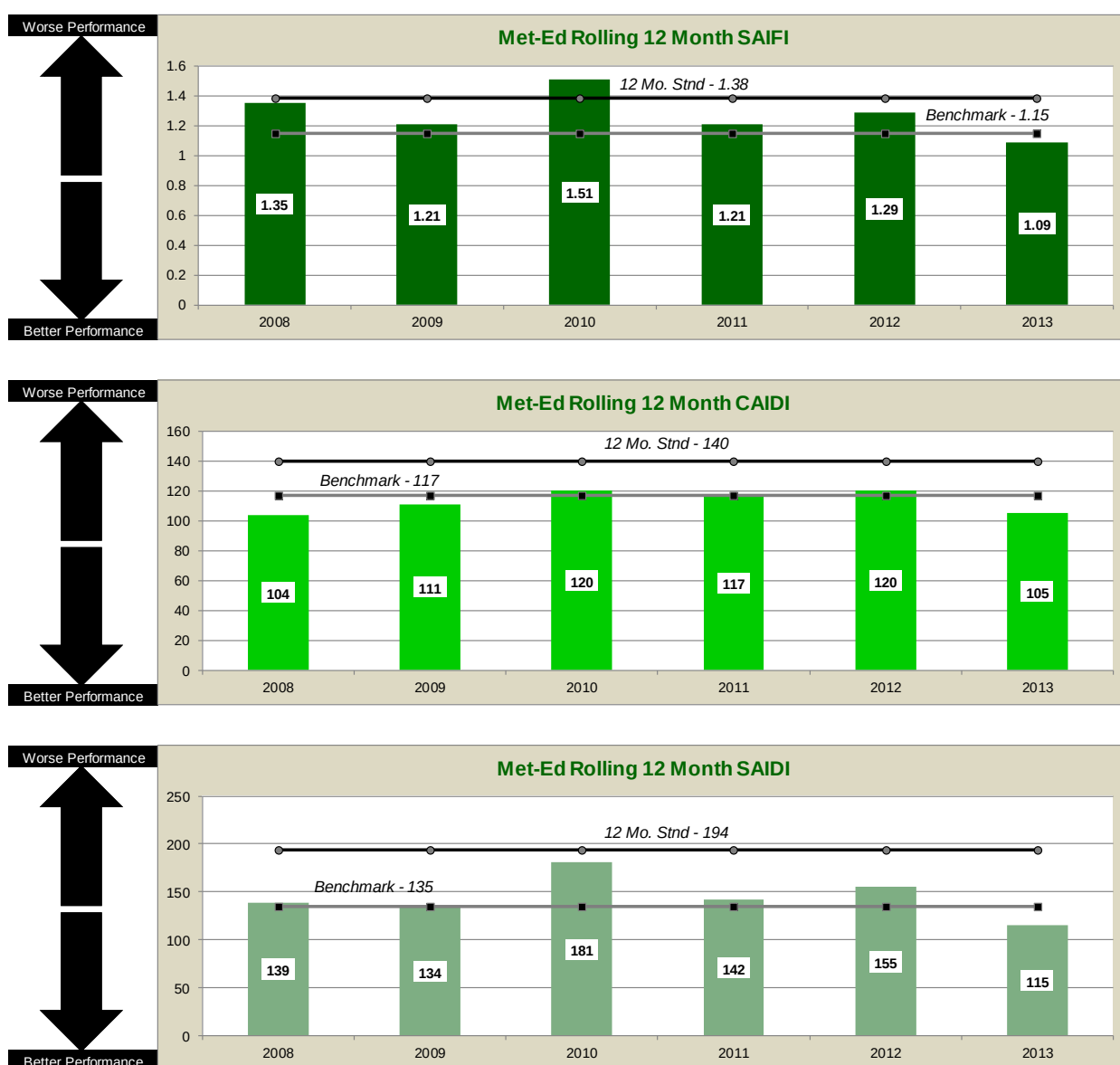
		Met-Ed	Penelec	Penn Power	West Penn Power
SAIFI	Benchmark	1.15	1.26	1.12	1.05
	12 Month Standard	1.38	1.52	1.34	1.26
	12 Month Actual Performance	1.09	1.48	1.35	1.21
	36 Month Standard	1.27	1.39	1.23	1.16
	36 Month Actual Performance	1.20	1.43	1.18	1.23
CAIDI	Benchmark	117	117	101	170
	12 Month Standard	140	141	121	204
	12 Month Actual Performance	105	117	140	183
	36 Month Standard	129	129	111	187
	36 Month Actual Performance	114	141	131	187
SAIDI	Benchmark	135	148	113	179
	12 Month Standard	194	213	162	257
	12 Month Actual Performance	115	174	188	222
	36 Month Standard	163	179	136	217
	36 Month Actual Performance	137	200	154	225

Bold text indicates that a reliability metric standard is not being met.

Source: Data Request TD-64

Met-Ed's rolling 12-month performance from 2008 to 2013 and 36-month performances from 2010 to 2013 for the SAIFI, CAIDI, and SAIDI indices are summarized in Exhibit VII-9 and Exhibit VII-10, respectively (there are two prior years in the rolling 12-month exhibit as compared to the rolling 36-month exhibit so the three years' cumulative performance for the initial year of rolling 36-month data can be individually displayed). In general, although Met-Ed did not consistently achieve the performance standards for reliability for this period, its performance has been trending toward and for 2013 exceeded its established benchmark performance.

Exhibit VII – 9
Metropolitan Edison Company
12-Month Reliability Index Performance
For the Years 2008 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

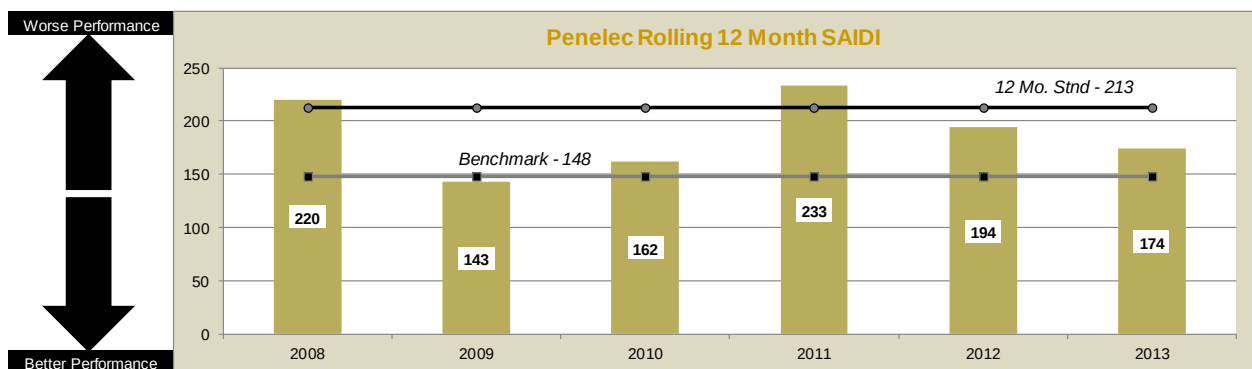
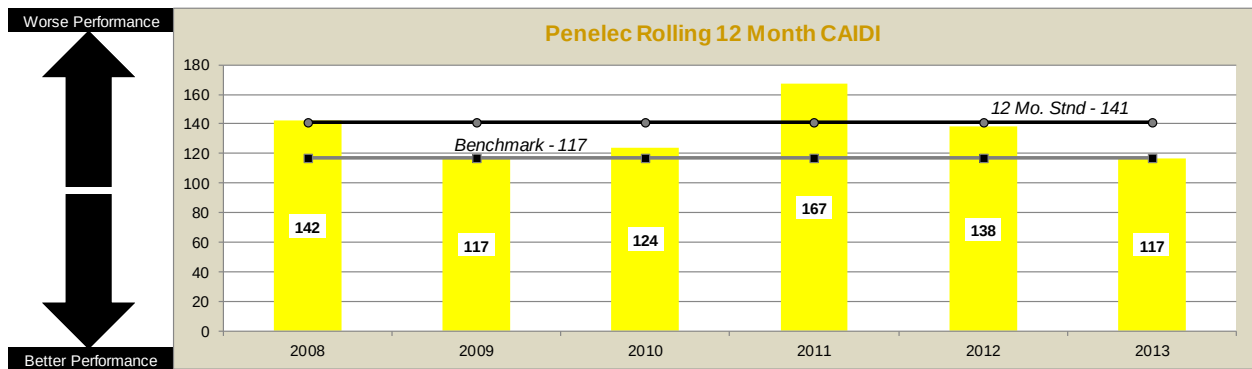
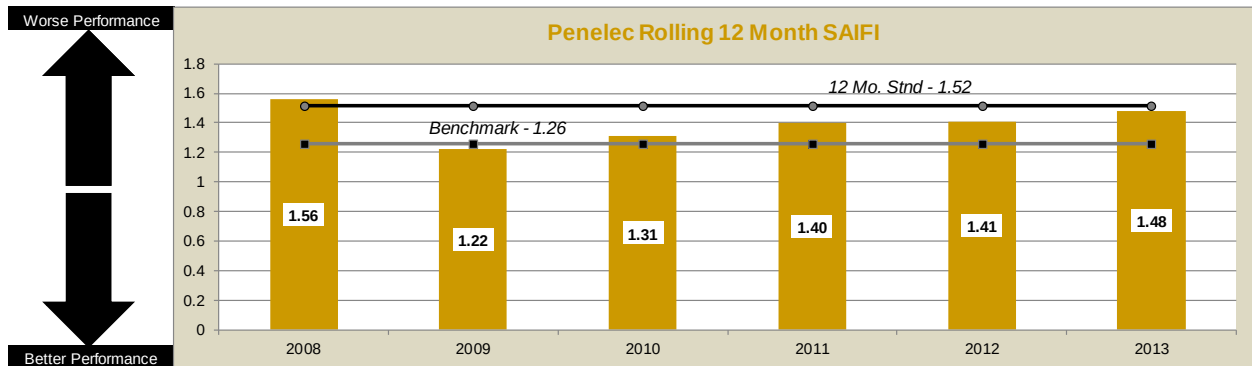
Exhibit VII – 10 **Metropolitan Edison Company** **36-Month Reliability Index Performance** **For the Years 2010 through 2013**



Source: PUC Annual Reliability Reports and Data Request TD-64

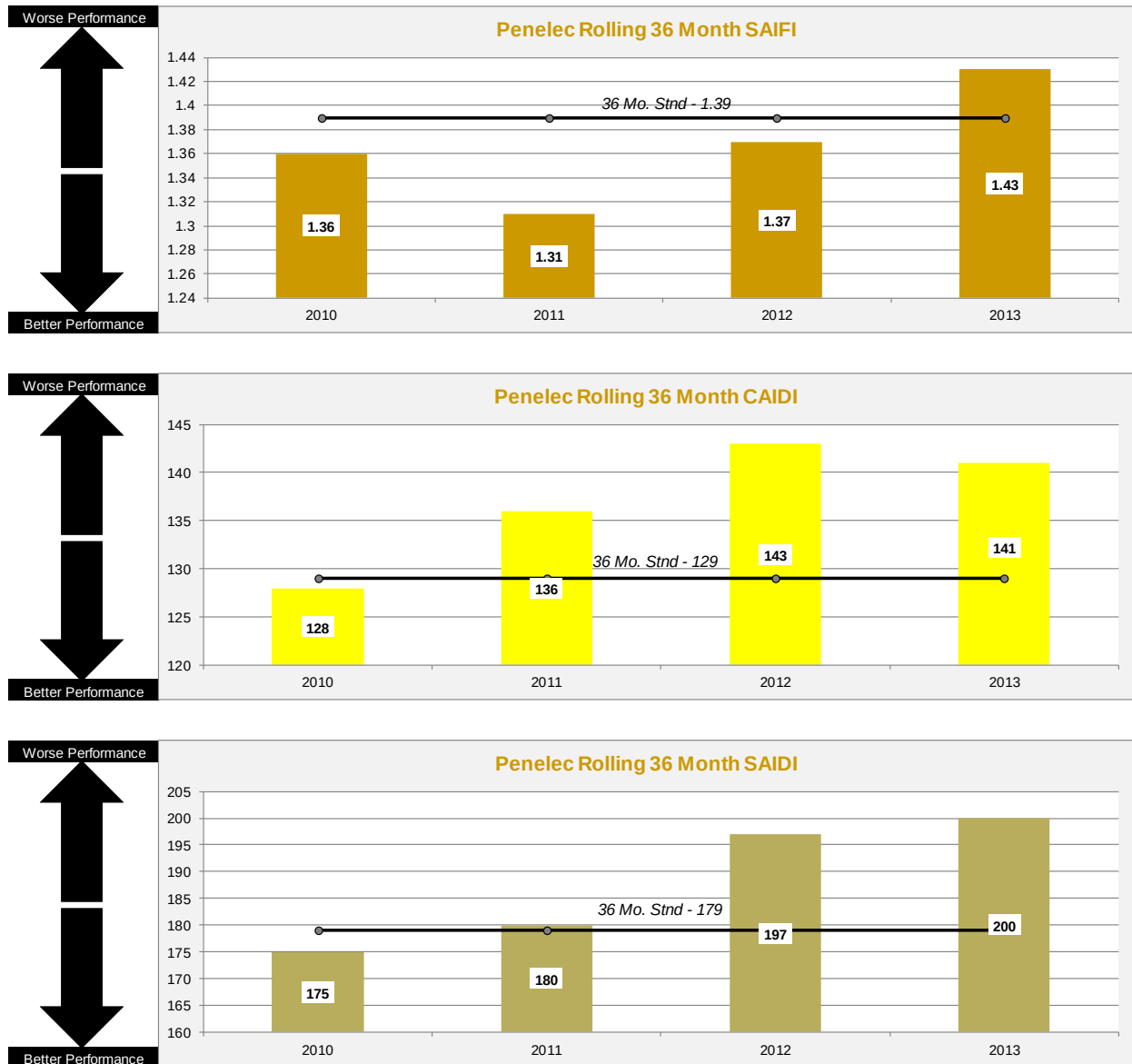
Similar historical performance is displayed for Penelec in Exhibit VII-11 and Exhibit VII-12. Although Penelec achieved CAIDI benchmark performance in 2013, its SAIFI performance has been moving away from benchmark performance as displayed in Exhibit VII-11 and exceeded its 36-month performance standard for all of the indices as displayed in Exhibit VII-12.

Exhibit VII – 11 **Pennsylvania Electric Company** **12-Month Reliability Index Performance** **For the Years 2008 through 2013**



Source: PUC Annual Reliability Reports and Data Request TD-64

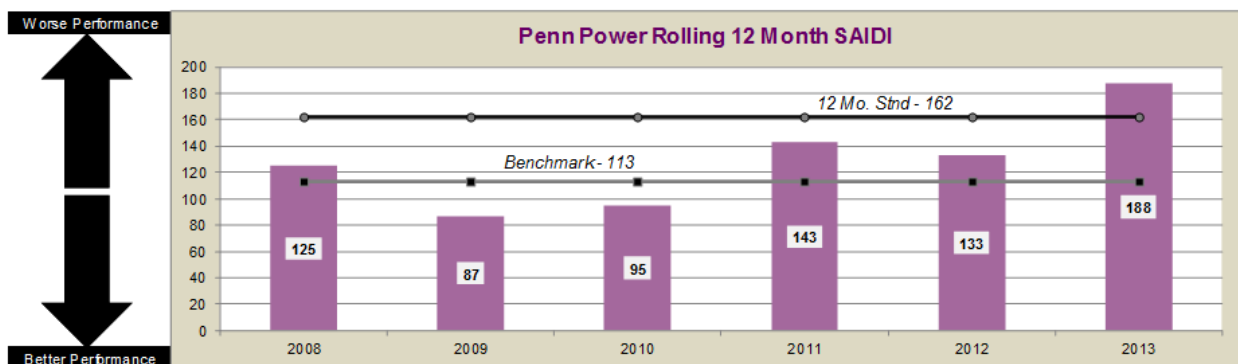
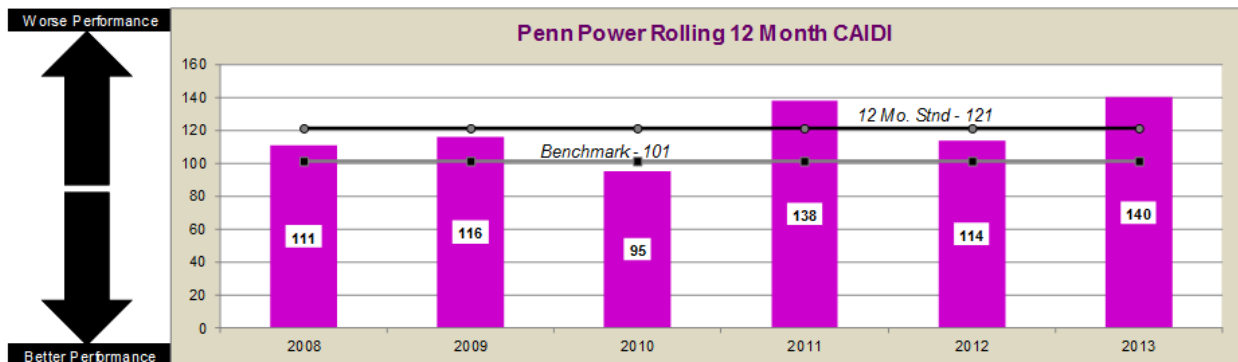
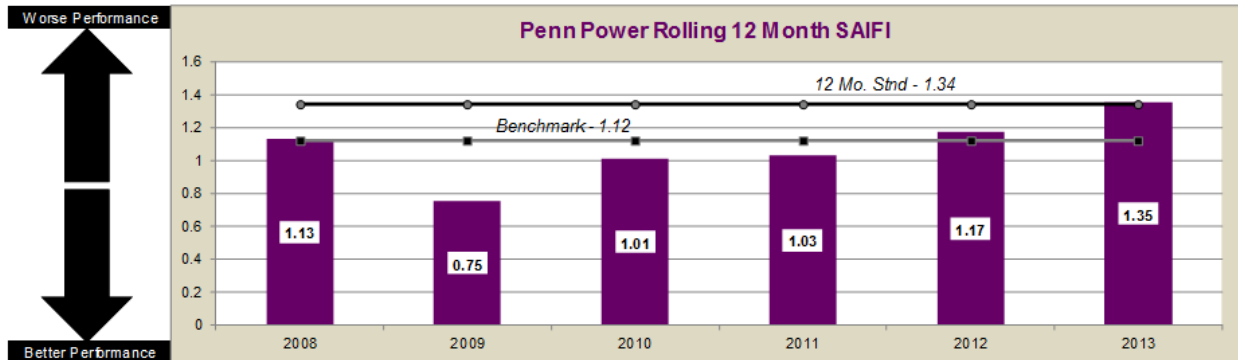
Exhibit VII – 12
Pennsylvania Electric Company
36-Month Reliability Index Performance
For the Years 2010 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

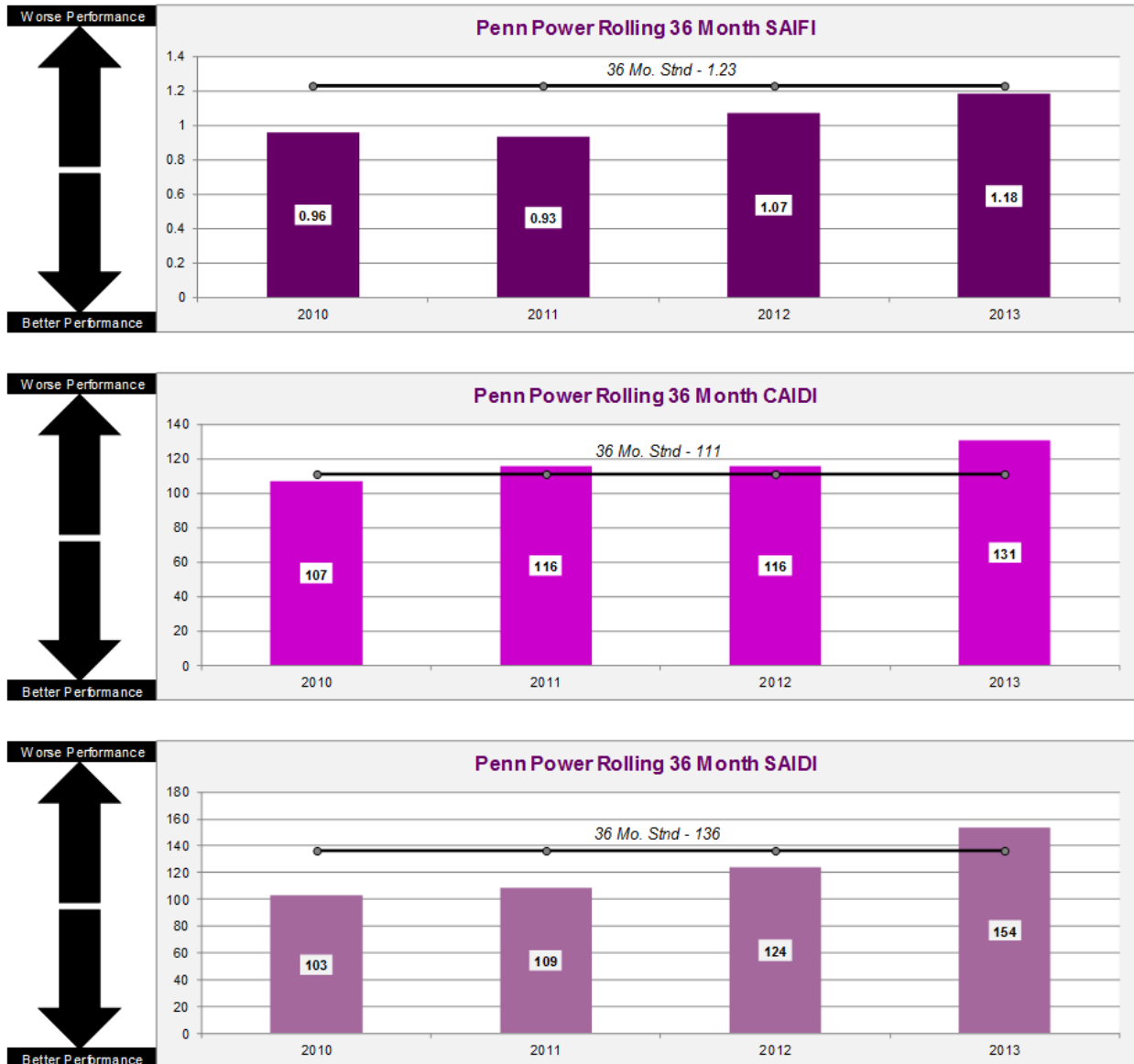
As seen in Exhibit VII-13, Penn Power's reliability performance for the 2008 to 2013 period is not only moving away from benchmark and exceeded its 12-month performance standards in certain years, but has exceeded its 36-month performance standards in certain cases as shown in Exhibit VII-14.

Exhibit VII – 13
Pennsylvania Power Company
12-Month Reliability Index Performance
For the Years 2008 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

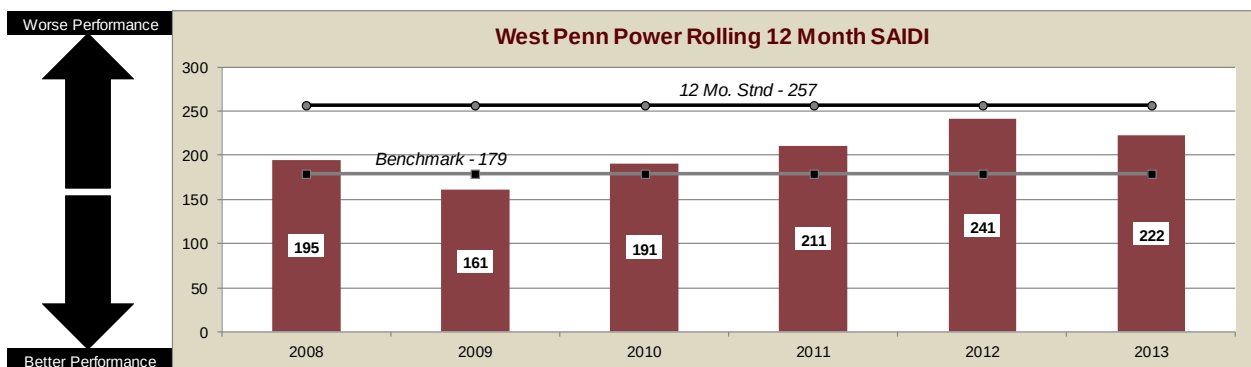
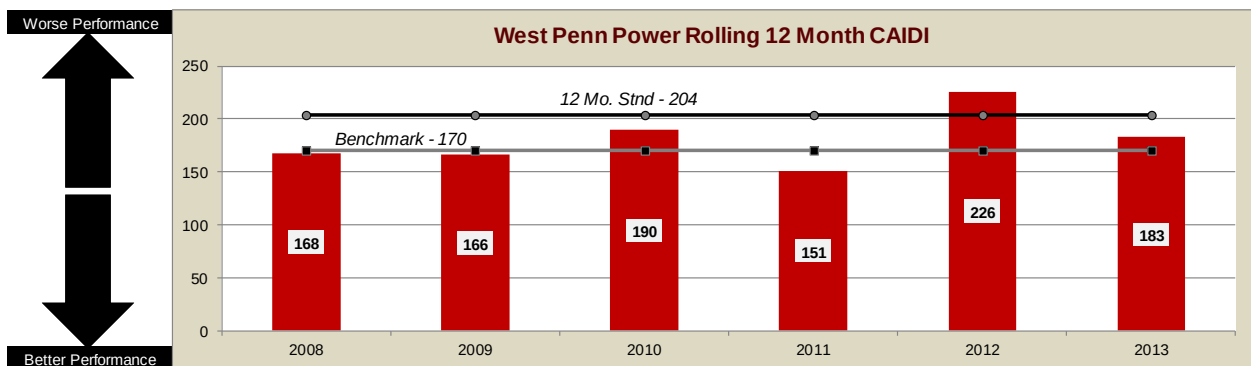
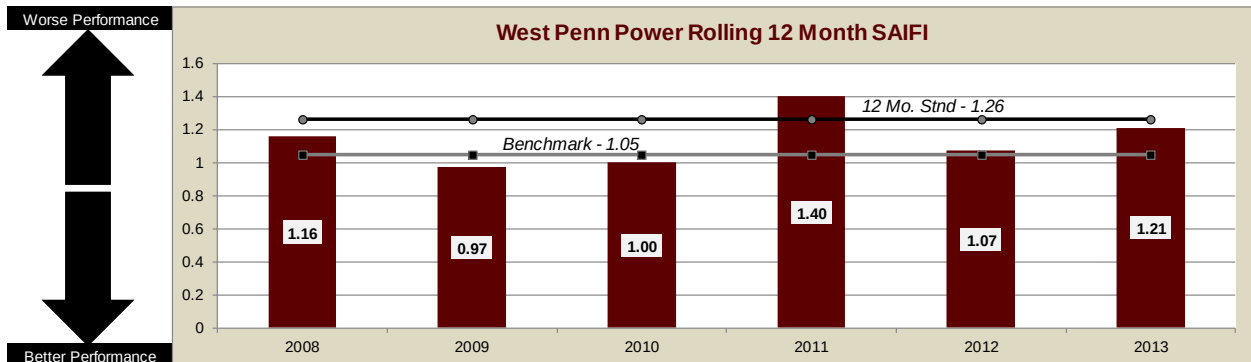
Exhibit VII – 14
Pennsylvania Power Company
36-Month Reliability Index Performance
For the Years 2010 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

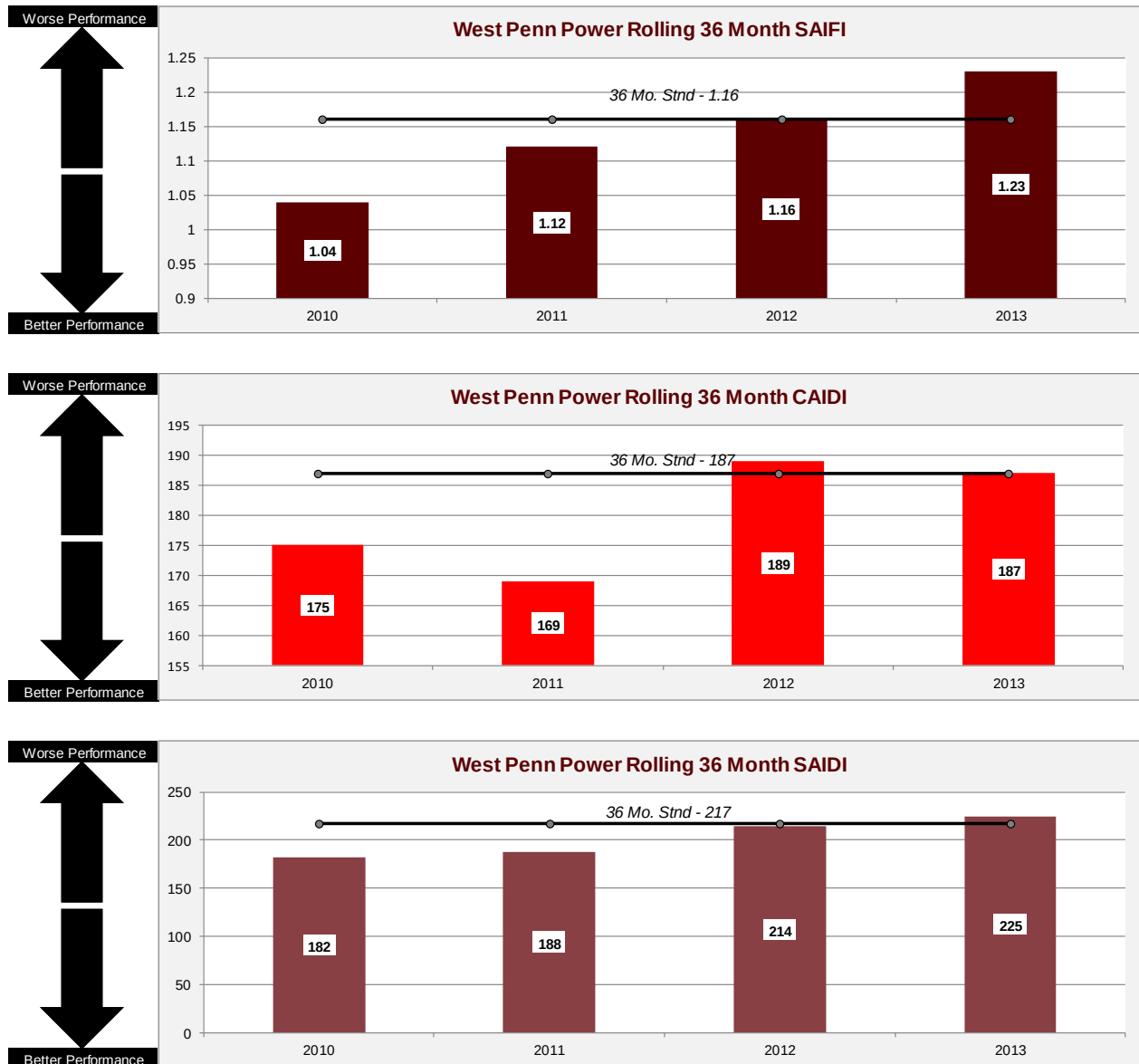
West Penn Power's CAIDI reliability performance, as shown in Exhibit VII-15, fluctuated over the 2008 to 2013 period, but appears to be trending toward benchmark performance on a rolling 12-month basis while its rolling 36-month performance is trending toward the standard as shown in Exhibit VII-16. Conversely, West Penn Power's SAIFI performance is trending away from both its benchmark (Exhibit VII-15) and 36-month performance standards (Exhibit VII-16).

Exhibit VII – 15
West Penn Power Company
12-Month Reliability Index Performance
For the Years 2008 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

Exhibit VII – 16
West Penn Power Company
36-Month Reliability Index Performance
For the Years 2010 through 2013



Source: PUC Annual Reliability Reports and Data Request TD-64

On October 25, 2010 a Joint Petition for Partial Settlement (Joint Petition) was filed regarding the joint application for West Penn Power Company doing business as Allegheny Power, Trans-Allegheny Interstate Line Company (TrAILCo) and FirstEnergy for a Certificate of Public Convenience under Section 1102 (A)(3) of the Public Utility Code, approving a change of control of West Penn Power Company and TrAILCo, at Docket Nos. A-2010-2176520 and A-2010-2176732. As part of this Joint Petition,

FirstEnergy agreed to improve West Penn Power's CAIDI and SAIDI performance as follows:

- CAIDI – Improve performance by 5% compared to the 2009 three year average of 181 minutes by the end of a seven-year period; Target = 172 minutes.
- SAIDI – Improve performance by 5% compared to the 2009 three year average (208 minutes) by the end of a seven-year period; Target = 198 minutes.

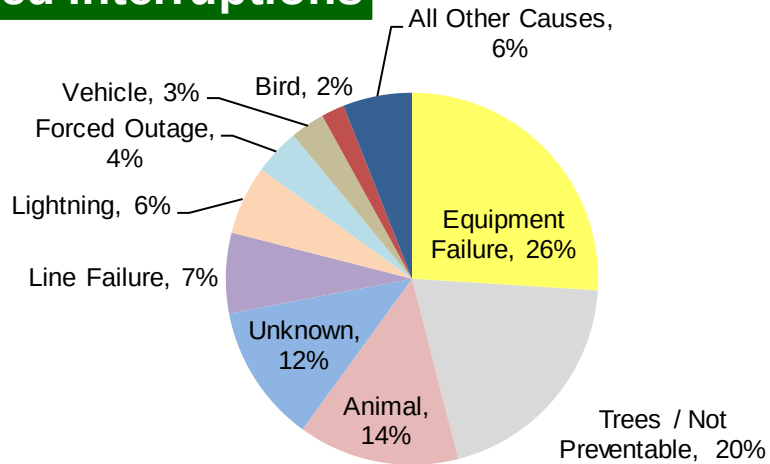
As shown in Exhibits VII-15 and VII-16, West Penn Power's CAIDI and SAIDI performance have been generally increasing (i.e., deteriorating) since 2009. Although the Joint Petition allows for a window of time for West Penn Power to act in order to meet the reliability provisions (i.e., 2018 correlates with the "the end of a seven-year period"), West Penn Power is trending towards worse performance as opposed to the promised 5% improvement in reliability performance for CAIDI and SAIDI.

By definition, the SAIFI index increases based on increased incidents or "sustained outages" (i.e., outages with durations greater than five minutes). The CAIDI index increases based on increased customer-minutes interrupted (CMI). Analyses for each of the FE-PA Companies compares the primary causes of sustained outages and CMI as a percentage of the totals as shown in Exhibit VII-17 for Met-Ed, Exhibit VII-18 for Penelec, Exhibit VII-19 for Penn Power, and Exhibit VII-20 for West Penn Power. Exhibit VII-21 shows combined, weighted data for the causes of sustained outages and CMI for the FE-PA Companies as a whole.

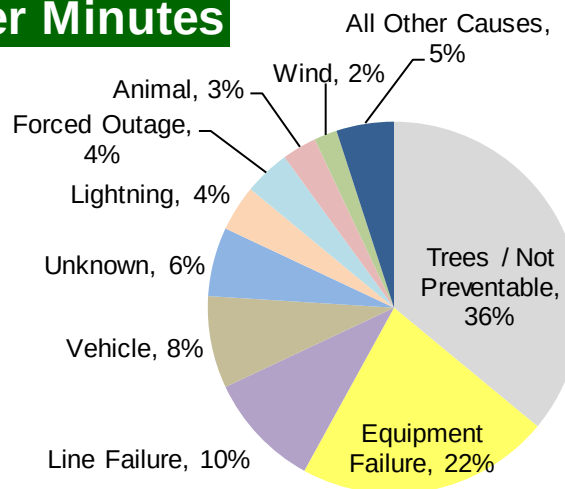
Equipment failure and trees/not preventable (i.e., trees not within the right-of-way) are the most prevalent causes of sustained interruptions and CMI for Met-Ed during the period 2009-2013. Likewise, equipment failure and trees/not preventable appear to be the most prevalent causes of sustained interruptions and CMI for Penelec during the period 2009-2013; however, there is also a good portion of sustained interruptions that Penelec has not been able to identify by cause. Trees/not preventable, lightning, and equipment failure are the most prevalent causes of sustained interruptions and CMI for Penn Power during the period 2009-2013. In addition, animals have had an impact on Penn Power's number of sustained interruptions but not as significant of an impact on CMI. Trees/not preventable and equipment failure appear to be the most prevalent causes of sustained interruptions and CMI for West Penn Power during the period 2012-2013. In addition, West Penn Power appears to have been unable to identify the cause of a good portion of its sustained interruptions.

Exhibit VII – 17
Metropolitan Edison Company
Percentage of Average Annual Sustained Outages and
Customer Minutes by Cause
For the Years 2009 through 2013

Sustained Interruptions



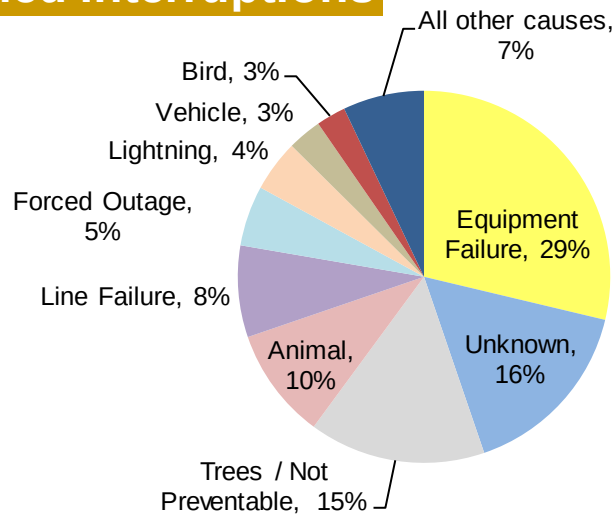
Customer Minutes



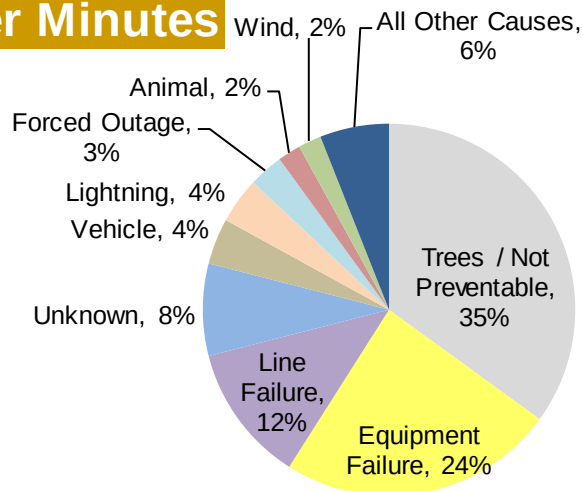
Source: PUC Annual Reliability Reports and Data Requests TD-67 and TD-80

Exhibit VII – 18
Pennsylvania Electric Company
Percentage of Average Annual Sustained Outages and
Customer Minutes by Cause
For the Years 2009 through 2013

Sustained Interruptions



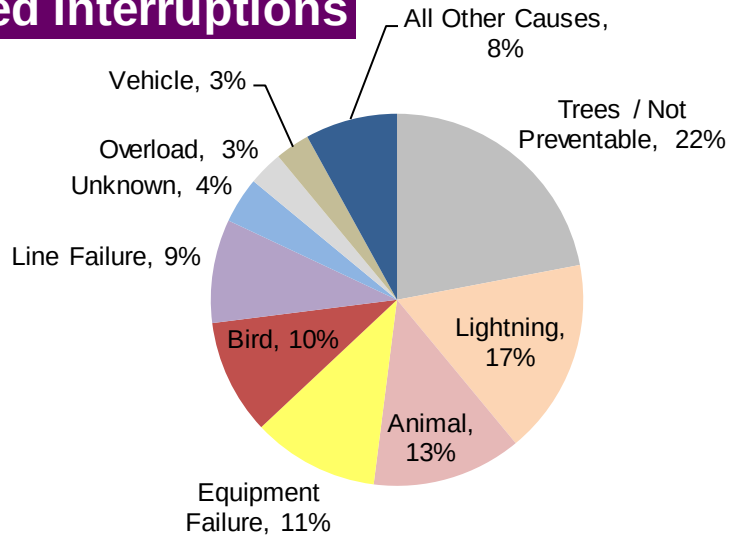
Customer Minutes



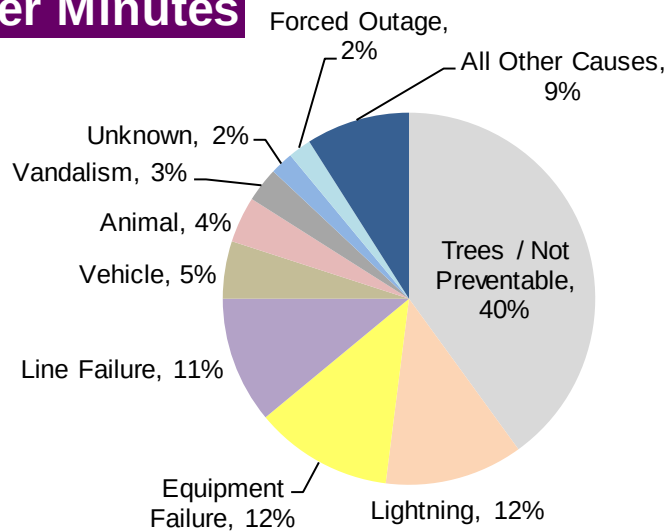
Source: PUC Annual Reliability Reports and Data Requests TD-67 and TD-80

Exhibit VII – 19
Pennsylvania Power Company
Percentage of Average Annual Sustained Outages and
Customer Minutes by Cause
For the Years 2009 through 2013

Sustained Interruptions



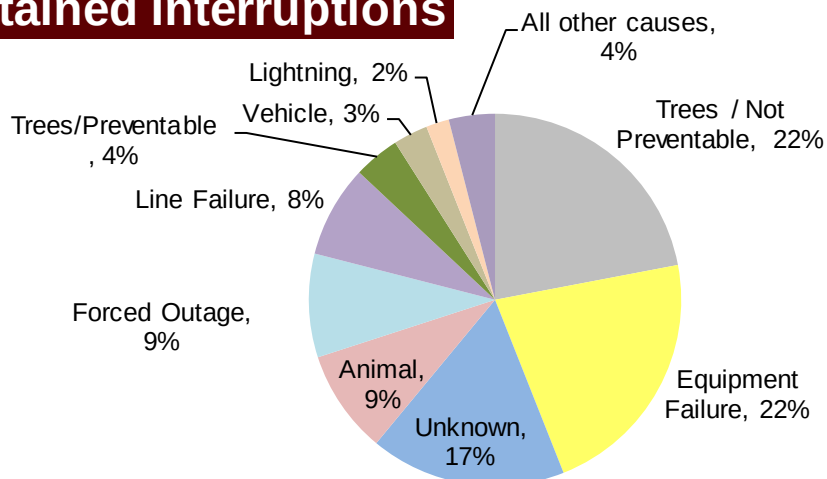
Customer Minutes



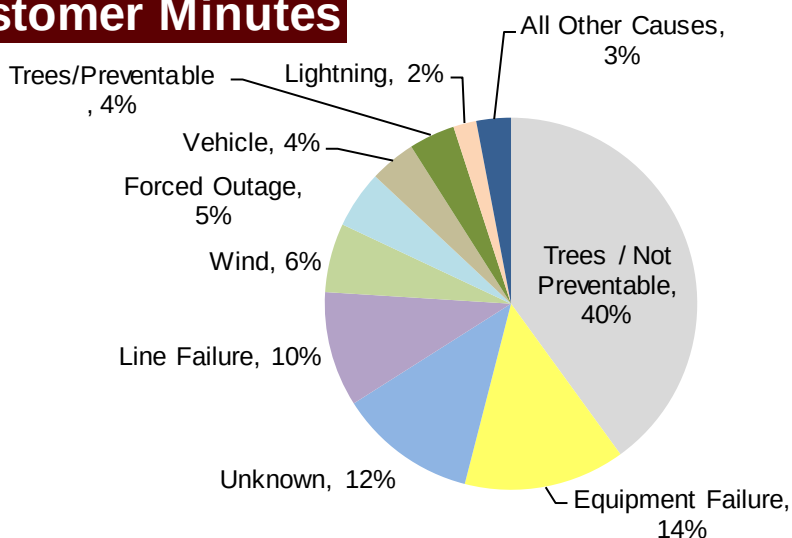
Source: PUC Annual Reliability Reports and Data Requests TD-67 and TD-80

Exhibit VII – 20
West Penn Power Company
Percentage of Average Annual Sustained Outages and
Customer Minutes by Cause
For the Years 2009 through 2013⁶

Sustained Interruptions



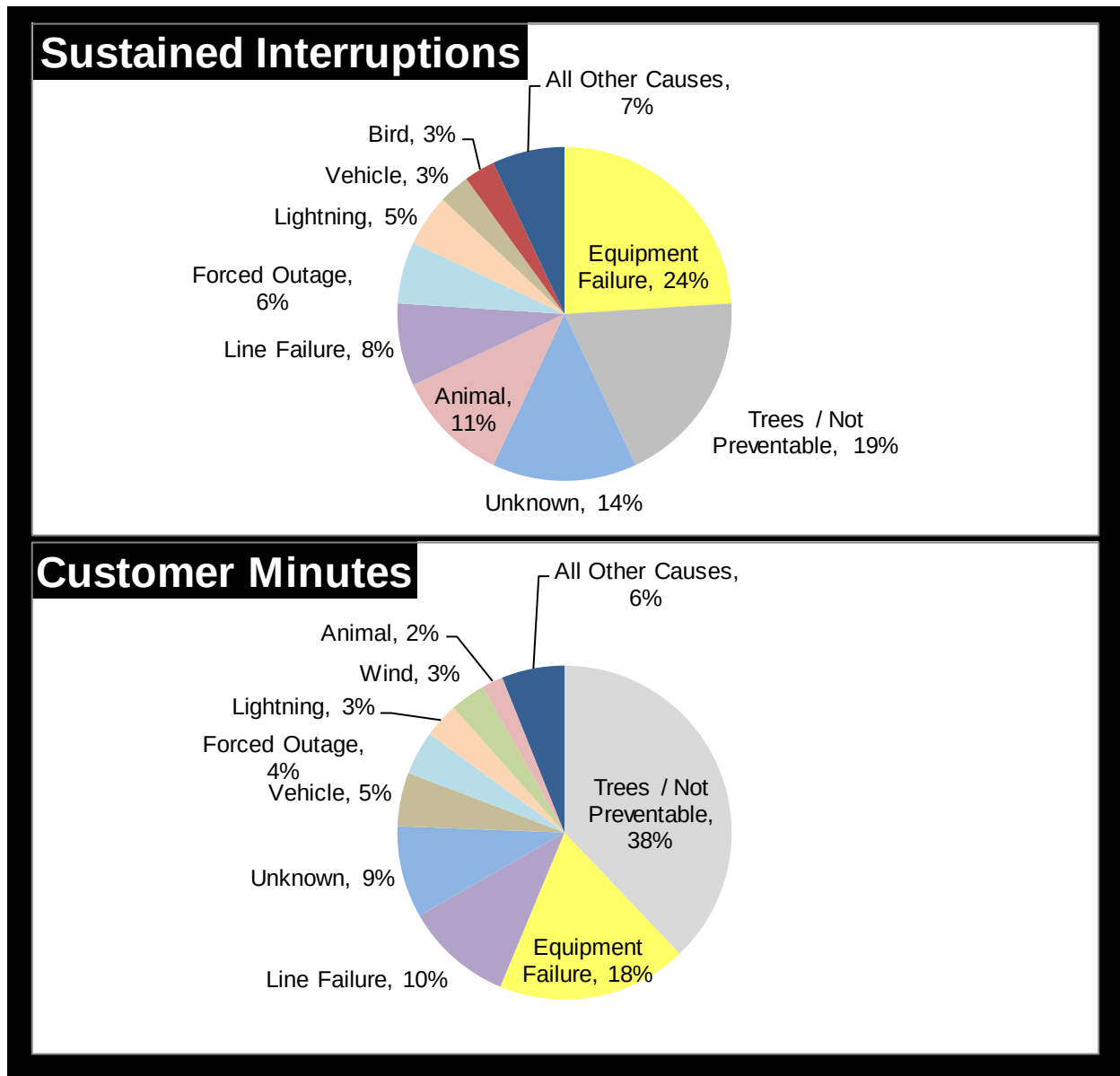
Customer Minutes



Source: PUC Annual Reliability Reports and Data Requests TD-67 and TD-80

⁶ West Penn Power's numbers are displayed as an average of 2012 to 2013 instead of the five-year period average as West Penn Power did not begin tracking outages by the same descriptive causes as the other three FE-PA Companies until 2012 so causal information for West Penn Power is not consistent by FirstEnergy descriptors until that point.

Exhibit VII – 21
FirstEnergy Pennsylvania Companies
Percentage of Weighted Average Annual Sustained Outages and
Customer Minutes by Cause
For the Years 2009 through 2013



Source: PUC Annual Reliability Reports, Data Requests TD-67 and TD-80, and Auditor Analysis

As shown in Exhibit VII-21, it appears as though trees/not preventable and equipment failure were the most prevalent causes of sustained interruptions and CMI for the FE-PA Companies during the period 2009-2013.

In an attempt to address the requirements to achieve the reliability metrics (as applicable to each of the FE-PA Companies' reliability indices), the FE-PA Companies

are utilizing various programs, most of which involve sectionalization of customers or enhanced tree trimming practices. Specific measures taken in or before 2014 by each of the FE-PA Companies in order to address specific causal factors and improve reliability include (in addition to standard inspection and maintenance programs) the following:

Met-Ed:

- “Trees/Not Preventable” – conducting patrols in respective service areas where causal code recorded to identify trees for removal.
- “Equipment Failure” – conducting engineering reviews of multi-operation devices to identify causes and trends of equipment failure.
- “Unknown Causes” – implemented a procedure for troubleshooters to conduct post service restoration circuit inspections in an attempt to identify previous coded “unknown” causal factors.

Penelec:

- “Equipment Failure” – replacing porcelain cutouts with polymer cutouts on specific circuits since 2009; conducting engineering reviews and investigations for devices experiencing three or more failures in 60 days to identify causes and trends.
- “Unknown Causes” – see actions as noted for Met-Ed.
- “Trees/Not Preventable” – see actions as noted for Met-Ed.

Penn Power:

- Reconductoring portions of two circuits in the Mercer County area. The projects when completed will reinforce existing distribution feeders, and replace existing wire with larger conductors. The feeder work will improve conditions to minimize outage impact and enhance operation flexibility.
- Continue improvements within substations which include the installation of improved relaying and SCADA control for distribution breakers. This will enable remote monitoring and control of the breakers from the dispatch office.
- Complete a 69 kV transmission line project to close the ends of two radial lines. The work will allow several substations in the New Castle area to have a second transmission source.
- Allocated additional funding for tree trimming. A large number of tree-related outages occur by trees that were outside of the right-of-way. Areas of poor performance based on outage history will be targeted.

West Penn Power:

- Conduct review of root cause analysis of all distribution circuit lockouts. Also, Engineering periodically conducts multi-operation device reviews to identify causes and trends.
- Targeting ash trees impacted by the Emerald Ash Borer (insect).
- Field patrols of all unknown outage causes.

Although these aforementioned programs will help to improve reliability, the Audit Staff believes there are other contributing causes to each of the FE-PA Companies not consistently achieving the standards and benchmarks for reliability performance. Included among these causes are staffing and retirement issues (see Finding and Conclusion No. 2), call out acceptance, high individual overtime, and union contract issues (see Finding and Conclusion No. 3), repeat worst performing circuits (see Finding and Conclusion No. 4), and record keeping issues with third-party hits (see Finding and Conclusion No. 5).

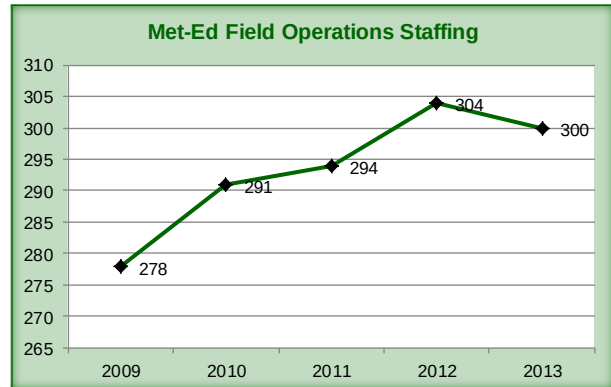
2. The FE-PA Companies' field operations staffing levels may not be sufficient based upon relatively high overtime levels and the high number of employees who are eligible for retirement.

Staffing level statistics for field operations positions for each of the FE-PA Companies is displayed in Exhibit VII-22 through Exhibit VII-25. Met-Ed and Penn Power have increased staffing annually since 2009 with the exception of a small loss of field operations employees from 2012 to 2013. West Penn Power has decreased its field operations staff by 13% since 2010. Penelec increased field operations staffing from 2009 to 2010 and increased it again into 2011 with a small loss of employees in 2012. Although Penelec did not lose a significant number of employees in 2013, on November 25, 2013 FirstEnergy declared a lockout of 140 union members. This includes line, substation, clerks, and meter services positions so the number of field operations employees as of April 2014 was significantly less than Penelec has historically staffed.

The Audit Staff as part of its assessment of staffing levels at jurisdictional utilities often reviews overtime as a percentage of straight time in order to determine if staffing levels are sufficient to meet current workloads. FirstEnergy generally plans for 15% overtime for its field operations employees. Exhibit VII-26 displays the overtime statistics for all operations positions including linemen, substation, transmission, and support positions as well as the overtime for the three highest departments for Met-Ed from 2009 to 2013, while Exhibit VII-27, Exhibit VII-28, and Exhibit VII-29 display the same overtime statistics for Penelec, Penn Power, and West Penn Power, respectively.

Exhibit VII – 22
Metropolitan Edison Company
Field Operations Staffing by Position
As of December 31, 2009 through 2013

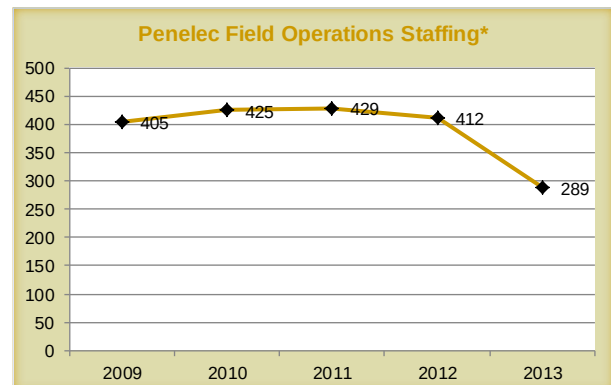
Met-Ed Position	2009	2010	2011	2012	2013
Extra High Voltage Linemen	2	3	3	4	4
Linemen	176	187	185	189	187
Relay Technicians	12	10	15	15	15
Service Men	31	33	35	37	35
Test Technician	2	2	2	2	2
Underground Constr & Maint Workers	55	56	54	57	57
Total Field Operations Staffing	278	291	294	304	300



Source: Data Requests TD-4, TD-26, and TD-61

Exhibit VII – 23
Pennsylvania Electric Company
Field Operations Staffing by Position
As of December 31, 2009 through 2013

Penelec Position	2009	2010	2011	2012	2013*
Electr Equip Const & Maint Workers	50	51	54	53	52
Line Constr & Maint Worker	251	269	270	236	193
Linemen	79	81	82	74	0
Ops Utility Worker - Transferred to FE				3	
Relay Technicians	8	6	6	7	5
Substation Electrician	17	18	17	17	1
Troublemakers				13	38
Utility Worker				9	
Total Field Operations Staffing	405	425	429	412	289

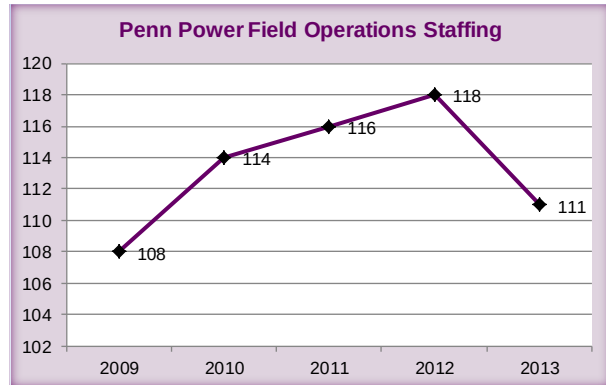


* 140 union members are locked out as of November 2013.

Source: Data Requests TD-4, TD-26, and TD-61

Exhibit VII – 24
Pennsylvania Power Company
Field Operations Staffing by Position
As of December 31, 2009 through 2013

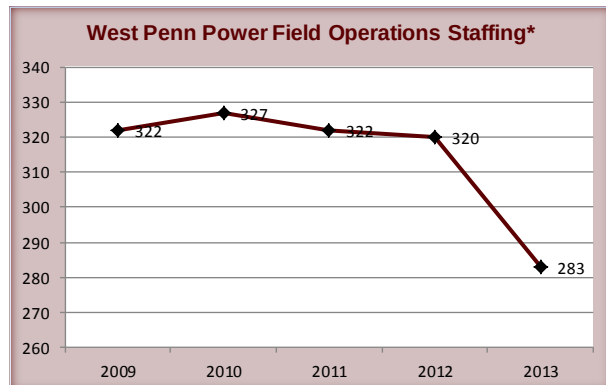
Penn Power Position	2009	2010	2011	2012	2013
Doble Tester	1	1	1	1	1
Electrical Mechanic	14	16	18	18	15
Linemen/Linewomen	82	86	86	87	84
Relay Tester	2	2	2	3	3
Substation Inspector	3	3	3	3	3
Transmission Maint Worker	6	6	6	6	5
Total Field Operations Staffing	108	114	116	118	111



Source: Data Requests TD-4, TD-26, and TD-61

Exhibit VII – 25
West Penn Power Company
Field Operations Staffing by Position
As of December 31, 2009 through 2013

West Penn Power*	2009	2010	2011	2012	2013
Linemen	135	131	126	119	105
Servicemen	114	122	124	129	114
Subst Electrician / Maintenance	64	64	63	63	55
System Transmission Lineworker	5	5	5	5	5
Utilitymen	4	5	4	4	4
Total Field Operations Staffing	322	327	322	320	283



* West Penn Power was not a FirstEnergy company for all five years but for historical staffing numbers all five years are included.

Source: Data Requests TD-4, TD-26, and TD-61

Exhibit VII – 26
Metropolitan Edison Company
Field Operations Overtime for Linemen, Substation, Transmission and
Operations Support Positions
As of December 31, 2009 through 2013

Year / Type of Overtime										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
Employee Division										
All Field Operations and Field Support Employees	14.2%	8.0%	14.2%	11.1%	7.4%	6.0%	20.7%	18.0%	13.2%	9.4%
Distribution, Substation, and Transmission Lineworkers Only	20.9%	11.9%	20.2%	15.5%	10.3%	8.3%	27.3%	23.4%	18.1%	13.2%
Distribution Lineworkers Only	24.3%	14.2%	22.7%	17.8%	11.5%	9.7%	29.5%	26.5%	19.6%	15.8%
Top 3 Departments Over 15% OT										
1st Highest OT	31.0%	18.7%	26.4%	21.3%	16.2%	13.1%	33.9%	29.4%	26.6%	22.6%
2nd Highest OT	27.6%	15.5%	25.1%	19.6%	>15%	>15%	32.5%	28.7%	24.2%	18.6%
3rd Highest OT	25.6%	14.9%	25.1%	18.7%	>15%	>15%	32.9%	30.5%	20.6%	8.6%
Number of Departments with Overtimes > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	5		5		1		6		1	
> 25%	3		4		0		6		8	
Total	8		9		1		12		9	
Highest OT by department for this period was for the Reading Lineworkers in 2012 which had a 33.9% OT with 29.4% due to emergencies.										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 27
Pennsylvania Electric Company
Field Operations Overtime for Linemen, Substation, Transmission and
Operations Support Positions
As of December 31, 2009 through 2013

Year / Type of Overtime										
	2009		2010		2011		2012		2013*	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
Employee Division										
All Field Operations and Field Support Employees	13.7%	4.8%	9.2%	5.6%	15.0%	12.4%	13.7%	11.9%	9.0%	6.4%
Distribution, Substation, and Transmission Lineworkers Only	18.3%	7.0%	11.6%	7.1%	18.4%	15.0%	16.8%	14.3%	12.0%	8.7%
Distribution Lineworkers Only	20.9%	8.3%	13.0%	8.3%	20.0%	16.6%	17.4%	15.4%	13.0%	10.0%
Top 3 Departments Over 15% OT										
1st Highest OT	28.9%	10.1%	21.3%	10.1%	38.0%	29.3%	36.9%	29.7%	20.1%	18.0%
2nd Highest OT	26.5%	8.6%	19.4%	4.3%	28.8%	23.6%	26.1%	22.1%	20.0%	15.6%
3rd Highest OT	25.1%	10.3%	18.1%	13.0%	28.6%	25.2%	26.1%	17.4%	19.2%	11.5%
Number of Departments with Overtimes > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	23		5		22		22		11	
> 25%	3		0		5		3		0	
Total	26		5		27		25		11	
Highest OT by department for this period was for the West PA Line Pro Crew-North* in 2011 which had a 38.0% OT with 29.3% due to emergencies.										

*These employees travel throughout Penelec primarily to work Transmission construction and maintenance, but also work storms and distribution as needed.

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 28
Pennsylvania Power Company
Field Operations Overtime for Linemen, Substation, Transmission and
Operations Support Positions
As of December 31, 2009 through 2013

	Year / Type of Overtime									
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
Employee Division										
All Field Operations and Field Support Employees	14.4%	6.7%	14.0%	9.0%	18.0%	15.0%	20.3%	15.6%	14.2%	11.5%
Distribution, Substation, and Transmission Lineworkers Only	18.4%	8.7%	16.3%	10.6%	21.4%	17.7%	24.0%	18.1%	17.7%	14.4%
Distribution Lineworkers Only	20.1%	10.2%	18.1%	12.6%	24.5%	21.5%	24.2%	20.8%	21.3%	18.2%
Top 3 Departments Over 15% OT										
1st Highest OT	22.3%	11.6%	18.5%	13.2%	25.2%	22.1%	34.6%	18.2%	22.6%	19.2%
2nd Highest OT	18.8%	9.4%	17.5%	11.7%	24.0%	21.2%	25.8%	22.2%	20.5%	17.6%
3rd Highest OT	16.0%	3.9%	15.6%	10.3%	15.9%	11.8%	23.2%	19.9%	>15%	>15%
Number of Departments with Overtimes > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	3		3		2		3		2	
> 25%	0		0		1		2		0	
Total	3		3		3		5		2	
Highest OT by department for this period was for the Penn Power Transmission Lines in 2012 which had a 34.6% OT with 18.2% due to emergencies.										

Source: Data Requests TD-29, TD-37, TD-68 and auditor analysis

Exhibit VII – 29
West Penn Power Company
Field Operations Overtime for Linemen, Substation, Transmission and
Operations Support Positions
As of December 31, 2009 through 2013

	Year / Type of Overtime									
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
Employee Division										
All Field Operations and Field Support Employees	11.2%	7.9%	14.5%	11.1%	13.4%	11.4%	15.1%	13.0%	13.0%	9.6%
Distribution, Substation, and Transmission Lineworkers Only	14.8%	11.8%	18.1%	14.6%	18.1%	16.6%	19.5%	16.1%	18.0%	13.4%
Distribution Lineworkers Only	15.2%	14.2%	18.1%	15.3%	18.6%	17.7%	20.9%	17.9%	19.9%	15.6%
Top 3 Departments Over 15% OT										
1st Highest OT	22.1%	6.2%	32.6%	2.0%	32.3%	22.3%	23.2%	21.6%	25.7%	19.8%
2nd Highest OT	20.3%	5.4%	28.9%	13.5%	24.6%	24.6%	22.7%	18.1%	24.5%	18.7%
3rd Highest OT	20.0%	7.0%	26.7%	0.1%	22.8%	21.6%	21.9%	18.2%	23.8%	18.9%
Number of Departments with Overtimes > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	22		24		22		23		16	
> 25%	0		3		0		0		1	
Total	22		27		22		23		17	
Highest OT by department for this period was for Substation Construction in Jeannette in 2010 which had a 32.6% OT with 2.0% due to emergencies.										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Overall, from 2009 to 2013, the highest annual overtime experienced by linemen as a whole at Met-Ed, Penelec, Penn Power, and West Penn Power was approximately 30%, 21%, 25%, and 21%, respectively. Although the operations support positions did not experience overtime to the same extent of the linemen, individual employees for the support positions occasionally experienced over 15% overtime but the support departments as a whole did not. The highest overtime levels experienced in a given year for an individual department during this five-year span for Met-Ed, Penelec, Penn Power, and West Penn Power was approximately 34%, 38%, 35%, and 33%, respectively. Exhibit VII-30 displays the highest three divisions for the FE-PA Companies for comparison. Annually, the FE-PA Companies had 39 to 65 different field operations departments or field operations support departments experience overtime levels greater than 15%, and 6 to 11 departments experiencing overtime levels greater than 25% with the most significant portion occurring in the linemen departments.

Exhibit VII – 30
FirstEnergy Pennsylvania Companies
Field Operations Overtime for Linemen, Substation, Transmission and
Operations Support Positions for Pennsylvania EDCs
As of December 31, 2009 through 2013

Year / Type of Overtime										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
Employee Division										
All Field Operations and Field Support Employees	13.1%	6.7%	12.6%	9.1%	12.8%	10.7%	16.6%	14.2%	11.8%	8.6%
Distribution, Substation, and Transmission Lineworkers Only	17.9%	9.8%	16.1%	11.7%	16.7%	14.2%	21.1%	17.6%	15.9%	11.8%
Distribution Lineworkers Only	19.9%	11.6%	17.3%	13.2%	18.0%	15.9%	22.4%	19.7%	17.6%	14.0%
Top 3 Departments Over 15% OT										
1st Highest OT	31.0%	18.7%	32.6%	2.0%	38.0%	29.3%	34.6%	18.2%	26.6%	22.6%
2nd Highest OT	28.9%	10.1%	28.9%	13.5%	32.3%	22.3%	33.9%	29.4%	25.7%	19.8%
3rd Highest OT	27.6%	15.5%	26.7%	0.1%	28.8%	23.6%	32.9%	30.5%	24.5%	18.7%
Number of Departments with Overtimes > 15%										
	2009		2010		2011		2012		2013	
> 15% & < 25%	53		37		47		54		30	
> 25%	6		7		6		11		9	
Total	59		44		53		65		39	
Highest OT by department for this period was for the West PA Line Pro Crew-North for Penelec in 2011 which had a 38.0% OT with 29.3% due to emergencies.										

Key

Met-Ed

Penelec

Penn Power

West Penn Power

FirstEnergy Total (all four EDCs)

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

In addition to examining staffing and overtime levels, the Audit Staff requested aging data for the field operations personnel to determine if pending retirements could potentially attribute to a shortage of field operations staff in the near or distant future. According to FirstEnergy, linemen with the required years of service as part of the associated Retirement Plan are eligible to retire at 55 years of age; however, the average retirement age historically has been 60 years of age with indications that it is slowly increasing due to worker concerns over the economy. Exhibits VII-31 through Exhibit VII-34 show retirement eligibility for the field operations personnel for Met-Ed, Penelec, Penn Power, and West Penn Power, respectively. Exhibit VII-35 combines all four FE-PA Companies to show the overall trend for FE-PA Companies. The highlighted cells for each exhibit show those who are currently eligible to retire. On average, the FE-PA Companies have approximately 20% of their field operations workforce eligible for retirement with Penn Power's eligible workforce having the highest percentage of approximately 26%. This is especially important to note as Penn Power was the only EDC which did not meet any of its PUC 12-month reliability metrics and only one of its three 36-month reliability metrics for 2013 (see Exhibit VII-8).

FirstEnergy asserts that it is currently staffed properly and that any reliability performance metrics not being achieved or overtime incurred in excess of 15% is due to abnormal storm activity levels. However, the Audit Staff is concerned that the following factors indicate that staffing is an issue that should be immediately addressed:

- The FE-PA Companies are consistently experiencing levels of overtime that are higher than planned,
- Three of the FE-PA Companies are not achieving CAIDI benchmarks and standards which indicates restoration times are taking longer than during the historic period used to establish the PUC benchmarks and standards (see Finding and Conclusion No. 1). Often, insufficient field operations staffing can be directly linked to not achieving CAIDI benchmark performance, particularly when high levels of overtime already exist.
- Approximately 20% of the field operations workforce at the FE-PA Companies are eligible for retirement. Should these employees choose to retire in the near future, it would create additional problems for properly maintaining the T&D system and promptly restoring service interruptions. Even more significant, in the next five years, there is the potential of this retirement level to more than double to over 40% at the FE-PA Companies.

The Audit Staff requested information related to the FE-PA Companies' planned hires over the next five years to determine if it is addressing what the Audit Staff believes is a staffing shortage. We found that, of the four FE-PA Companies, only West Penn Power has definitive plans of hiring field operations employees in the near future. West Penn Power has a plan to hire through its Power System Institute (PSI) which is a program in which a local college or university provides the classroom training while the FE-PA Companies provide the field experience. West Penn Power anticipates hiring

ten line workers and five substation workers from its PSI program in 2014. In 2015, it anticipated hiring another 17 line workers and three substation workers from the PSI

Exhibit VII – 31
Metropolitan Edison Company
Retirement Analysis for Field Operations Positions
Aging Data as of August 2013

Met-Ed Distribution Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age*
Lead Lineman - HS			15	17	11	4	5	52	53
Lineman 1st Class - HS	25	20	38	19	7	2	1	112	41
Lineman Apprentice (1st Yr)	1	4						5	33
Lineman Apprentice (3rd Yr)	8	1	1					10	27
Lineman Apprentice (4th Yr)	4	5	2					11	31
Service Man - HS		2	6	13	5	1	2	29	51
Service Man - HS (relief)		1	2	1	1		1	6	48
Subtotal	38	33	64	50	24	7	9	225	44

Met-Ed Transmission Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
E-HV Chief - HS							1	1	60
E-HV Lineman - HS	1	1	1					3	36
Subtotal	1	1	1				1	4	42

Met-Ed Substation Electricians by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Test Technician Sr		1					1	2	46
UC&M 1st Class	2	7	10	13	4	1	1	38	47
UC&M Apprentice (3rd Yr)	2			1	1			4	41
UC&M Apprentice (4th Yr)	1	1						2	25
UC&M Chief			1	2	2			5	52
UC&M Leader			3	3	2		1	9	52
Relay Technician	1	1	3					5	39
Relay Technician Junior			1					1	45
Relay Technician Senior		1	2	4			2	9	47
Subtotal	6	11	20	23	9	1	5	75	46

Total**	45	45	85	73	33	8	15	304	45
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Total Eligible for Retirement = 56

% Eligible for Retirement = 18.4%

Total Eligible for Retirement in 5 years = 129

% Eligible for Retirement in 5 years = 42.4%

*Original data supplied by the FE-PA Companies did not have weighted averages for the subtotals/totals and has been revised by the Audit Staff

** Aging analysis exhibits totals are slightly different from the staffing exhibits totals due to a timing issue
Source: Data Request TD-40 and auditor analysis

Exhibit VII – 32
Pennsylvania Electric Company
Retirement Analysis for Field Operations Positions
Aging Data as of August 2013

Penelec Distribution Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Lead LC&M	4	6	18	29	11	13	8	89	51
Line C&M	36	27	30	7	3	2	5	110	38
Line C&M A	3							3	23
Line Leader		2	5	11	11	4	9	42	55
Lineman-A	11	6	8	5	1			31	37
Lineman-B								0	
Troubleman Scheduled	9	6		1			2	18	35
Troubleman Shift	10	3						13	28
Subtotal	73	50	61	53	26	19	24	306	43

Penelec Transmission Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Lead LC&M		2						2	37
Line C&M	2	3	1					6	32
Subtotal	2	5	1					8	33

Penelec Substation Electricians by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
El Eq C&M	7	6	2	4		3	1	23	40
El Eq C&M Sr	1	2	10	2	4	3	1	23	48
El Eq C&M-A	4	2						6	26
El Eq C&M-B								0	
Lead Network C&M					1			1	57
Substation Electrician - A	3	1	5				1	10	38
Substation Electrician Leader							1	1	65
Substation Electrician Senior			1	2	2			5	53
Relay Technician	1							1	29
Relay Technician Senior			3		2			5	49
Subtotal	16	11	21	8	9	6	4	75	43

Total	91	66	83	61	35	25	28	389	43
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Total Eligible for Retirement = **88**

% Eligible for Retirement = **22.6%**

Total Eligible for Retirement in 5 years = **149**

% Eligible for Retirement in 5 years = **38.3%**

*Original data supplied by the FE-PA Companies did not have weighted averages for the subtotals/totals and has been revised by the Audit Staff

** Aging analysis exhibits totals are slightly different from the staffing exhibits totals due to a timing issue
Source: Data Request TD-40 and auditor analysis

Exhibit VII – 33
Pennsylvania Power Company
Retirement Analysis for Field Operations Positions
Aging Data as of August 2013

Penn Power Distribution Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Line Leader		1	3	10	6	4	3	27	53
Line Troubleshooter		1	2	4	2	4	1	14	53
Lineman/woman A	11	15	3	4	2			35	37
Lineman/woman B	5	2	1					8	29
Subtotal	16	19	9	18	10	8	4	84	44

Penn Power Transmission Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Transmission Maint A	1	1	1	1				4	39
Transmission Mtce Leader			1					1	47
Subtotal	1	1	2	1				5	41

Penn Power Substation Electricians by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Doble Tester			1					1	44
Electrical Mechanic A	3	3				2		8	38
Electrical Mechanic B	1	2						3	30
Electrical Mechanic Leader	2	1		2	1			6	42
Substation Inspector							3	3	61
Relay Tester				2		1		3	55
Subtotal	6	6	1	4	1	3	3	24	43

Total	23	26	12	23	11	11	7	113	44
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Total Eligible for Retirement = 29

% Eligible for Retirement = 25.7%

Total Eligible for Retirement in 5 years = 52

% Eligible for Retirement in 5 years = 46.0%

*Original data supplied by the FE-PA Companies did not have weighted averages for the subtotals/totals and has been revised by the Audit Staff

** Aging analysis exhibits totals are slightly different from the staffing exhibits totals due to a timing issue

Source: Data Request TD-40 and auditor analysis

Exhibit VII – 34
West Penn Power Company
Retirement Analysis for Field Operations Positions
Aging Data as of August 2013

West Penn Power Distribution Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Lead Lineman			34	28	9	4		75	50
Lineman A		2	18	8	3	1		32	48
Serviceman A	8	19	30	16	6	6	4	89	45
Serviceman B	1							1	26
Serviceman C	21	6	1					28	28
Utilityman A			1	1	1			3	50
Utilityman B				1				1	54
Subtotal	30	27	84	54	19	11	4	229	45

West Penn Power Transmission Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
System Transmission Crew Lead Lineworker				1				1	50
System Transmission Crew Lineworker A			1	2				3	51
Subtotal			1	3				4	51

West Penn Power Substation Electricians by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
SS Crew Leader Maintenance			2	6	3		2	13	54
SS Electrician A	2	10	12	10	7	1		42	46
SS Electrician B				1				1	53
SS Electrician C	1		1					2	33
System Substation Crew Leader		1						1	31
Subtotal	3	11	15	17	10	1	2	59	47

Total	33	38	100	74	29	12	6	292	45
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Total Eligible for Retirement = **47**

% Eligible for Retirement = **16.1%**

Total Eligible for Retirement in 5 years = **121**

% Eligible for Retirement in 5 years = **41.4%**

*Original data supplied by the FE-PA Companies did not have weighted averages for the subtotals/totals and has been revised by the Audit Staff

** Aging analysis exhibits totals are slightly different from the staffing exhibits totals due to a timing issue
Source: Data Request TD-40 and auditor analysis

Exhibit VII – 35
FirstEnergy Pennsylvania Companies
Retirement Analysis for Field Operations Positions for the Pennsylvania EDCs
Aging Data as of August 2013

FirstEnergy Distribution Line Workers by Age									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Subtotal	157	129	218	175	79	45	41	844	44

FirstEnergy Transmission Line Workers by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Subtotal	4	7	5	4	0	0	1	21	40

First Energy Substation Electricians by Age & Position									
	18-29	30-39	40-49	50-54	55-57	58-59	60+	Total	Avg Age
Subtotal	31	39	57	52	29	11	14	233	45

Total	192	175	280	231	108	56	56	1,098	44
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Total Eligible for Retirement = 220

% Eligible for Retirement = 20.0%

Total Eligible for Retirement in 5 years = 451

% Eligible for Retirement in 5 years = 41.1%

*Original data supplied by the FE-PA Companies did not have weighted averages for the subtotals/totals and has been revised by the Audit Staff

** Aging analysis exhibits totals are slightly different from the staffing exhibits totals due to a timing issue

Source: Data Request TD-40 and auditor analysis

program. As of early 2014, there were no planned hires for Met-Ed, Penelec, and Penn Power as FirstEnergy feels that these EDCs are properly staffed. Consequently, the PSI program is currently not active for any of these three companies. Although this program is not a prerequisite to hiring, the Audit Staff believes based on the aforementioned factors of reliability performance, overtime, and potential retirements that the FE-PA Companies should be proactive in addressing staffing shortages (current or anticipated) as it generally takes a minimum of four years for a candidate to be fully trained.

In addition to the Audit Staff's concerns that the FE-PA Companies are not properly staffed leading to reliability and productivity issues, the existing staffing levels also appear to be a contributing factor in high individual overtime totals (see Finding and Conclusion No. 3). If more field operations employees were hired, it would likely reduce high individual overtime and to an extent high overtime levels at each of the FE-PA Companies. The new hires identified in the analysis in Exhibit VII-36 are to demonstrate the number of hires needed at each of the FE-PA Companies to successfully meet the routine workload and solely reduce overtime levels to within 15% of regular time and does not account for pending retirements. Based on this analysis, the Audit Staff estimates that FirstEnergy needs to hire an additional 13 linemen for Met-Ed, 5 linemen for Penelec, 5 linemen for Penn Power, and 7 linemen for West Penn Power. Based on multiple factors such as the average hourly rate of pay for craft workers, overtime rates, overhead rates, total annual hours worked with 15% overtime,

and the cost of hiring and training additional craft workers to reduce overtime hours; the Audit Staff estimates the approximate annual net savings (i.e., difference between the costs of current staffing with existing overtime and hiring new staffing with 15% overtime) for each of the FE-PA Companies to be as follows: \$535,000 for Met-Ed; \$244,000 for Penelec; \$160,000 for Penn Power; and \$337,000 for West Penn Power.

Exhibit VII – 36
FirstEnergy Pennsylvania Companies
Estimated Increased Staffing Needs
Staffing and Overtime Analysis
For the Years 2009-2013

Met-Ed Equivalent Employee Calculations for Linemen w OT > 15%			
Avg % hrs > 15%*	# Linemen	Total hours > 15%	Equivalent # EE w 15% OT
6.5%	225	30,420	12.7
Penelec Equivalent Employee Calculations for Linemen w OT > 15%			
Avg % hrs > 15%*	# Linemen	Total hours > 15%	Equivalent # EE w 15% OT
1.9%	306	12,093	5.1
Penn Power Equivalent Employee Calculations for Linemen w OT > 15%			
Avg % hrs > 15%*	# Linemen	Total hours > 15%	Equivalent # EE w 15% OT
6.6%	86	11,806	4.9
West Penn Power Equivalent Employee Calculations for Linemen w OT > 15%			
Avg % hrs > 15%*	# Linemen	Total hours > 15%	Equivalent # EE w 15% OT
3.6%	229	17,148	7.2

* Based on 2009-2013 average overtimes
Source: Data Requests TD-29, TD-37, TD-61, and TD-68, and auditor analysis.

Additional new hires would also be necessary in the event of pending retirements in the next two years. Based on the available data, and using 60 as the common retirement age, it appears as though West Penn Power is addressing potential retirements in 2014 and 2015 through its use of the PSI program. However, the other three FE-PA Companies should also be preparing to replace the following numbers of craft workers for pending retirements over the next two years:

- Met-Ed – 17 line workers and 6 substation workers for a total of 23 new hires;
- Penelec – 43 line workers and 10 substation workers for a total of 53 new hires; and
- Penn Power – 12 line workers and 6 substation workers for a total of 18 new hires.

3. The FE-PA Companies have low overall emergency call-out acceptance rates combined with high overtime levels for some individuals.

In addition to the high overall overtime levels as discussed in Finding and Conclusion No. 2, the Audit Staff observed that many EDCs typically do not have equal distribution of overtime among their employees used for emergency response. This often results in individual employees working excessive amounts of overtime which is a safety concern due to the potentially dangerous nature of working long hours for emergency response in the electric distribution industry.

Call-out acceptance information during the period 2009 through 2013 was provided by the FE-PA Companies as summarized in Exhibit VII-37. For each FE-PA Company, the three best and three worst service centers for call-out acceptance are shown along with the average for the respective FE-PA Company. There is a significant difference in call-out acceptance rates for emergency response among the FE-PA Companies and the respective operating districts within each FE-PA Company. For example, Penelec's Bedford Service Center consistently experienced the best call-out acceptance rates with an 88% to 94% annual acceptance rate while West Penn Power's Washington Service Center consistently experienced the worst call-out acceptance rates of 18% to 27%. Within each of the FE-PA Companies, there are significant disparities in call out acceptance rates. For example, in 2013 Penelec's Shippensburg Service Center exhibited a 91% call-out acceptance rate whereas the Montrose Service Center experienced a 28% call-out acceptance rate.

In addition to the call-out acceptance rates, individual overtime levels for field operations employees were reviewed. The ten highest overtime levels (including emergencies) by individual for the period 2009 to 2013, is displayed in Exhibits VII-38 to VII-41 for each FE-PA Company and for all FE-PA Companies combined in Exhibit VII-42. Also, included within the exhibits is a profile of overtime levels incurred in excess of 15% by the number of field operation employees for each FE-PA Company. As shown in the exhibits, a Met-Ed employee incurred the highest recorded amount of overtime of approximately 103% in 2012. The year with the most field operations employees incurring over 50% overtime was 2012 with 220 employees. The year with the most field operations employees incurring over 75% overtime was 2010 with 105. The year with the most field operations employees incurring over 15% overtime was 2009 with 1,038.

The Audit Staff also reviewed shift work and callout procedures employed at each of the FE-PA Companies to assess if overtime levels could be better managed. Each FE-PA Company employs numerous shifts throughout the week. Consequently, it did not appear to Audit Staff that additional shifts or modification of shifts would make a significant impact on high individual overtime levels.

The Audit Staff also requested the union contracts to determine a field operations employee's obligations for emergency response. As stated in the Background section of this Chapter, each FE-PA Company has its own union for field operations employees; therefore, there are four different contracts which detail the call out procedures and

Exhibit VII – 37
FirstEnergy Pennsylvania Companies
Call Out Acceptance Rates Service Center Performance
For the Years 2009 through 2013

Acceptance by Year											
		2009		2010		2011		2012		2013	
Company		Service Center	Call Out %	Service Center	Call Out %	Service Center	Call Out %	Service Center	Call Out %	Service Center	Call Out %
Met-Ed	1st High	NA		Stroudsburg	64%	Boyertown	69%	Reading	70%	Reading	54%
	2nd High			Hamburg	62%	Stroudsburg	64%	Stroudsburg	57%	Hanover	44%
	3rd High			Boyertown	60%	Easton	59%	Boyertown	55%	2 SC's tied	40%
	Average	NA		Average-All	52%	Average-All	55%	Average-All	48%	Average-All	40%
	3rd Low			2 SC's tied	49%	3 SC's tied	50%	Hamburg	35%	2 SC's tied	34%
	2nd Low			Hanover	46%	Dillsburg	49%	Gettysburg	32%	Hamburg	32%
	1st Low	NA		Lebanon	41%	Gettysburg	48%	York	31%	York	32%
Penelec	1st High	Bedford/Sax	92%	Bedford/Sax	93%	Bedford/Sax	94%	Ship/Dry Run	92%	Shippensburg	91%
	2nd High	Somerset	92%	Ship/Dry Run	91%	Huntingdon	89%	Bedford/Sax	88%	Somerset	82%
	3rd High	3 SC's tied	91%	Huntingdon	88%	Ship/Dry Run	88%	Huntingdon	84%	Punxsbtwny	81%
	Average	Average-All	75%	Average-All	69%	Average-All	66%	Average-All	58%	Average-All	57%
	3rd Low	2 SC's tied	64%	Sayre	54%	Altoona	53%	2 SC's tied	50%	DuBois	44%
	2nd Low	Johnstown	63%	DuBois	53%	DuBois	51%	DuBois	43%	Altoona	37%
	1st Low	DuBois/Punx	57%	Preston Park	51%	Sayre	47%	Montr/Susq	30%	Montrose	28%
Penn Power*	1st High	Zelienople	75%	New Castle	64%	New Castle	72%	New Castle	70%	New Castle	70%
	2nd High	New Castle	70%	Clark	62%	Clark	57%	Zelienople	69%	Zelienople	63%
	3rd High	Clark	64%	Zelienople	59%	Zelienople	55%	Clark	54%	Clark	47%
West Penn Power	1st High	St. Marys	58%	McCnnlsbrg	53%	McCnnlsbrg	56%	McCnnlsbrg	51%	McCnnlsbrg	44%
	2nd High	McCnnlsbrg	56%	St. Marys	51%	St. Marys	55%	St. Marys	49%	St. Marys	40%
	3rd High	Kittanning	52%	Kittanning	43%	Clarion	49%	Clarion	42%	Uniontown	32%
	Average	Average-All	32%	Average-All	29%	Average-All	29%	Average-All	27%	Average-All	25%
	3rd Low	2 SC's tied	27%	2 SC's tied	24%	3 SC's tied	24%	2 SC's tied	23%	St. College	19%
	2nd Low	St. College	25%	Washington	22%			St. College	21%	Jeannette	19%
	1st Low	Jeannette	22%	Jefferson	21%	Jeanette	21%	Washington	20%	Washington	18%

NA – Not available

* There are only three service centers at Penn Power

Note that Penelec has changed or combined several service centers in recent years so not all service centers displayed above are current.

Source: Data Request TD-62

Exhibit VII – 38
Metropolitan Edison Company
Individual Overtime Statistics
For the Years 2009 through 2013

% OT For Top 10 Individuals										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
1st Highest OT	99.9%	63.1%	87.3%	65.5%	47.3%	40.5%	102.7%	93.6%	68.0%	58.1%
2nd Highest OT	97.0%	57.2%	81.1%	59.8%	37.4%	30.3%	99.0%	85.2%	64.1%	53.4%
3rd Highest OT	92.2%	57.1%	69.3%	56.4%	37.2%	31.8%	83.3%	75.8%	63.9%	61.4%
4th Highest OT	88.7%	53.1%	65.6%	51.4%	33.8%	24.2%	79.5%	71.1%	61.5%	57.3%
5th Highest OT	77.5%	49.5%	65.3%	52.6%	31.9%	27.8%	76.4%	67.3%	60.0%	36.6%
6th Highest OT	77.0%	45.0%	62.7%	49.6%	31.7%	27.4%	74.4%	64.5%	57.7%	50.4%
7th Highest OT	76.4%	42.5%	61.7%	45.5%	30.0%	23.0%	70.8%	68.4%	55.9%	47.9%
8th Highest OT	74.5%	42.4%	60.6%	46.3%	29.0%	23.1%	66.0%	58.4%	51.3%	42.9%
9th Highest OT	70.5%	35.3%	60.3%	36.5%	28.7%	27.4%	65.5%	57.9%	50.3%	39.6%
10th Highest OT	68.3%	41.4%	58.4%	50.8%	28.5%	22.1%	65.0%	58.3%	50.1%	42.0%
# Employees with OT > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	84		2		75		156		127	
> 25% & < 50%	122		11		12		165		84	
> 50 % & < 75%	19		110		0		28		10	
> 75 % & < 100%	7		105		0		4		0	
> 100%	0		0		0		1		0	
Total	232		228		87		354		221	
Highest OT by individual for this period was in 2012 for one individual who had 102.7% OT with 93.6% due to emergencies										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 39
Pennsylvania Electric Company
Individual Overtime Statistics
For the Years 2009 through 2013

% OT For Top 10 Individuals										
	2009		2010		2011		2012		2013*	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
1st Highest OT	74.3%	20.2%	41.1%	24.7%	56.7%	50.7%	46.9%	42.0%	41.2%	28.0%
2nd Highest OT	65.7%	29.0%	37.9%	15.2%	55.2%	47.5%	46.6%	40.4%	38.3%	21.8%
3rd Highest OT	58.1%	20.0%	35.0%	19.8%	55.0%	40.5%	31.7%	37.5%	35.5%	12.1%
4th Highest OT	57.5%	27.6%	33.4%	15.9%	50.1%	41.6%	42.3%	27.9%	34.8%	33.5%
5th Highest OT	56.7%	22.0%	33.2%	19.8%	49.6%	35.9%	41.3%	37.8%	33.4%	27.2%
6th Highest OT	56.2%	37.4%	32.8%	16.6%	47.2%	34.5%	40.7%	36.9%	32.7%	26.1%
7th Highest OT	53.5%	21.2%	32.3%	22.8%	47.2%	37.5%	40.7%	35.0%	31.8%	20.7%
8th Highest OT	53.2%	9.3%	32.0%	17.9%	47.0%	34.8%	40.4%	32.5%	31.6%	29.9%
9th Highest OT	52.6%	17.5%	32.0%	21.2%	46.9%	35.4%	40.0%	30.8%	31.1%	17.3%
10th Highest OT	52.2%	16.4%	31.8%	14.8%	46.4%	40.8%	38.6%	30.1%	28.8%	26.2%
# Employees with OT > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	203		156		153		210		129	
> 25% & < 50%	212		51		158		39		32	
> 50 % & < 75%	14		0		4		0		0	
> 75 % & < 100%	0		0		0		0		0	
> 100%	0		0		0		0		0	
Total	429		207		315		249		161	
Highest OT by individual for this period was in 2009 for one individual who had 74.3% OT with 20.2% due to emergencies										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 40
Pennsylvania Power Company
Individual Overtime Statistics
For the Years 2009 through 2013

% OT For Top 10 Individuals										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
1st Highest OT	71.3%	38.9%	53.7%	32.7%	66.4%	60.3%	60.8%	57.2%	48.8%	47.3%
2nd Highest OT	58.8%	35.5%	50.3%	28.3%	55.4%	48.2%	50.3%	47.5%	41.4%	37.9%
3rd Highest OT	49.6%	24.8%	49.4%	38.7%	50.9%	42.6%	49.7%	26.0%	40.8%	33.7%
4th Highest OT	47.4%	20.6%	45.4%	27.5%	49.5%	45.0%	49.6%	44.0%	37.9%	29.9%
5th Highest OT	45.8%	29.2%	42.4%	33.0%	49.1%	41.1%	46.9%	42.8%	37.9%	31.8%
6th Highest OT	45.4%	26.4%	39.9%	22.6%	48.6%	42.8%	46.0%	42.2%	37.5%	18.3%
7th Highest OT	41.2%	25.1%	37.5%	25.4%	46.9%	41.8%	45.2%	41.0%	36.2%	33.9%
8th Highest OT	40.8%	18.5%	36.5%	20.4%	45.0%	41.8%	45.1%	42.9%	34.7%	31.4%
9th Highest OT	40.0%	22.8%	35.7%	25.6%	44.0%	43.8%	43.7%	22.3%	34.7%	32.9%
10th Highest OT	37.2%	24.7%	35.5%	24.2%	43.0%	39.6%	47.2%	41.7%	34.3%	33.6%
# Employees with OT > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	44		39		34		50		33	
> 25% & < 50%	43		32		48		62		45	
> 50 % & < 75%	2		2		3		2		0	
> 75 % & < 100%	0		0		0		0		0	
> 100%	0		0		0		0		0	
Total	89		73		85		114		78	
Highest OT by individual for this period was in 2009 for one individual who had 71.3% OT with 38.9% due to emergencies										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 41
West Penn Power Company
Individual Overtime Statistics
For the Years 2009 through 2013

% OT For Top 10 Individuals										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
1st Highest OT	55.9%	52.8%	65.0%	64.1%	61.0%	60.3%	64.2%	47.7%	88.3%	61.2%
2nd Highest OT	52.1%	50.9%	60.0%	57.7%	57.0%	56.7%	49.7%	40.4%	52.4%	38.0%
3rd Highest OT	49.1%	48.3%	50.6%	47.5%	56.7%	56.4%	47.0%	35.7%	50.1%	35.0%
4th Highest OT	48.4%	46.3%	49.8%	0.0%	54.0%	53.7%	46.1%	41.9%	47.4%	30.7%
5th Highest OT	48.0%	1.0%	49.5%	47.8%	53.8%	50.1%	45.8%	38.3%	47.1%	36.3%
6th Highest OT	46.7%	44.2%	49.3%	46.4%	53.4%	51.4%	45.7%	42.7%	45.8%	30.7%
7th Highest OT	43.6%	38.8%	48.1%	46.2%	50.7%	47.4%	44.1%	38.9%	45.6%	34.7%
8th Highest OT	42.7%	12.7%	46.6%	0.0%	50.4%	40.2%	43.6%	34.9%	45.4%	36.4%
9th Highest OT	42.5%	42.0%	45.9%	44.9%	49.1%	48.4%	42.2%	31.3%	44.7%	36.6%
10th Highest OT	41.5%	40.0%	45.6%	44.9%	49.1%	48.4%	41.3%	29.5%	43.4%	34.5%
# Employees with OT > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	195		220		148		191		144	
> 25% & < 50%	91		140		155		112		89	
> 50 % & < 75%	2		3		8		1		2	
> 75 % & < 100%	0		0		0		0		1	
> 100%	0		0		0		0		0	
Total	288		363		311		304		236	
Highest OT by individual for this period was in 2013 for one individual who had 88.3% OT with 61.2% due to emergencies										

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

Exhibit VII – 42
FirstEnergy Pennsylvania Companies
Individual Overtime Statistics
For the Years 2009 through 2013

% OT For Top 10 Individuals										
	2009		2010		2011		2012		2013	
	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only	Overall	Emergency Only
1st Highest OT	99.9%	63.1%	87.3%	65.5%	66.4%	60.3%	102.7%	93.6%	88.3%	61.2%
2nd Highest OT	97.0%	57.2%	81.1%	59.8%	61.0%	60.3%	99.0%	85.2%	68.0%	58.1%
3rd Highest OT	92.2%	57.1%	69.3%	56.4%	57.0%	56.7%	83.3%	75.8%	64.1%	53.4%
4th Highest OT	88.7%	53.1%	65.6%	51.4%	56.7%	50.7%	79.5%	71.1%	63.9%	61.4%
5th Highest OT	77.5%	49.5%	65.3%	52.6%	56.7%	56.4%	76.4%	67.3%	61.5%	57.3%
6th Highest OT	77.0%	45.0%	65.0%	64.1%	55.4%	48.2%	74.4%	64.5%	60.0%	36.6%
7th Highest OT	76.4%	42.5%	62.7%	49.6%	55.2%	47.5%	70.8%	68.4%	57.7%	50.4%
8th Highest OT	74.5%	42.4%	61.7%	45.5%	55.0%	40.5%	66.0%	58.4%	55.9%	47.9%
9th Highest OT	74.3%	20.2%	60.6%	46.3%	54.0%	53.7%	65.5%	57.9%	52.4%	38.0%
10th Highest OT	71.3%	38.9%	60.3%	36.5%	53.8%	50.1%	65.0%	58.3%	51.3%	42.9%
# Employees with OT > 15%	2009		2010		2011		2012		2013	
> 15% & < 25%	526		417		410		607		433	
> 25% & < 50%	468		234		373		378		250	
> 50 % & < 75%	37		115		15		31		12	
> 75 % & < 100%	7		105		0		4		1	
> 100%	0		0		0		1		0	
Total	1,038		871		798		1,021		696	
Highest OT by individual for this period was in 2012 for one individual for Met-Ed who had 102.7% OT with 93.6% due to emergencies										

Key

Met-Ed

Penelec

Penn Power

West Penn Power

FirstEnergy Total (all four EDCs)

Source: Data Requests TD-29, TD-37, and TD-68 and auditor analysis

rotation methods at each respective company. Although the call-out procedures are different at each of the FE-PA Companies, all of the union contracts have language that in part states employees must respond to call outs when requested. Contract language specific to West Penn Power states that linemen must respond to a minimum of 150 hours and 10 call outs annually. Based upon discussions with management, it appears that although the union contract language is enforceable, the FE-PA Companies have not been taking steps to enforce the language to potential responders who do not accept call-outs. The FE-PA Companies should enforce the contract language to better control individual overtime to not only reduce high overtime but mitigate potential safety concerns. Additionally, delays in call-out acceptance are likely contributing to the CAIDI index not being met for Penelec, Penn Power, and West Penn Power at times since 2009 (see Finding and Conclusion No. 1).

4. A number of worst performing circuits have not been remediated for three or more of the five years from 2009 through 2013 at each of the FE PA Companies.

As previously identified during both the 2007 Stratified Management and Operations Audit and subsequent 2011 Management Efficiency Investigation (MEI), the FE-PA Companies have been ineffective in remediating some of its most problematic circuits resulting in certain circuits repeatedly appearing on the FE-PA Companies worst performing circuit (WPC) list. The WPC list is produced annually in order to identify and remediate circuits for corrective action. The WPC list is comprised of the 5% worst performing circuits. The Audit Staff believes that an effective remediation program should prevent circuits from reappearing on the worst performing circuit list in consecutive years or for three or more of the last five years, as this would imply either no corrective actions were taken or insufficient or ineffective actions have been taken.

Exhibits VII-43 to VII-46 show the circuits which have been on the WPC list for three of the five years between 2009 and 2013 for each of the FE-PA Companies. Bold font indicates current circuits on the WPC list. This information was then combined in Exhibit VII-47 to show the overall list for the FE-PA Companies.

Upon examination of the WPC lists, the Audit Staff noted a total of 57 circuits between the four FE-PA Companies have been on the WPC list for three or more of the last five years. Of these, 38 of the circuits are currently labeled as a WPC while nine of the 38 have been WPCs for all five years. Furthermore, all nine circuits are from either Met-Ed or Penelec. Each circuit has a specific plan for remedial action. The Audit Staff reviewed the rehabilitation plans of each circuit on the WPC list for the FE-PA Companies. The plans detailed causes or probable causes related to poor performance, corrective actions to be taken, and corresponding dates of any completed or to be completed remedial actions.

By definition circuits will never be exhausted from the WPC list, however it is unreasonable for the same circuits to repeatedly appear on the list for a given time period thereby impacting customers to prolonged and frequent reliability issues. The FE-PA Companies should take the appropriate steps to ensure that circuits are not repeatedly appearing on the WPC list by taking corrective action in a timely and complete manner. Additionally, as a sound practice, the Audit Staff believes circuits which have appeared for five consecutive years should be targeted for immediate capital investment in order prompt removal from the current WPC list.

Exhibit VII – 43
Metropolitan Edison Company
Repeating Worst Performing Circuits
As of December 31, 2009 through 2013

Based on 38 Circuits on the Worst Performing Circuit List Per Year (5% of Total)			
Circuits on the Worst Performing Circuit List 3 Years			
Years	Substation	Circuit Desc	District
2010, 2012, 2013	Barto	00705-1	Boyertown
2009, 2010, 2012	Barto Sub	00706-1	Boyertown
2010-2012	Yorkana	00708-4	York
2009, 2010, 2012	Dillsburg	00746-4	Hanover
2009, 2012, 2013	Bern Church	00789-1	Reading
2010, 2011, 2013	Windsor	00795-4	York
2009, 2011, 2013	S. Nazareth	00809-3	Easton
2010, 2011, 2013	N. Bangor	00813-3	Easton
2010, 2011, 2013	Shawnee	00860-3	Stroudsburg
2009, 2010, 2012	Bath	00873-3	Easton

Circuits on the Worst Performing Circuit List 4 Years			
Years	Substation	Circuit Desc	District
2009, 2011-2013	Mountain	00744-4	Hanover
2010-2013	Birdsboro	00757-1	Reading
2009-2012	Bernville	00786-1	Reading
2009-2011, 2013	Fox Hill	00816-3	Stroudsburg
2009-2012	Shawnee	00822-3	Stroudsburg

Circuits on the Worst Performing Circuit List 5 Years			
Years	Substation	Circuit Desc	District
2009-2013	Birdsboro	00756-1	Reading
2009-2013	N. Bangor	00826-3	Easton
2009-2013	Shawnee	00895-3	Easton

Bold indicates circuits that are currently on the WPC list

Source: Data Request TD-32 and TD-71

Exhibit VII – 44
Pennsylvania Electric Company
Repeating Worst Performing Circuits
As of December 31, 2009 through 2013

Based on 63 Circuits on the Worst Performing Circuit List Per Year (5% of Total)			
Circuits on the Worst Performing Circuit List 3 Years			
Years	Substation	Circuit Desc	District
2010, 2012, 2013	Hooversville	00019-12	Somerset
2010, 2012, 2013	St. Benedict	00057-72	Altoona
2010-2012	Salix	00070-11	Johnstown
2010, 2012, 2013	Seward	00075-11	Johnstown
2010-2012	Blairsville East	00082-13	Indiana
2009, 2012, 2013	East Pike	00095-13	Indiana
2009, 2012, 2013	Shawville	00151-21	Clearfield
2009, 2012, 2013	Madera	00165-22	Philipsburg
2010-2012	Thompson	00436-65	Montrose
2011-2013	Logan	00700-81	Lewistown
2010, 2011, 2013	Lake Como	00787-65	Montrose

Circuits on the Worst Performing Circuit List 4 Years			
Years	Substation	Circuit Desc	District
2009-2011, 2013	Blairsville East	00082-13	Indiana
2009-2011, 2013	DuBois	00137-23	DuBois
2009-2011, 2013	Birmingham	00168-22	Philipsburg
2009-2011, 2013	Springboro	00237-52	Meadville
2009-2010, 2012-2013	Tionesta Jct Sw Sta	00498-51	Oil City
2009-2012	Grover	00527-63	Mansfield
2009, 2011-2013	Tunkhannock	00533-65	Montrose
2009-2011, 2013	Lake Como	00788-65	Montrose

Circuits on the Worst Performing Circuit List 5 Years			
Years	Substation	Circuit Desc	District
2009-2013	Philipsburg	00162-22	Philipsburg
2009-2013	Madera	00166-22	Philipsburg
2009-2013	Union City	00206-43	Erie
2009-2013	Warren South	00220-41	Warren
2009-2013	Erie South	00259-31	Erie
2009-2013	Rolling Meadows	00310-31	Erie

Bold indicates circuits that are currently on the WPC list

Source: Data Request TD-32 and TD-71

Exhibit VII – 45
Pennsylvania Power Company
Repeating Worst Performing Circuits
As of December 31, 2009 through 2013

Based on 9 Circuits on the Worst Performing Circuit List Per Year (5% of Total)			
Circuits on the Worst Performing Circuit List 3 Years			
Years	Substation	Circuit Desc	District
2009, 2010, 2012	Evans City	D611	Zelienople
2009-2011	Hartstown	W-126	Clark
2009, 2010, 2013	Mercer	W-167	Clark

Bold indicates circuits that are currently on the WPC list

Source: Data Request TD-32 and TD-71

Exhibit VII – 46
West Penn Power Company
Repeating Worst Performing Circuits
As of December 31, 2009 through 2013

Based on 42 Circuits on the Worst Performing Circuit List Per Year (5% of Total)			
Circuits on the Worst Performing Circuit List 3 Years			
Years	Substation	Circuit Desc	District
2009, 2010, 2012	Purcell	Artemas	Hyndman
2009, 2010, 2012	Rutan	Bristoria	Jefferson
2009, 2012, 2013	Bethlen	Darlington	Latrobe
2009-2011	Driftwood	Driftwood	St. Marys
2009, 2011, 2012	Vestaburg	Low Hill	Jefferson
2009, 2010, 2013	Stahlstown	Mansville	Latrobe
2009, 2011, 2012	Marianna	Ten Mile	Jefferson
2010, 2011, 2013	Vanceville	Vanceville	Charleroi
2009, 2012, 2013	Dutch Fork	W Alexander	Washington
2010-2012	Rutan	Windridge	Jefferson

Circuits on the Worst Performing Circuit List 4 Years			
Years	Substation	Circuit Desc	District
2009-2012	Waterville	Waterville	State College

Bold indicates circuits that are currently on the WPC list

Source: Data Request TD-32 and TD-71

Exhibit VII – 47
FirstEnergy Pennsylvania Companies
Combined Repeating Worst Performing Circuits
As of December 31, 2009 through 2013

Based on 152 Circuits on the Worst Performing Circuit List Per Year (5% of Total)			
Circuits on the Worst Performing Circuit List 3 Years			
Total	34	# Current Circuits	19
Circuits on the Worst Performing Circuit List 4 Years			
Total	14	# Current Circuits	10
Circuits on the Worst Performing Circuit List 5 Years			
Total	9	# Current Circuits	9

FirstEnergy Worst Performing Circuits 2009 - 2013 Appearing 3 or More Years			
Overall Total	57	Overall # Current Circuits	38

Source: Data Request TD-32 and TD-71

5. The FE-PA Companies do not have a formal Damage Prevention Program.

The Audit Staff requested third-party line hit information including the number of hits, causal factors, and damage billings and collection activity to evaluate the effectiveness of the FE-PA Companies damage prevention practices. The information provided is summarized in Exhibits VII-48 to VII-51 for each of the FE-PA Companies and in total as shown in Exhibit VII-52.

Exhibit VII– 48
Metropolitan Edison Company
Summary of Third-Party Hit Causal Analysis
As of December 31, 2009 through 2013

	2009	2010	2011	2012	2013
# Damages	62	39	39	42	31
By Cause					
Contractor / Public	5	2	2	4	5
Company at fault	8	4	5	9	4
Unlabeled	49	33	32	29	22

Source: Data Requests TD-24 and TD-66 and auditor analysis

Exhibit VII – 49
Pennsylvania Electric Company
Summary of Third-Party Hit Causal Analysis
As of December 31, 2009 through 2013

	2009	2010	2011	2012	2013
# Damages	116	128	97	76	71
By Cause					
Contractor / Public	28	43	45	34	34
Company at fault	22	19	15	14	14
Unlabeled	66	66	37	28	23

Source: Data Requests TD-24 and TD-66 and auditor analysis

Exhibit VII – 50
Pennsylvania Power Company
Summary of Third-Party Hit Causal Analysis
As of December 31, 2009 through 2013

	2009	2010	2011	2012	2013
# Damages	16	22	13	21	16
By Cause					
Contractor / Public					1
Company at fault	1		2	4	0
Unlabeled	15	22	11	17	15

Source: Data Requests TD-24 and TD-66 and auditor analysis

Exhibit VII – 51
West Penn Power Company
Summary of Third-Party Hit Causal Analysis
As of December 31, 2009 through 2013

	2009	2010	2011	2012	2013
# Damages	56	54	43	68	22
By Cause					
Contractor / Public	10	6	5	2	2
Company at fault	4	8	3	3	1
Unlabeled	42	40	35	63	19

Source: Data Requests TD-24 and TD-66 and auditor analysis

Exhibit VII – 52
FirstEnergy Pennsylvania Companies
Summary of Combined Third-Party Hit Causal Analysis
As of December 31, 2009 through 2013

	Contractor / Public	Company at Fault	Unlabeled
Met-Ed	8%	14%	77%
Penelec	38%	17%	45%
Penn Power	1%	8%	91%
West Penn Power	10%	8%	82%
FirstEnergy (EDCs combined)	22%	14%	64%

Source: Data Requests TD-24 and TD-66 and auditor analysis

As shown in Exhibit VII-52, approximately, 64% of all third-party hits from 2009-2013 do not have a cause attributed to them. More specifically, Penn Power was unable to attribute a specific cause for 91% of its hits over the 2009 to 2013 timeframe. Without proper investigation, analysis, and documentation, the FE-PA Companies cannot effectively identify and remediate the underlying issues with respect to making necessary internal process and procedural changes and/or culpabilities of third-party contractors.

Billings for third-party damages were also reviewed. The FE-PA Companies stated that contractors who hit lines are billed, but the billing data could not be accumulated in total, only on a case by case basis. Therefore, a complete record of billing information was not available for the Audit Staff to review and it is unclear as to what extent each of the FE-PA Companies have achieved success in collecting damages for line hits which acts as a major deterrent to third-party offenders

The FE-PA Companies have various aspects of a damage prevention plan in practice but need to develop a formal comprehensive damage prevention program with detailed record keeping in order to properly measure the effectiveness of its program efforts. As underground facilities are typically installed with new developments and/or capital improvements, it should be a best practice to develop and maintain a formal Damage Prevention Program. The program should be developed in compliance with Pennsylvania One Call Act 287 – Underground Utility Line Protection Law. As such, a comprehensive Damage Prevention Program should have:

- Documented practices which detail how each of the FE-PA Companies will prevent underground damages to its respective facilities,
- Public and contractor education programs,
- Procedures for timely and proper facilities line markings in response to Pennsylvania One Call,
- Excavation procedures expected from contractors,

- Inspection and maintenance practices which directly correspond or affect damage prevention,
- Emergency response procedures or references to said procedures, including public notification and interaction,
- Procedures addressing repeat line hit offenders, and
- Record keeping issues that include identification of what caused the damages.

6. Met-Ed and Penelec have a high number of outstanding Priority 3 Transmission repairs.

Transmission (Tx) line inspection programs are managed by FESC's Transmission & Substation Services Group. The Tx inspections are performed in order to maintain a quality, safe and reliable service from its operating Tx line. FESC classifies deficiencies based on severity as follows:

- Priority 1(P1) – line outage is imminent if not repaired. This defect normally requires an immediate field inspection and subsequent repair within one week.
- Priority 2 (P2) – defect creates the risk of a line outage if not repaired in three months. This defect normally should be inspected as soon as possible. Repairs should be scheduled promptly and repaired/replaced in three months.
- Priority 3 (P3) – defect does not create an immediate risk of a line outage and is normally repaired or re-inspected within 12 months to determine if the defect has deteriorated to a Priority 2.

The number of Met-Ed's and Penelec's open, overdue, and completed P3 Tx Line Inspection Repairs of certain dates in 2012 and 2013 are summarized on Exhibit VII-53. Completed P3 repairs include all repairs and not just the overdue P3 repairs. Included in Exhibit VII-53 are the P1 and P2 inspection/repair data. The data was added to confirm Met-Ed and Penelec are not behind schedule on more significant P1 and P2 Tx line repairs. Additionally, Penn Power and West Penn Power were excluded from the exhibit as their statistics and performance related to P1, P2, and P3 repairs appeared to be satisfactory. The data indicates that P3 open conditions increase during the middle of the year for Met-Ed and Penelec. The periodic growth of P3 open conditions is due to the Tx inspections that were completed during the Spring and Fall seasons.

As shown in Exhibit VII-53, Met-Ed was able to reduce its P3 open and overdue repairs from 972 to 782 and 744 to 581, respectively, from January 2012 to the end of 2013. Met-Ed achieved this reduction by allocating additional labor and capital to Tx P3 repairs. The total number of P3 repaired in 2013 (553) more than doubled from the

previous year (220). Consequently, Met-Ed has made progress in reducing its P3 backlog but needs to continue its efforts to eliminate its current backlog.

Exhibit VII – 53
Metropolitan Edison Company and Pennsylvania Electric Company
Transmission Line Inspection Data
As of January 31, 2012, August 31, 2012, December 31, 2012, January 31, 2013,
August 31, 2013, and December 31, 2013

Met-Ed	12-Jan	12-Aug	12-Dec	13-Jan	13-Aug	13-Dec
P1/P2 Open	17	0	1	4	3	1
P1/P2 Overdue	0	0	1	1	3	0
P1/P2 Repaired	2012 = 47 P1/P2 Repairs			2013 = 23 P1/P2 Repairs		
P3 Open	972	982	889	894	949	782
P3 Overdue	744	833	760	743	613	581
P3 Repaired	2012 = 220 P3 Repairs			2013 = 553 P3 Repairs		

Penelec	12-Jan	12-Aug	12-Dec	13-Jan	13-Aug	13-Dec
P1/P2 Open	1	35	15	6	0	5
P1/P2 Overdue	0	5	0	0	0	0
P1/P2 Repaired	2012 = 118 P1/P2 Repairs			2013 = 32 P1/P2 Repairs		
P3 Open	1,941	2,418	2,338	2,280	2,473	2,486
P3 Overdue	1,600	2,084	1,794	1,793	2,084	1,985
P3 Repaired	2012 = 196 P3 Repairs			2013 = 346 P3 Repairs		

Source: Data Request EM-26 and EM-29

Penelec experienced an increase of P3 open repairs from January 2012 to December 2013; increasing by 28% from 1,941 to 2,486 repairs. Consequently, P3 overdue repairs increased by 24% from 1,600 to 1,985 by year end 2013. During most of the period examined, Penelec had only one internal Tx crew dedicated to working on the backlog. In order to reverse its P3 backlog trend, Penelec will need to devote additional resources in order to be consistent with corporate and regulatory expectations.

Recommendations

- 1. Improve electric reliability performance at Penelec and Penn Power to achieve, at a minimum, both 12 and 36 month reliability standards and strive to achieve benchmark performance; and implement specific measures for West Penn Power to meet the reliability provisions of the 2010 Joint Petition.**

- 2. Conduct a staffing study accounting for future retirements to determine the proper staffing levels of craft workers to reduce overtime to the target level of 15% and ensure proper staffing in the future.**
- 3. Initiate policies to enforce union contract provisions which require craft worker acceptance of emergency call outs.**
- 4. Develop and implement remedial actions that effectively correct the deficiencies of circuits found on the worst performing circuits list such that the circuits do not re-appear on the list for several years.**
- 5. Establish a documented Damage Prevention Program to track and measure line hit incidents; recover damages for all line hit incidents; and to take proactive measures to mitigate future line hits.**
- 6. Implement and/or modify backlog reduction plans for Met-Ed and Penelec in order to effectively and efficiently reduce the number of overdue Priority 3 conditions.**

VIII. EMERGENCY PREPAREDNESS

Background

Effective June 2005, Public Utility Commission (PUC or Commission) regulations at 52 Pa. Code § 101 (Chapter 101) require jurisdictional utilities to develop and maintain written physical security, cyber security, emergency response, and business continuity plans in order to protect the infrastructure within the Commonwealth of Pennsylvania and ensure safe, continuous and reliable utility service. Along with the requirement to establish these “emergency preparedness” plans, a utility is required to annually file a Self Certification Form to the Commission documenting compliance with Chapter 101. This form, available on the PUC website, is comprised of 13 questions as shown in Exhibit VIII-1.

Exhibit VIII – 1
Pennsylvania Public Utility Commission
Public Utility Security Planning and Readiness Self Certification Form

Item No.	Classification	Response (Yes–No–N/A*)
1	Does your company have a physical security plan?	1.
2	Has your physical security plan been reviewed in the last year and updated as needed?	2.
3	Is your physical security plan tested annually?	3.
4	Does your company have a cyber security plan?	4.
5	Has your cyber security plan been reviewed in the last year and updated as needed?	5.
6	Is your cyber security plan tested annually?	6.
7	Does your company have an emergency response plan?	7.
8	Has your emergency response plan been reviewed in the last year and updated as needed?	8.
9	Is your emergency response plan tested annually?	9.
10	Does your company have a business continuity plan?	10.
11	Does your business continuity plan have a section or annex addressing pandemics?	11.
12	Has your business continuity plan been reviewed in the last year and updated as needed?	12.
13	Is your business continuity plan tested annually?	13.

* Attach a sheet with a brief explanation if N/A is supplied as a response to a question.

Source: Public Utility Security Planning and Readiness Self-Certification Form, as available on the PUC website at http://www.puc.state.pa.us/general/onlineforms/pdf/Physical_Cyber_Security_Form.pdf.

During the course of our fieldwork, the Audit Staff reviewed the most recent (i.e., 2012) Self Certification Forms submitted by FirstEnergy Corporation (FirstEnergy or FE) on behalf of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies) to determine the status of their responses. As discussed in Chapter II – Background, FirstEnergy’s Regulated Distribution business segment distributes electricity through FirstEnergy’s ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Met-Ed, Penelec, Penn Power,

and West Penn Power are the Pennsylvania operating companies within FEU. In addition, FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates, including the FE-PA Companies. Our examination of the FE-PA Companies' emergency preparedness included a review of physical security plans, cyber security plans, emergency response plans, business continuity plans, and associated security measures. In addition, the Audit Staff performed inspections at a sample of the FE-PA Companies' facilities. Due to the sensitive nature of the information reviewed, any specific information is not revealed in this report but rather the generalities of the information reviewed are summarized.

Each of the plans are overseen and managed by various FirstEnergy and FESC groups and individuals to provide overarching support to the FE-PA Companies. These groups are in charge of testing, reviewing, and updating their respective plan(s). The individuals and departments assigned to Physical Security, Emergency Response, Business Continuity, and Cyber Security plans are as follows:

- Physical Security Plan – Manager, Physical Security (FESC) – implements security measure to protect personnel, Company assets, visitors, property, facilities and equipment, and provide continuity of electric service.
- Cyber Security Plan – Manager, Cyber Security and Information and Technology Compliance (FESC) – ensures the protection of technology resources including electronic information, software, computers, network devices, or communication services used to create, transmit or store information.
- Emergency Response Plan(s) – Manager, Physical Security (FESC) and Director, Performance and Process Improvement (FESC) – defines the guidelines for all the common processes and procedures for which all of the FE Companies conduct emergency preparedness, response and service restoration.
- Business Continuity Plan – Manager, Physical Security (FESC) – in the event of a business disruption or health emergency; the plan focuses on the continuation of critical business functions for a period of time after an emergency.

To constantly protect physical and cyber resources, the designated groups and individuals have created procedures to make certain FirstEnergy and the FE-PA Companies operate in a safe, secure, and reliable environment. A major part in assuring plans are kept current is through performing multiple types of testing on an annual basis. Types of testing performed at FirstEnergy and the FE-PA Companies are as follows:

- Structured Walkthrough – basic testing in a group setting to ensure critical personnel from all departments are familiar with the plan.

- Tabletop Drill – through a simulated event scenario, personnel administer recovery strategies, capture results in order to incorporate any “lessons learned” into subsequent versions of a plan.
- Functional Testing – testing through the relocation of personnel to another site (i.e., establish communications and coordination).
- Full-Scale Exercise – comprehensive testing of all or most of the plan; purpose is to simulate an actual event, including the same timeframe.
- System Operational Tests – testing of the current access system and associated alarms.
- Physical Tests – testing exercise involving recovery procedures for hardware and server devices.
- Media Backup – testing exercise to restore media backup data and file systems essential to hardware and server devices
- Real-Life Event – an actual event is a valid testing of any plan; such as storm response, evacuation, power disruptions, and relocation to back up facilities

In November 2011, FirstEnergy initiated a Cyber Security Awareness Training (CSAT) program for employees, contractors and vendors with access to any information assets. CSAT is a web-based cyber security course that is required to be completed annually. The training instructions are distributed directly to the individual users via email or to the user’s supervisor in the event the individual does not have email access. FirstEnergy tracks which employees have or have not completed the required training. To ensure a completion rate of 100%, employee network accounts are deactivated if training has not been completed in the allotted time.

Findings and Conclusions

Our examination of FirstEnergy and the FE-PA Companies’ Emergency Preparedness included a review of the physical security plan, cyber security plan, emergency response plan(s) and business continuity plan, vulnerability assessment and all associated security measures. Based on our review of FirstEnergy and the FE-PA Companies’ emergency preparedness efforts, no particular evidence came to our attention that would lead the Audit Staff to conclude that the areas or plans reviewed were not being addressed adequately.

Recommendation – None.

IX. MATERIALS MANAGEMENT

Background

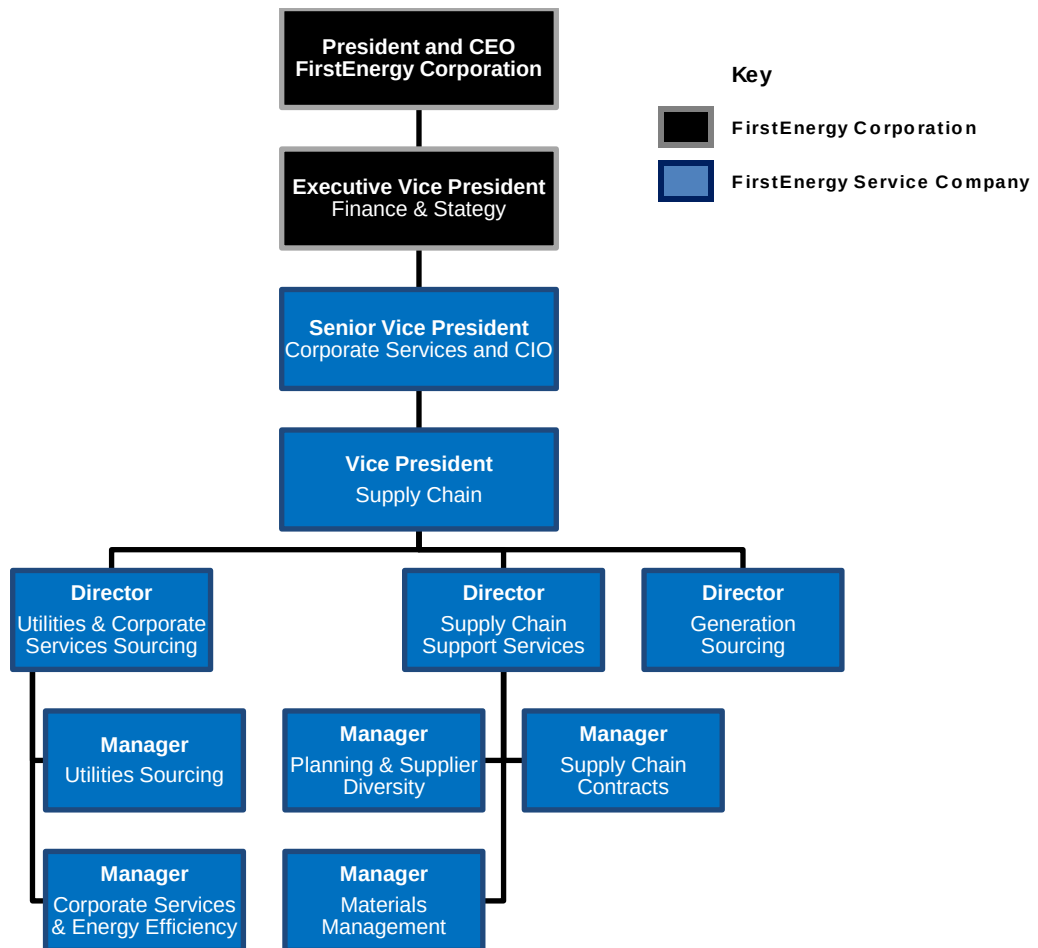
As discussed in Chapter II – Background, FirstEnergy's Regulated Distribution business segment distributes electricity through FirstEnergy's ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. In addition, FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates, including the FE-PA Companies.

FESC provides centralized support for materials management or the Supply Chain function as shown in Exhibit IX-1. FESC's Vice President of Supply Chain has three direct reports; Director of Utilities & Corporate Services Sourcing, Director of Supply Chain Services and Director of Generation Sourcing & Warehousing. Reporting to the Director of Utilities & Corporate Services Sourcing are the manager of Utilities Sourcing and manager of Corporate Services & Energy Efficiency. The Managers of Planning and Supplier Diversity, Supply Chain Contracts, and Materials Management report to the Director of Supply Chain Support Services.

The Supply Chain organization units have distinct responsibilities for FirstEnergy and the FE-PA Companies:

- *Utilities and Corporate Services Sourcing* – manage all aspects of sourcing and supplier relationship for FEU (Utility Sourcing) and corporate (Corporate Services and Energy Efficiency) expenditures or spend accounts. Utility spend includes areas such as material, equipment, and services while corporate spend is comprised of information technology, finance, tax, security, energy efficiency and network services. Partner with business units to facilitate, optimize and implement effective sourcing solutions to meet company specific spend objectives. Act as a resource to provide benchmarking and market intelligence to business units to assure long term cost competitiveness and supply assurance is achieved. Negotiate, review and execute contractual agreements per company specific policy and objectives; and oversee the supplier performance program.
- *Supply Chain Support Services* – a support group for all Supply Chain activities; assistance with supplier diversity, major supply chain initiatives, contractual and legal issues, and materials management.
- *Generation Sourcing* – Not applicable to the FE-PA Companies.

Exhibit IX – 1
FirstEnergy Service Company
Supply Chain Organization
As of November 2013



Source: Data Request FM-27

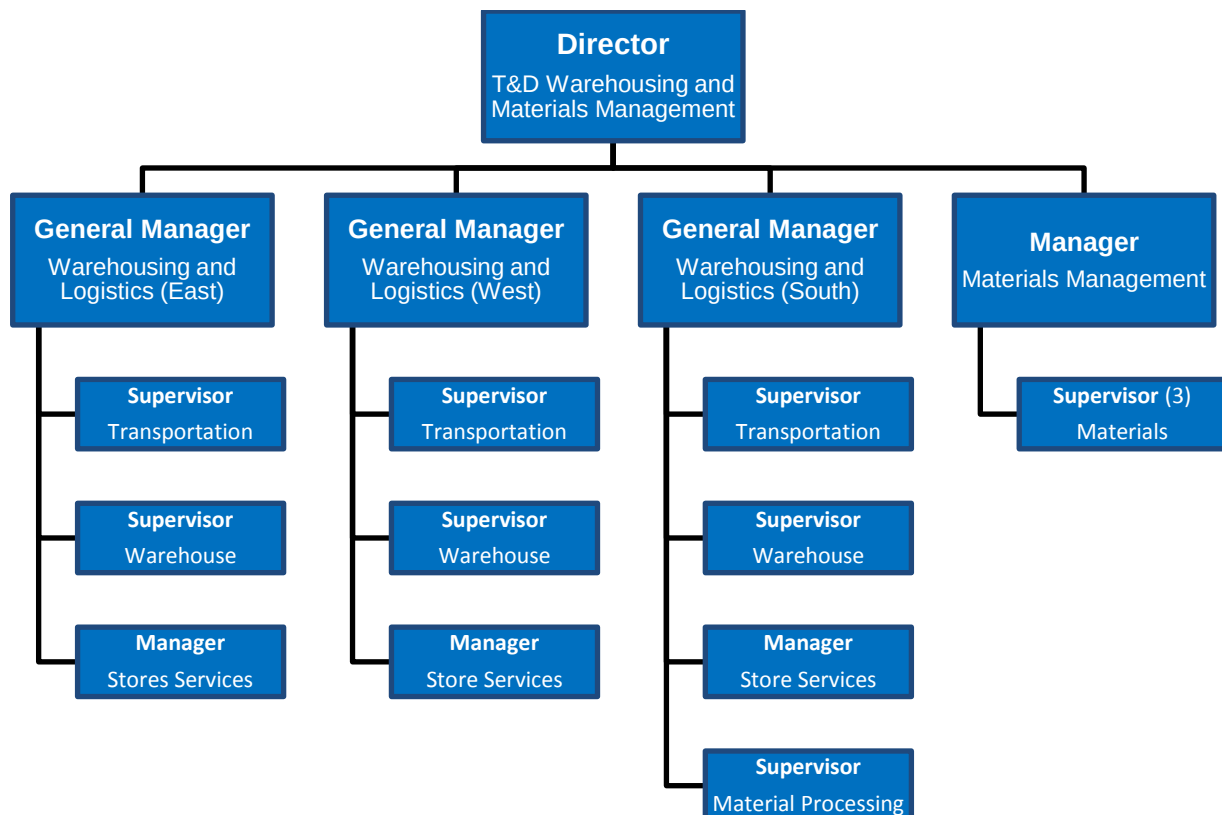
FESC Supply Chain employees follow two procedures/policies when procuring goods and services for respective corporate and utility needs. In most cases, purchase orders are created for all materials, equipment and services excluding nuclear fuels, boiler fuels and purchases that follow the guidelines of FirstEnergy's Purchase Card (P-Card) and Non Purchase Order policies. A P-Card, essentially a credit card, is utilized by business unit personnel for "low-risk, low-dollar materials and supplies." Procurement transactions are approved by certain Supply Chain individuals based on dollar amount. Approval guidelines, individual(s) and associated dollar amount, as stated in the policies are as follows:

- | | |
|-------------------------------|---------------|
| • No Purchase Order Necessary | ≤ \$10,000 |
| • Purchasing Associates | ≤ \$100,000 |
| • Buyers/Supervisors | ≤ \$1,000,000 |

- Managers ≤ \$2,000,000
- Directors ≤ \$5,000,000
- Vice President or Chief Procurement Officer > \$5,000,000

The physical warehousing of materials and equipment is controlled by a separate organization within FESC. The Director of Transmission and Distribution (T&D) Warehousing and Materials Management oversees daily operations at each of the warehouses for FirstEnergy and the FE-PA Companies. Under his direction are three General Managers of Warehousing and Logistics and a Manager of Materials Management. The Warehousing and Logistics Divisions are in charge of receiving, storage, and movement of materials, inventory planning approaches and utilization of facilities for storing and distributing materials. The Manager of Materials Management plans and manages inventory needs for each warehouse and its operating territory for the FE-PA Companies. The General Managers and Manager have several support employees ranging from Managers and Supervisors to Business Analysts and Control Specialists. The T&D Warehousing and Materials Management organizational chart, as shown in Exhibit IX-2, depicts their working relationships.

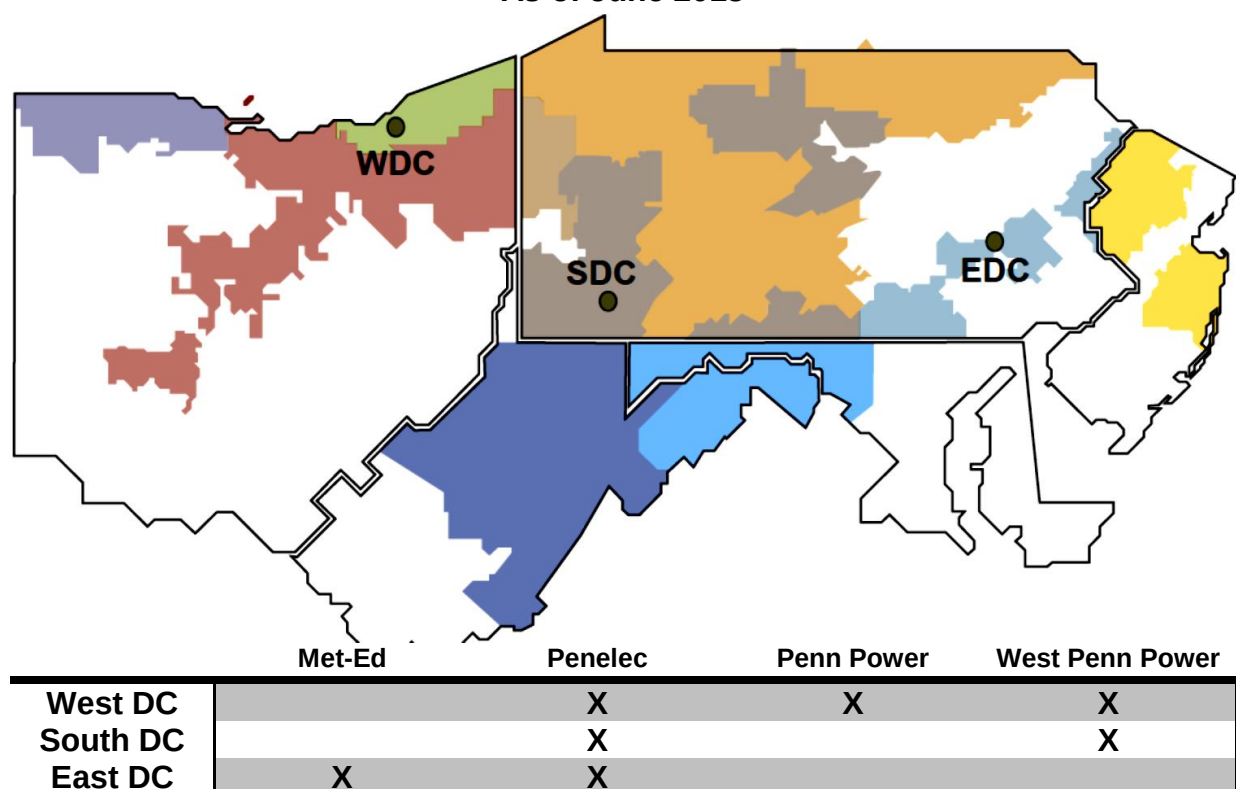
Exhibit IX – 2
FirstEnergy Service Company
Transmission and Distribution Warehousing and
Materials Management Organization
As of November 2013



Source: Data Request FM-27

The T&D Warehousing function had undergone multiple changes/modifications from 2011 through 2013. The most significant change began in 2011 and was completed in mid-2012, when all district warehouses and storage facilities were consolidated into three central distribution centers (DCs). The DCs are located in Cleveland, OH (West DC or WDC), Connellsville, PA (South DC or SDC) and Bethel, PA (East DC or EDC). The respective FE-PA Companies served by particular DC's are shown in Exhibit IX-3. Additionally, West Penn Power as a result of the Allegheny Energy merger in 2011 was not fully integrated into the Warehousing and Materials Management function until the 2nd quarter of 2012. As a result, it is too soon for the Audit Staff to be able to make a reasonable assessment of the effectiveness of the various consolidations. Also, it should be noted other FE Operating Companies located in Ohio, West Virginia, Maryland and New Jersey utilize the three DC's. For this audit, only the FE Operating Companies located in Pennsylvania were examined.

Exhibit IX – 3
FirstEnergy Corporation
Warehouse Locations and FE-PA Companies Served
As of June 2013



Source: Data Request SS-6 and Auditor Analysis

Findings and Conclusions

Our examination of the Materials Management organization included a review of corporate and regional materials management policies and procedures, purchasing, warehousing, inventory statistics, logistics and daily operations, etc. Based on our

review, FirstEnergy and the FE-PA Companies should initiate or devote additional efforts to improving the efficiency and the effectiveness of its Materials Management function by addressing the following:

1. FirstEnergy does not have any goals established for annual inventory turnover and inventory turnover is low.

As previously mentioned, the Warehousing function went through significant changes for the time period examined, 2011 through 2013. Before the consolidation of warehouses into three centralized locales, warehouses and inventory were independently maintained by each of the FE-PA Companies. Consequently due to the transition that occurred starting in 2011, the Audit Staff did not trend inventory performance from 2009-2012 or prior to the warehouse consolidations as the data would not have been relevant or comparable to 2013. The 2013 calendar year was the first full year utilizing the new warehouse configuration. In Exhibit IX-4, the specific Costs of Goods (net issues), average annual inventory and calculated inventory turnover for 2013 are provided for each of the FE-PA Companies only. Additionally, the inventory values of transformers and meters were excluded from turnover level calculations. These items are considered to be emergency stock that must be kept on hand at all times to ensure effective response in the case of emergencies.

Exhibit IX – 4
FirstEnergy Pennsylvania Companies
Inventory Turnover Levels (Excluding Emergency Stock)
For the Year 2013

	Met-Ed	Penelec	Penn Power	West Penn	FE-PA Companies
Annual Issues (\$)	\$ 10,814,020	\$ 11,249,894	\$ 2,670,281	\$ 11,700,565	\$ 36,434,760
Average Inventory Balances	\$ 9,620,561	\$ 12,101,891	\$ 1,490,553	\$ 14,238,307	\$ 37,451,312
Inventory Turnover Levels	1.12	0.93	1.79	0.82	0.97

Source: Data Request SS-115 and Auditor Analysis

Inventory turnover for the FE-PA Companies ranged from 0.82 to 1.79 for 2013. As of June 2013, FE did not have any inventory turnover goals established. The Audit Staff has seen conservative turnover levels at other utilities in the range of 2.0-3.0 turns, and believe this to be obtainable for the FE-PA Companies. By achieving this turnover level, the FE-PA Companies and FE Supply Chain could realize a one-time savings in inventory reduction and an annual savings in carrying costs as shown in Exhibit IX-5.

Exhibit IX – 5
FirstEnergy Pennsylvania Companies
Potential Savings from Increasing Inventory Turnover Levels
For the Year 2013

	<i>Inventory Turnover = 2.0</i>		<i>Inventory Turnover = 3.0</i>	
	Reduction in Inventory	Savings from Carrying Costs	Reduction in Inventory	Savings from Carrying Costs
Met-Ed	\$ 4,214,000	\$ 421,000	\$ 6,016,000	\$ 602,000
Penelec	\$ 6,477,000	\$ 648,000	\$ 8,352,000	\$ 835,000
Penn Power	\$ 115,000	\$ 12,000	\$ 600,000	\$ 60,000
West Penn Power	\$ 8,388,000	\$ 839,000	\$ 10,338,000	\$ 1,034,000
FE-PA Companies	\$19,194,000	\$ 1,920,000	\$ 25,306,000	\$ 2,531,000

Source: Data Request SS-115 and Auditor Analysis

As shown in Exhibit IX-5, by reaching inventory turnover levels of 2.0 to 3.0 in 2013 the FE-PA Companies would realize a total one-time reduction in inventory of approximately \$19.2 million to \$25.3 million. Based upon an estimated average annual carrying cost of 10%⁷, in addition to the one-time reduction in inventory, the FE-PA Companies could also realize total annual savings from carrying costs of approximately \$1.9 million to \$2.5 million. The individual savings for each of the FE-PA Companies is displayed in Exhibit IX-5. At a minimum, by establishing and achieving an annual inventory turnover goal of 2.0 turns, the FEPA Companies could realize a total one-time reduction of approximately \$19.2 million and a total annual savings of approximately \$1.9 million.

Recommendation

- 1. Establish annual inventory turnover goals to a minimum of 2.0 turns and strive to achieve improved inventory turnover levels.**

⁷ The Audit Staff has noted carrying costs ranging from 10%-20% of inventory costs in the utility industry. A conservative estimate of 10% was used in this instance based upon information provided by the FE-PA Companies.

X. CUSTOMER SERVICE

Background

As discussed in Chapter II – Background, FirstEnergy Corporation’s (FirstEnergy or FE) Regulated Distribution business segment distributes electricity through FirstEnergy’s ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate products services to all affiliates including customer service. The Customer Service functions for the FE-PA Companies are performed by a combination of personnel within FirstEnergy, FESC and each of the FE-PA Companies. The reporting structure for the applicable Customer Service positions that perform work for or on behalf of the FE-PA Companies is displayed in Exhibit X-1.

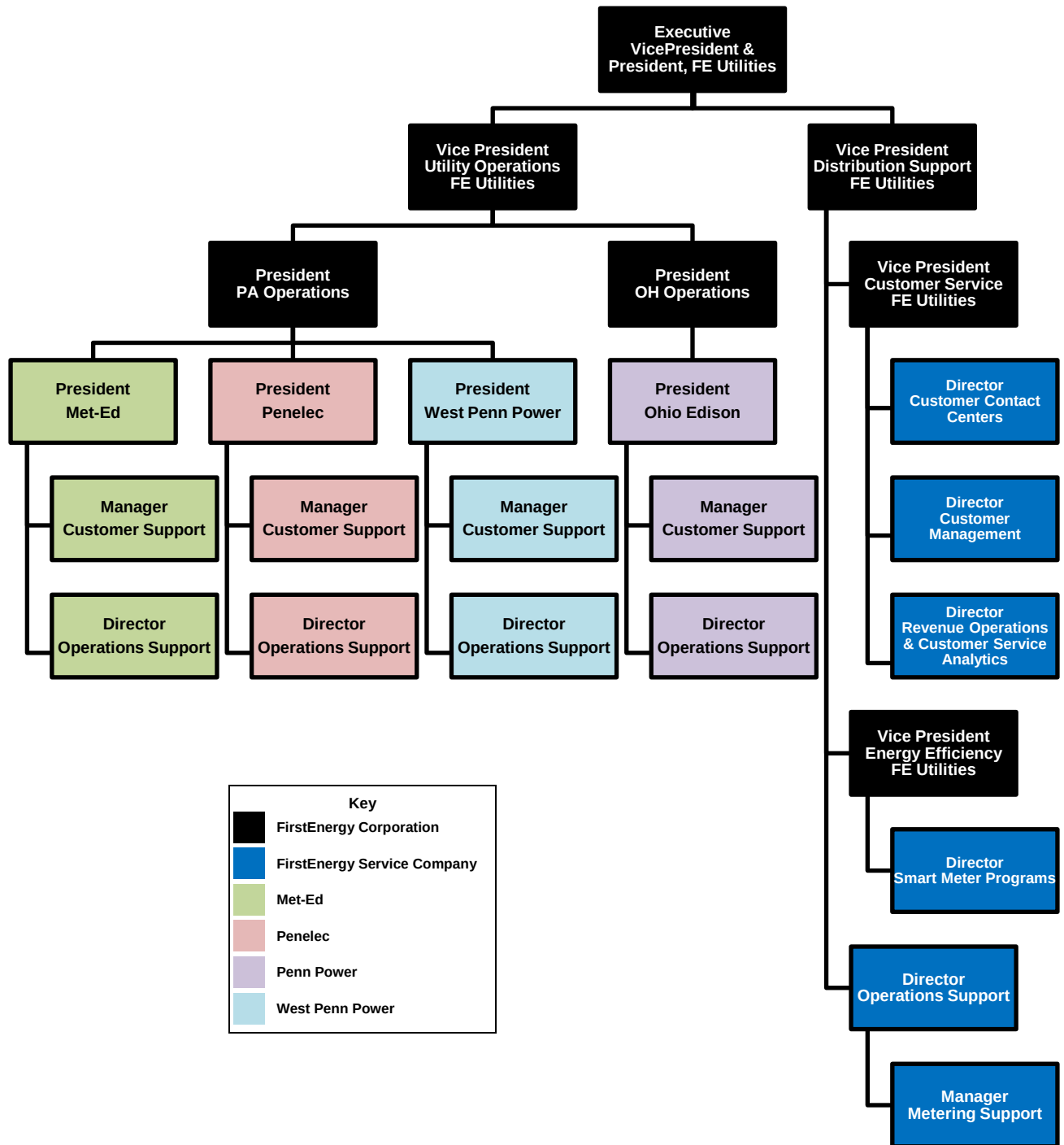
The Contact Center Department, Command Center Department, and Customer Self Service Department fall under the responsibility of FESC’s Director of Customer Contact Center. The Customer Accounting Department, Customer Service Systems Department, Compliance and Human Services Department, and the Remittance Processing Department fall under the responsibility of FESC’s Director of Customer Management. The Customer Service Analytics Department, Field Collections Department, and Vendor and Strategy Department fall under the responsibility of FESC’s Director of Revenue Operations and Customer Service Analytics. Each of these positions reports to FEU’s Vice President of Customer Service. Brief descriptions of each group/department are as follows:

- Customer Contact Center:

Contact Center Department – comprised of five contact centers that operate as one virtual contact center with full service business hours Monday through Friday 8:00 am to 6:00 pm. The centers are staffed by FESC employees 24 hours a day/7 days a week for emergency and outage calls. The four major contact centers are located in Akron, OH, Fairmont, WV, and Reading, PA, with a small center located in Toledo, OH. Contact center employees are assigned a tier level based on job knowledge in order to implement skill-based routing. Process analysts are located in each contact center and report to the contact center manager at each location. Also, two third-party contact centers are used for credit/collection and emergency/outage calls.

Command Center Department – supports all contact centers for call routing, forecasting, scheduling, statistics and reporting. FESC Command Center analysts are located at each contact center reporting to a general supervisor.

Exhibit X – 1
FirstEnergy Corporation
Customer Service Structure
As of January 1, 2014



Source: Data Request FM-27, Supporting Documentation from FirstEnergy and Auditor Analysis

A Quality Assurance team reviews, evaluates, and scores customer calls for the purposes of ensuring compliance, increasing accuracy, customer satisfaction, and developing employee skills. Calls are monitored using a risk-based process to fully develop customer service representatives in order to continuously improve the quality of service provided to customers.

Customer Self-Service Department – responsible for managing, promoting, and expanding the usage of FirstEnergy’s website, including smartphone mobile applications and text message alert subscriptions. The Department is also responsible for defining and developing overall self-service strategies and oversees projects related to these functions. Additional duties include handling the promotion and maintenance of the electronic billing and payment program, as well as all incoming and outgoing written communication relating to customer accounts.

- Customer Management:

Customer Accounting Department – responsible for correcting and processing billing exceptions, processing billing error reports, correcting bill print errors, administering the billing of interval metered and special contract accounts (also known as power billing), administering and ensuring compliance with sales tax exemption requirements, and responding to customer correspondence. Additionally, for some of FEU, the Department processes various credit reports and administers certain credit activities. The primary locations are Brecksville, OH; Warren, OH; Red Bank, NJ; and Fairmont, WV.

Customer Service Systems Department – responsible for compliance with Sarbanes/Oxley controls (see Chapter IV – Corporate Governance) related to customer billing and for administering a variety of other billing and payment processing related controls. This Department also registers and provides services to electric generation suppliers, reports the cycle billed electric revenues of the FE-PA Companies to the FESC Controller’s Department, and oversees and administers the printing, inserting and mailing of customer bills. Most of these activities are carried out in the Akron, OH corporate office.

Compliance and Human Services Department – processes customer complaints received from the regulatory agencies. The Department also works to ensure overall customer service practices comply with state regulations. The Human Services and Low Income Energy Conservation groups administer various customer payment assistance programs, fuel fund programs, energy efficiency and weatherization programs. Compliance & Human Services employees are primarily based in Reading, PA.

Remittance Processing Department – responsible for accurate, timely and cost effective processing of all customer payments received; including payments received via mail and through various electronic channels. The Department is also responsible for coordination of cash management

activities with the FESC Treasury Department. Remittance processing activities are carried out at the Remittance Processing Center in Akron, OH and Greensburg, PA.

- Revenue Operations and Customer Service Analytics:

Customer Service Analytics Department – provides strategy, support, and productivity measurement for the Meter Reading Department within the FE-PA Companies, tracking and reporting of Key Performance Indicators (KPI) for Customer Service, coordinating and completing various benchmarking, customer satisfaction, and performance surveys, and supplying any as needed analyses and reporting requested by Customer Service senior management. The Customer Service Analytics Department is primarily located at the Akron, OH corporate office.

Field Collections Department – organized into state level groups with administrative functions provided by a centralized group through FESC. Each state level group consists of field collectors, dispatchers, analyst, supervisors and one manager. The state manager is responsible for employee safety, ensuring regulatory compliance related to field collection activities such as notice delivery and termination for non-payment, overall collection guidance and strategies, arrears management, uncollectible and budget performance within their state. The primary role of the Department is to avoid financial losses while minimizing the total cost of collecting delinquent customer receivables.

Vendor and Strategy Department – has three areas of responsibility. First, it is responsible for managing all external credit vendor relationships; including collection agencies, legal collections, identity verification, outbound calling and inbound credit calls. Second, it executes all credit-related transaction work, including bankruptcies, credit memos, and telephone inquiries. Finally, the Department performs all internal and external reporting, interfaces with the FESC Information Technology Department and manages small to mid-size projects within the Revenue Operations Department.

Each of the FE-PA Companies performs specific customer service tasks at the regional or local level under the direction of the respective FE-PA Company President. As discussed in Chapter II – Background, Penn Power is a subsidiary of Ohio Edison Company (Ohio Edison) and operates as a Division of Ohio Edison. The Presidents of the FE-PA Companies report to the President of the Pennsylvania Operations, who then reports to FEU's Vice President of Utility Operations. Within each of the FE-PA Companies are Customer Support and Operations Support Departments. The Manager of Customer Support manages and cultivates customer relations, coordinates new large customer load additions, coordinates customer service billing issues, manages implementation of energy efficiency programs and other customer focused programs. The Director of Operations Support oversees the Meter Services Department and Meter

Reading Department. The Meter Services Department includes installing, inspecting, reconnecting and maintaining customer power and energy meters while the Meter Reading Department performs the required readings of customer meters.

FEU's Vice President of Distribution Support oversees the centralized operations support. FESC's Director of Operations Support ensures that the Department provides strategic guidance, technical services, shop operations and warehousing to support the FE-PA Companies. This Department assists in meeting reliability, compliance, and operational objectives by providing performance metrics and analyses. FEU's Vice President of Energy Efficiency oversees a number of programs, including Smart Meter Programs. FESC's Director of Smart Meter Programs is responsible for the development of Advanced Metering Infrastructure (AMI).

AMI/smart metering is comprised of electronic/digital hardware and software, which combine interval data measurement with continuously available remote communications. This enables for the measurement of detailed, time-based information and frequent collection and transmittal of such information. AMI refers to the full measurement and collection system that includes customer meters, communication networks between the customer and utility, and data reception and management systems that make the information available to the utility. The FE-PA Companies filed an AMI/Smart Metering Plan on December 31, 2012, at Docket Nos. M-2013-2341990, M-2013-2341991, M-2013-2341993, and M-2013-2341994 to the Pennsylvania Public Utility Commission (PUC or Commission). On March 19, 2014, in response to an Opinion and Order adopted and entered by the PUC on March 6, 2014, the FE-PA Companies filed a Revised AMI/Smart Metering Plan that was still awaiting approval as of the end of our field work in April 2014.

The following is a list of the social assistance programs available to customers of the FE-PA Companies.

- Customer Assistance Program (CAP)
- Customer Assistance and Referral Evaluation Services (CARES)
- Emergency Hardship Funds
- Gatekeeper Program
- WARM – a Low Income Usage Reduction Program (LIURP)
- ACT 129 – Low Income Program

CAP helps residential customers maintain electric service and reduce past-due balances by providing access to affordable energy. At Met-Ed, Penelec, and Penn Power, CAP provides a reduced bill to customers with payments based on a percentage of a customer's income and energy usage levels. The program provides low-income customers with monthly CAP credits and debt forgiveness. CAP customers pay their monthly electric service charge minus their monthly CAP credit. At West Penn Power, CAP provides a reduced bill to customers with payments based on a percentage of a customer's income and type of heating source. The program provides low-income customers with monthly subsidy grants and debt forgiveness. Customers pay their

reduced monthly bill amount plus a five dollar arrearage co-pay. The objectives of CAP are to improve a customer's payment ability and consistency, reduce a customer's consumption of electricity, and eliminate arrearages.

The CARES Program provides short-term assistance to customers with temporary special needs. Based upon the circumstances, CARES representatives make referrals to social agencies and provide information on appropriate internal and/or external programs. Over the past several years, CARES has evolved into a component of CAP. The majority of CARES referrals are immediately enrolled into CAP and do not continue as part of the casework load of the CARES representative.

The FE-PA Companies are members of The Dollar Energy Fund, Inc. (Fund). This emergency hardship fund is designed to help residential customers who have suffered a recent financial hardship and need temporary help in paying their electric bill. The bulk of program funding is provided by contributions from FirstEnergy stockholders, employees, and customers. The distribution of funds is administered by the Fund, a non-profit organization, which uses both its own staff and community-based organizations throughout the FE-PA Companies' service territories to provide screening and intake of customer applications for payment assistance. A maximum grant of \$500 may be awarded to a customer during a program year. Grants cannot be used to pay security deposits or reconnect fees. The dates of operation and conditions are as follows:

- October 1 – November 30
 - Applicant's service must be off or they must have an active termination notice
- December 1 – January 31
 - Applicant's service must be off
- February 1 – February 28
 - Applicant's service must be off or they must have an active termination notice
- March 1 – September 30 (Fund balances permitting)
 - All eligible customers regardless of their service status

Gatekeeper is a program designed to recruit field personnel of the FE-PA Companies to recognize and report customers who may be in distress. After field personnel recognize the situation and make a referral, a CARES representative will become involved and make referrals for the customer to seek appropriate assistance through the various programs. Situations include, but are not limited to, the following:

- Communication – A person who appears confused or disoriented
- Economic Condition – Someone expresses difficulty with paying bills
- Social Condition – Older persons living alone or socially isolated

- Physical Limitations – Severe difficulty seeing, speaking, hearing, or moving about
- Condition of Home – In need of repair, neglected yard, accumulation of newspapers, offensive odors, or unattended pets

The WARM Program is the FE-PA Companies' Low-Income Usage Reduction Program (LIURP). The objectives of the WARM Program are to reduce the overall energy consumption, energy bills, and arrearages of the FE-PA Companies' low-income customers and to increase participants' health, safety, and comfort in their homes.

In general, the FE-PA Companies' LIURP Program is comprised of several sub-programs that include the following:

- WARM Plus/Multi-Family (Comprehensive),
- WARM Extra Measures,
- Low Income Low Use Kits (Energy Efficiency Measures – Low Income), and
- Behavior Home Energy Reports.

The Act 129 WARM Plus/Multi-Family Program is an expansion of the existing comprehensive WARM Program that opens the Program up to additional households through additional funding. This Program serves additional homes with energy education and weatherization services. WARM Extra Measures is an expansion of the existing WARM Program by providing additional electric energy savings measures to already participating households above and beyond those measures provided by the WARM. The Low Income Low Use Program provides a kit with energy savings measures and energy education information through direct mail or other direct customer contact channels. Behavioral Home Energy Reports program provides monthly energy usage reports and specific information about each customer's energy usage as well as analysis regarding their usage over time, with specific tips for conserving energy on a monthly basis. The objective of this program is to provide energy efficiency education and awareness for customers to conserve energy in their homes.

Findings and Conclusions

Our examination of the Customer Service function included a review of the organizational structure, current policies and procedures, performance measures and levels, customer information systems, contact centers, universal service, credit and collections procedures, and meter reading. Based on our review, the Companies should initiate or devote additional efforts to improving the efficiency and/or effectiveness of its Customer Service function by addressing the following issues:

1. The FE-PA Companies have reduced meter reading staffing levels in anticipation of implementing smart meter technology which has resulted in some unanticipated declines in meter reading performance.

With the anticipated implementation of smart meters, FirstEnergy initiated and developed staffing strategic plans (including those of the FE-PA Companies) to transition its existing meter readers into other areas of the corporation to minimize its impact to the operations of the meter reading function and to those affected departments. Consequently, some meter readers moved into newly created positions within the FESC Stores and Material Handling Departments as early as December 2011. However, as delays for smart meter implementation occurred in consecutive years, meter reader staffing levels declined by 28% through attrition from 262 in 2009 to 188 in 2013 as shown in Exhibit X-2.

Exhibit X – 2
FirstEnergy Pennsylvania Companies
Meter Reader Staffing Levels*
For the Years 2009 through 2013

	2009	2010	2011	2012	2013	Percent Change
Met-Ed	77	71	58	58	49	-36.4%
Penelec	77	82	66	62	49	-36.4%
Penn Power	18	21	19	17	16	-11.1%
West Penn Power	90	86	92	65	74	-17.8%
FE-PA Companies	262	260	235	202	188	-28.2%

* - Staffing levels do not include supplemental contractor workforce. The figures represent full time employees only.
Source: Data Request No. CS-59

Management stated that meter reading positions will be back filled as a temporary measure with new “contractor” hires until full deployment of smart meters is to be achieved. The FE-PA Companies plan to hire the following numbers of contractor meter readers in the first half of 2014:

- Met-Ed: 12,
- Penelec: 6,
- Penn Power: 3,
- West Penn Power: 5

Other measures implemented to address the meter reading staffing reductions and smart meter transition timing issues also included Penelec and Met-Ed switching from monthly to bi-monthly reads in the second quarter 2011. The transition to bi-monthly reads was completed with the system integration of SAP that took place in April 2012 (explained in Finding and Conclusion No. 2). The system changes made in SAP mirrored the bi-monthly meter reading system that West Penn Power utilized

before Allegheny Energy's merger with FirstEnergy (this merger was discussed in Chapter III – Executive Management and Organizational Structure).

In addition, West Penn Power experienced unique challenges as it transitioned to a “read only” meter reader organization during the merger integration in 2011. Prior to the merger, West Penn Power meter readers were trained to perform three daily tasks: meter reading, collections, and single phase meter work. Read only meter reader positions were established at West Penn Power during its transition to the FirstEnergy operating model. After the merger, West Penn Power's Meter Reading Department was split into three separate Departments: Meter Reading, Collections and Meter Services. With the separation of duties, employees hired into the Meter Reading Department were trained to solely read meters. Starting in 2012 and continuing in 2013, meter readers were offered the opportunity to fill vacant positions in other departments. This restructuring resulted in an influx of new meter readers to staff the read only meter reading function and more experienced meter readers being moved into the Meter Services Department. Consequently, the more experienced meter readers incurred some overtime as new hires were trained and transitioned into the Meter Reading Department.

Beginning in 2008, meter readers were incorporated into FirstEnergy's storm response process with their primary roles designated as either hazard responder or public protector based on the training and experience of the individual meter reader. During 2013 alone, the emergency response process was activated 14 times in which meter readers were utilized. Consequently, management indicated that high billing errors and billing disputes (see Finding and Conclusion No. 3) occurred as meter reading estimates were more frequently employed due to the unavailability of meter readers. As such, meter readers are being utilized during storm outage situations and will continue to be used in this capacity throughout the smart meter deployment period as necessary.

As a result of the meter reading staffing reductions and their incorporation into the storm response process, meter reading performance has declined. Meter Reading Performance reports for 2009-2013 showed that the FE-PA Companies were not achieving their target goals for meter read rates and West Penn Power specifically was not achieving its target goal for error rate which was further concluded and cited as a need for improvement in FirstEnergy's 2013 year-end Executive Leadership Team (ELT) Reports. The target goal for the meter read rate at Met-Ed, Penelec, and West Penn Power was 94%, and the target goal at Ohio Edison, which includes Penn Power, was 75%. The target goal for error rate at Met-Ed, Penelec, and Penn Power was 39.0 per 100,000 reads, and the target goal at West Penn Power was 65.0 per 100,000 reads.

Exhibit X-3 shows the average annual meter read rate and error rate for each of the FE-PA Companies from 2009-2013. Meter read rate is defined as the percentage of the meter reads obtained compared to the meter reads available. This is calculated monthly by dividing the reads obtained by the reads available, and then multiplying by 100. The table indicates performance was below the targeted goal of 94% at Met-Ed,

Penelec, and West Penn Power for all five years with the exception of West Penn Power in 2009 when it was owned by Allegheny Energy. Penn Power, which falls under Ohio Edison's target goal, was above 75% in four of five years, but performance has declined in recent years and was below the targeted goal in 2013. The read error rate is defined as one error per 100,000 reads per total meter reads. This is calculated monthly by dividing the number of errors by the reads obtained, and then multiplying by 100,000. West Penn Power's year-end 2013 read error rate was at 104.2, which was 60% higher than its goal of 65. West Penn Power has also been significantly above its read error rate goal of 65 in 2010 at 184.3, 2011 at 142.7, and 2012 at 84.9. A higher value indicates that more errors are occurring while meter reads are obtained.

Exhibit X – 3
FirstEnergy Pennsylvania Companies
Meter Read Rate and Error Rate
For the Years 2009 through 2013

Meter Read Rate	2009	2010	2011	2012	2013
Met-Ed	84.57%	76.76%	68.70%	86.97%	82.78%
Penelec	79.76%	78.51%	70.49%	90.19%	85.75%
Penn Power	82.24%	75.64%	79.00%	76.70%	69.59%
West Penn Power	94.46%	90.67%	92.86%	85.52%	83.42%
Error Rate	2009	2010	2011	2012	2013
Met-Ed	26.7	42.0	33.3	39.3	35.0
Penelec	31.7	33.7	33.1	33.9	27.6
Penn Power	49.2	36.5	25.5	25.8	37.0
West Penn Power	NA	184.3	142.7	84.9	104.2

NA – Not Available

Source: Data Request No. CS-16

Weekly individual meter reader error reports are generated and reviewed by supervisors and discussions are held on a regular basis with employees in order to measure and identify meter readers who are not achieving the meter read error rate goals. These meetings are designed to help reduce the number of errors committed and to improve the employees' overall performance. New, contracted meter readers who do not show improvement over the course of the first few months of their training are not retained. To further improve meter read performance rates, aside from hiring contractor meter readers, the FE-PA Companies plan to roll out a new reporting tool in 2014 to review meter read rate information daily.

Also to mitigate the effects of poor meter read rates on customer satisfaction, an operational focus has been placed on managing consecutive estimated reads by adding a performance metric to its CustomerFirst Index in 2011. However, as discussed in Finding and Conclusion No. 2, the FE-PA Companies have not been complying with PUC regulations regarding meters not read in six and twelve months. At West Penn Power, meter reading error rates were not established as an individual meter reader performance metric until after the 2011 merger between Allegheny Energy and FirstEnergy. Subsequent to the merger, the meter read error rate goal was initially set higher as management worked to improve the performance of the West Penn Power

meter readers in line with the other FE-PA Companies. Management indicated that the objective is to eventually have one performance goal for all FE-PA Companies in 2014. The overall performance for the FE-PA Companies is influenced primarily by the number of new hires in any given year. New hires tend to incur more errors which can significantly impact the meter read error rates for the entire Department. The average meter reader takes about six months to become proficient in all aspects of their job. Presently at each of the FE-PA Companies, the majority of the meter reads are done by meter readers via handheld devices.

2. The FE-PA Companies are not in compliance with PUC regulations for reading meters within six-month periods and West Penn Power in particular for twelve-month periods from 2008 to 2013.

Pursuant to § 56.12(4)(ii), a utility may estimate the bill of a residential customer if utility personnel are unable to gain access to obtain an actual meter reading. However, at least every six months, the utility must obtain either an actual meter reading or customer-supplied reading to verify the accuracy of prior estimated bills. The Reporting Requirements for Quality of Service Benchmarks and Standards at § 54.153(b)(3)(i) require Electric Distribution Companies (EDCs) to report the number and percentage of residential meters the company has not read in accordance with § 56.12(4)(ii). Under § 56.12(4)(iii), a company may estimate the bill of a residential customer if company personnel are unable to gain access to obtain an actual meter reading. However, at least once every 12 months, the company must acquire an actual meter reading to verify the accuracy of either the estimated or customer-supplied readings. The Reporting Requirements for Quality of Service Benchmarks and Standards at § 54.153(b)(3)(ii) require the EDCs to report the number and percentage of residential meters for which they failed to meet the requirements of this section.

Exhibits X-4 shows the FE-PA Companies' meter reading performance regarding the number of meters not read in six and twelve months, respectively, that appears in the PUC's Bureau of Consumer Services (BCS) Customer Service Performance Reports for the years 2008 through 2013. As shown in Exhibit X-4, the FE-PA Companies have not been in compliance with PUC regulations. In particular, West Penn Power experienced an increase in the number of meters not read in six months from 111 to 879 or approximately an eight-fold increase from 2008 to 2013 with a high of 2,135 in 2012. The other three FE-PA Companies meanwhile have experienced decreases in the number of meters not read in six months from 2008 to 2012 but have trended negatively upward again in 2013. West Penn Power experienced the same issue with respect to meters not being read in a 12-month period specifically since 2010.

Subsequent to the merger, West Penn Power experienced a significant increase in the number of meters not timely read in 2012 while implementing FirstEnergy's software and integrating into FirstEnergy's customer service information system. The FE-PA Companies review the meter reading data monthly as well as year-end as was done at Allegheny Energy. As is common with implementation of new software and

Exhibit X – 4
FirstEnergy Pennsylvania Companies
Number of Residential Meters Not Read in Six Months and Twelve Months
For the Years 2008 through 2013*

No. of Meters Not Read in 6 Months	2008	2009	2010	2011	2012	2013
Met-Ed	392	464	433	331	95	315
Penelec	287	316	260	228	20	55
Penn Power	29	72	76	30	15	22
West Penn Power	111	90	400	280	2135	879
No. of Meters Not Read in 12 Months	2008	2009	2010	2011	2012	2013
Met-Ed	77	106	96	29	5	11
Penelec	35	22	18	2	0	3
Penn Power	5	9	11	3	2	1
West Penn Power	3	1	19	16	81	33

Source: 2008-2013 BCS Customer Service Performance Reports

* - Numbers shown above are a 12 month average

integration into a new system, West Penn Power experienced many glitches. This created a backlog of metering data to be entered and processed. Once fully implemented, West Penn Power anticipates that its number of meters not read in both 6 and 12 months periods will return to its pre-merger or better performance level. This transition to a different system reportedly created a one-time anomaly.

Ultimately, the implementation of the smart meter technology should significantly reduce and potentially eliminate all of the number of meters not being read within six or twelve month periods. However, until full implementation of smart meters is achieved, the FE-PA Companies may continue to be susceptible to meter problems (e.g., fast or slow meter), including theft of service, when a meter is not read by a utility contractor or employee within the 6-month or 12-month period and consequently not in compliance with PUC regulations at § 56.12(4)(ii) and § 56.12(4)(iii).

3. The FE-PA Companies' billing reversals have been increasing and a significant amount are classified as miscellaneous.

The percentages of total bills that require billing reversals are shown below in Exhibit X-5. A billing reversal is used if an adjustment is required to be performed on a customer's account in which bills may be voided and new bills issued. Billing reversals are shown as a percentage of total bills. Billing reversals have been higher in recent years at each of the FE-PA Companies except for Penn Power.

The Customer Accounting Department indicated that major weather events in 2011 and 2012 resulted in a rise in billing reversals. Meter readers in these instances were used for storm response activities which led to an increase in the frequency of estimated meter readings (see Finding and Conclusion No.1). The increase in bill

Exhibit X – 5
FirstEnergy Pennsylvania Companies
Billing Reversals as a Percentage of Total Bills
2009 - 2013

	2009	2010	2011	2012	2013
Met-Ed	1.61%	2.02%	4.17%	4.94%	3.67%
Penelec	1.94%	2.03%	3.64%	3.94%	3.71%
Penn Power	3.41%	3.71%	3.54%	2.78%	2.41%
West Penn Power	NA	NA	NA	3.41%	3.80%
FE-PA Companies	2.32%	2.59%	3.78%	3.77%	3.63%

*2009 - March 2012 billing reversals are not available for West Penn Power

*Allegheny Energy conversion to SAP (April 2012)

Source: Data Request No. CS-2

reversals is directly related to the increase in estimated meter readings, including a combination of monthly and consecutive estimates.

The FE-PA Companies stated steps taken to limit consecutive meter read estimates have included:

- Met-Ed and Penelec transitioned to bi-monthly meter reading in the second quarter 2011 as discussed previously in Finding and Conclusion No. 1. Under the bi-monthly meter reading approach, meter reading routes were staggered as such to better align available manpower to scheduled workloads. This, in theory, would provide a more effective means of successfully obtaining actual reads by having sufficient staff available to provide coverage for both planned (i.e., scheduled meter reads, make-up reads, etc.) and unplanned (i.e., absenteeism, weather events, further meter read attempts) events. Consequently, this in turn should minimize the number of consecutive months of meters not being read and ultimately reduce estimates from occurring over six and twelve consecutive month periods. However, as discussed in Finding and Conclusion No. 2, the FE-PA Companies have not been complying with PUC regulations regarding meters not read in six and twelve months. At Penelec, the Meter Reading Department's front line supervision is reportedly held accountable for planning and scheduling routes to avoid consecutive estimates and their performance is measured and reviewed monthly to ensure Penelec is achieving its goal to limit consecutive estimates that may impact the accuracy of a customer's bill. Although this transition to bi-monthly meter reading has reduced the number of consecutive estimated meter reads, as shown in Exhibit X-4, there are still instances of meters not being read by FE-PA Company employees in a 12-month period.
- Penn Power places a high awareness on minimizing the number of consecutive estimates in their service territory, with supervision utilizing data reports provided by the Customer Service Analytics Department. There is

also a high focus on the reduction of the amount of read errors to help ensure customers receive accurate bills.

- West Penn Power attempts to plan and schedule the work to minimize the number of estimated bills which may lead to complaints. West Penn Power has also evaluated areas receiving a higher number of complaints and is staffing these areas accordingly. However, performance is poor as evidenced in Exhibit X-4.

There are 22 codes (e.g., a code for an over estimate) used within the Customer Accounting Department that could trigger a billing reversal. However, a significant number of billing reversals are being classified as miscellaneous. Of these 22 codes, the Audit Staff determined that seven of the codes are controllable by the FE-PA Companies to be minimized or prevented. Billing reversals in general increase customer dissatisfaction and create billing lag that can lead to delayed and disputed payments resulting in additional expenses and a decrease in cash flow for the FE-PA Companies. For example, by eliminating the controllable billing reversals from occurring, and thereby reducing billing lag, the FE-PA Companies could have increased their cash flow and realized an average annual savings of approximately \$27,000 to \$31,000 in avoided interest from borrowing from the FirstEnergy Money Pool. The estimates are based upon the average total bill for each of the FE-PA Companies and the FirstEnergy Money Pool interest rate of 1.4% as of October 2013. Although the individual amounts for each of the FE-PA Companies does not appear to be material at this time, the degree of customer dissatisfaction could increase and the amounts could become material should the preventable billing reversal become more prevalent and/or the interest rates for borrowing were to increase in the future.

4. The FE-PA Companies' have experienced high Customer Service Representative turnover levels as well as declining and slightly below average contact center performance, particularly for West Penn Power, when compared to a Panel Average of PA EDCs.

Customer Service Representative (CSR) turnover rates which reflect both internal and third party CSRs has steadily increased from a low of 12.75% in 2009 to a high of 24.9% in 2013. More specifically, the full-time equivalent CSR turnover rates by year were as follows:

- 2009 – 12.75%
- 2010 – 14.02%
- 2011 – 19.23%
- 2012 – 22.92%
- 2013 – 24.89%

Turnover rates have increased in general and more specifically during 2011 and 2012, reportedly due in large part to the CSRs overtime demands associated with major weather events during this period and/or adaptation to FirstEnergy's new Customer Service Information System in its Fairmont Contact Center. Additionally, the Reading Contact Center competes with other regional call centers that offer very attractive starting wages for CSRs. The Contact Center Department stated that in 2013 they have benefited from stable weather, improved staffing forecasting models, and improved screening during new CSR hiring. However, 2013 turnover levels remain significantly higher than in prior years. Achieving a CSR turnover closer to the level accomplished in 2009 should help improve contact center performance and avoid costs associated with hiring and training new employees.

While the Contact Center Department was able to hire new employees as a result of the CSR turnover, the hiring process and training requires between 75 and 120 days. Over a four year period from 2010 to 2013, the FESC reported the additional cost for recruiting, hiring and training was estimated to range from \$978,000 and \$1,230,000. The potential savings from reducing CSR turnover for each of the FE-PA Companies, as shown in Exhibit X-6, are based upon the related CSR costs allocated to each of the FE-PA Companies for the years 2010 through 2013.

Exhibit X – 6
FirstEnergy Pennsylvania Companies
Potential Annual Savings from Minimizing
Customer Service Representative Turnover
For the Years 2010 through 2013

	Potential Annual Savings from Avoided Turnover Costs
Met-Ed	\$67,102 - \$84,392
Penelec	\$71,095 - \$89,414
Penn Power	\$19,529 - \$24,561
West Penn Power	\$86,774 - \$109,132
FE-PA Companies	\$244,500 - \$307,499

Source: Data Request No. CS-113 and Auditors Analysis

Exhibit X-7 shows the contact center performance regarding the busy-out rate, call abandonment rate, and calls answered within 30 seconds compared to a panel average that appears in the BCS Customer Service Performance Reports for the years 2008 through 2013. A lower busy-out rate and call abandonment rate, and a higher percentage of calls answered within 30 seconds are indicative of better performance.

West Penn Power's contact center performance from 2008 to 2013 falls below what other EDCs in Pennsylvania have shown over the same period of time. In particular, West Penn Power's call abandonment rate in 2013 was almost two times the panel average, and their calls answered within 30 seconds are 11% below the panel average. The Contact Center Department indicated that performance was significantly

Exhibit X – 7
FirstEnergy Pennsylvania Companies versus Panel Companies
Busy-Out Rate, Call Abandonment Rate, and Calls Answered Within 30 Seconds
For the Years 2008 through 2013

<i>Busy-Out</i>	2008	2009	2010	2011	2012	2013
Duquesne	0%	0%	0%	0%	0%	0%
PPL	3%	1%	0%	0%	0%	1%
UGI-Electric	12%	2%	3%	0%	0%	2%
PECO	0%	0%	0%	1%	1%	0%
Panel Average	4%	1%	1%	0%	0%	1%
FirstEnergy	0%	0%	0%	6%	2%	0%
West Penn Power	0%	0%	0%	0%	1%	1%
<i>Call Abandonment</i>	2008	2009	2010	2011	2012	2013
Duquesne	4%	3%	3%	3%	3%	3%
PPL	2%	2%	3%	3%	2%	6%
UGI-Electric	5%	7%	8%	4%	3%	4%
PECO	3%	3%	6%	5%	4%	2%
Panel Average	4%	4%	5%	4%	3%	4%
FirstEnergy	3%	3%	3%	3%	4%	4%
West Penn Power	6%	5%	5%	5%	9%	7%
<i>Answered in 30 seconds</i>	2008	2009	2010	2011	2012	2013
Duquesne	80%	78%	77%	76%	77%	80%
PPL	76%	81%	79%	82%	83%	75%
UGI-Electric	87%	80%	78%	82%	85%	80%
PECO	80%	81%	77%	80%	85%	85%
Panel Average	81%	80%	78%	80%	83%	80%
FirstEnergy	81%	78%	80%	80%	78%	82%
West Penn Power	56%	60%	66%	62%	65%	69%

Source: 2008-2013 BCS Customer Service Performance Reports

impacted by major weather events in 2011 and 2012, which increased the volume of calls to the contact centers. In addition, the training and implementation of a new customer service system at the Fairmont Contact Center had a negative short term impact. In April 2012, full integration of the Fairmont contact center along with a virtual call process took place, enabling calls across the system to be routed to the next available qualified CSR. Performance was impacted at the time of implementation in April 2012 until July 2013. Although all contact center performance metrics have improved at year-end 2013, the majority of the improvements in performance occurred in the first 15 months after implementation. According to the Contact Center Department, in 2012, the performance for calls answered within 30 seconds was on track to achieve 80% until Hurricane Sandy caused a large amount of outages, both in number and duration.

In 2012, as a result of the decline in call center performance, measures were implemented to accommodate periods of significant call volumes, particularly during major events. These measures included analysts performing continuous real time

monitoring of call volumes to maximize the use of available resources; and offering customer mobile phone applications which enables customers to report power outages. Both of these measures are expected to lead to improvements in performance metrics. Inbound telephone capacities are monitored on a daily basis and calls are routed between the three major Contact Centers. Calls for all of the FE-PA Companies are able to be handled by each of these three major Contact Centers. When necessary, a third party vendor is utilized in order to realize full utilization of resources and minimize busy signals.

Poor contact center performance could result in a decrease in customer satisfaction since the customers may have difficulty contacting the utility in hopes of resolving any questions or problems they may have. The contact center performance of the FE-PA Companies should be comparable to the other Pennsylvania EDCs included in the BCS panel by examining potential policy, procedure, training, turnover, and staffing changes.

5. The number of residential disputes with a response time greater than 30 days has been increasing significantly for the FE-PA Companies.

When a customer registers a dispute with a utility concerning an issue with respect to Chapter 56 regulations, a utility is to respond to the complaining party within 30 days of the initiation of the dispute pursuant to § 56.151(5). Exhibit X-8 shows the residential disputes with a response time greater than 30 days for the FE-PA Companies for the years 2008 through 2013.

Exhibit X – 8
FirstEnergy Pennsylvania Companies
Residential Disputes with a Response Time Greater Than 30 Days
For the Years 2008 through 2013

	2008	2009	2010	2011	2012	2013
Met-Ed	2	2	11	462	2,604	2,109
Penelec	2	1	12	500	1,851	1,379
Penn Power	2	1	5	232	274	167
West Penn Power	15	15	14	3	2,338	1,580

Source: 2008-2013 BCS Customer Service Performance Reports

The FE-PA Companies' residential disputes with a response time greater than 30 days were drastically higher in 2011, 2012, and 2013. While improvements have occurred in 2013, Met-Ed, Penelec, and West Penn Power are still significantly higher than previous years. In general, performance has improved slightly in 2013 for the FE-PA Companies, but has not returned to levels prior to 2011.

The Contact Center Department indicated the focus of integrating all the prior Allegheny Energy EDCs, including West Penn Power, into the SAP Customer Care System impacted the timely completion of residential disputes. Integration began in

March 2011 and was completed in April 2012. CSRs were cross trained to handle West Penn Power customer calls and related inquiries, including the completion of reports for open disputes. The reasons for the delay in response to disputes include higher than anticipated attrition (see CSR turnover levels addressed in Finding and Conclusion No.4), increased average handle times (AHT) due to CIS system integration issues, and resource allocations to respond to the major storm events in 2011 and 2012 (see Finding and Conclusion No. 4). Improvements in the Contact Center operations were made by year-end 2012 in which AHTs were lowered resulting in more time to complete the residential disputes. Despite these changes, the FE-PA Companies are not in compliance with § 56.151(5).

6. Met-Ed and Penn Power have experienced higher than average arrearages per residential customer than a panel of Pennsylvania electric distribution companies.

As shown in Exhibit X-9, Met-Ed has experienced average arrearages per residential customer above a panel average of Pennsylvania EDCs in 2008, 2011, and 2012, while Penn Power exceeded the panel average for the entire period from 2008 through 2012.

Exhibit X – 9
FirstEnergy Pennsylvania Companies versus Panel Average
Average Arrears per Residential Customer
For the Years 2008 through 2012

	2008	2009	2010	2011	2012
Duquesne	\$483	\$508	\$539	\$509	\$501
PPL	\$437	\$452	\$480	\$565	\$593
PECO	\$388	\$478	\$449	\$455	\$539
Panel Average	\$436	\$479	\$489	\$510	\$544
Met-Ed	\$441	\$443	\$488	\$559	\$588
Penelec	\$364	\$352	\$370	\$444	\$508
Penn Power	\$494	\$543	\$559	\$563	\$558
West Penn Power	\$87	\$98	\$112	\$116	\$206
FE-PA Companies	\$347	\$359	\$382	\$421	\$465

Source: 2008-2012 BCS Reports on Universal Service and Collections Performance

Management contends that various internal and external factors influence arrearages over the course of any period. Internal factors include the implementation of regulatory changes such as Chapter 14, a decrease in Customer Assistance Program participation as a result of customers being removed for not recertifying, staffing issues stemming from work stoppages, systems integration issues related to the Allegheny Energy merger, and collection strategies and policies. External factors cited by management include economy volatility and major weather events. More specifically, the national and Pennsylvania economies experienced a recession during this time period and rising unemployment levels affected many customers' ability to pay. Major weather events included three hurricanes and other major storms that impacted the

FE-PA Companies during 2011 and 2012. To help customers while they recovered from the major weather events, credit policy and termination practices were adjusted, payment plans with longer terms were given, and service terminations for non-payment were suspended.

Another factor that management contends impeded the FE-PA Companies' ability to address customer arrears in a timely manner is the current PUC complaint process. When customers in Pennsylvania file informal and formal complaints with the PUC, the FESC Compliance Department is made aware of these complaints and a dunning lock is applied to the respective account which prevents the FE-PA Companies from pursuing these disputed arrearages until a decision is rendered. According to management, in most cases these dunning locks impede the FE-PA Companies' ability to collect during the non-moratorium collection season from April to November, particularly in instances where complainants file numerous consecutive informal and/or formal complaints in efforts to avoid termination for nonpayment. However, the situation whereby customers file multiple informal complaints should no longer be prevalent since the implementation of Chapter 14 of the Public Utility Code in late 2004 that typically only permits the customer one attempt through the informal complaint process with BCS to make a payment arrangement on a balance to an account that is subject to service termination. Furthermore, utility companies are permitted to terminate customers for balances that accrue beyond the contested amounts which resulted in a dunning lock.

During 2013, there was a return to more normal operations and execution of FE-PA Companies' credit and collection strategies. The absence of major storms during 2013 allowed the FE-PA Companies to return to consistent regulatory practice with issuing notices to customers in arrears and terminating customers for non-payment. The FE-PA Companies consistently utilized outbound calling to customers for reminder and regulatory notices when balances remained unpaid. Furthermore, current actions to address arrears have included maintaining a consistent strategy with field collection of delinquent accounts and assessment of security deposits where warranted to protect against loss.

Consequently, Met-Ed and Penn Power could realize a combined average annual savings of approximately \$24,000 in interest rate expenses by reducing arrearages to the panel average assuming the increased cash flow would alleviate a need to borrow from the FirstEnergy Money Pool at an interest rate of 1.4%. Individually the savings for Met-Ed and Penn Power are relatively immaterial due to the low interest rate for borrowing for this period.

Arrearages should be reduced through the use of social assistance programs for low-income customers, increasing the use of credit checks, security deposits, skip tracing, and persistent collection of delinquent accounts

7. The FE-PA Companies do not consistently track and measure provisioning standards for new service installations.

The FE-PA Companies have established policies and procedures for all service installations which are categorized as follows: new service installations requiring no construction of electric facilities; new service installations requiring construction of electric facilities; and service upgrades. Ten day provisioning standards have been established for new service installations requiring construction of electric facilities and service upgrades and three day provisioning standards for new installations requiring no construction of electric facilities. However, performance relative to the ten day provisioning standard is only monitored by Penelec and Penn Power and performance relative to the three day provisioning standard is not monitored by any of the FE-PA Companies. Consequently, there is little data available to evaluate the FE-PA Companies actual provisioning performance, but scheduling delays and service extensions complaints tracked internally have increased from 93 in 2009 to 221 in 2013 indicating declining performance.

As they are currently operating, the FE-PA Companies are not effectively monitoring performance relative to expected service request provisioning standards and consequently are not always achieving their desired installation target dates, which in turn can result in a decrease in customer satisfaction and increases in customer complaints.

8. A customer meter record database is not maintained and a portion of meter locations are classified as unknown.

As a result of the Audit Staff requests for customer meter set location data (i.e., number of meters located inside or outside customer premises) by FE-PA Company, the Audit Staff noted that a sizeable number of meters were classified as unknown. The number and percentage of meters located either inside or outside of a customers' premise, or classified as unknown for each of the FE-PA Companies are shown in Exhibit X-10. The Audit Staff then requested the same information by customer class for each FE-PA Company. However, the FESC's Metering and Supports Systems Department responded that this type of information was not readily available and is not maintained. Also, the meters designated as unknown have a blank location field attached to the meter record as the meter location field is not a required field in the system of records.

As far as billing information is concerned, the service amperage and rate drive the selection of the correct meter necessary to bill the customer. Customers are classified into revenue classes and the rate and classification fields are available in the meter records. FESC's billing system contains information such as meter location and customer class and can be referenced for a specific customer if needed.

Management indicated as a result of multiple mergers that customer account information was not fully converted from system to system and unknown meters account for a very small portion of its overall meter totals. Some meters in the FE-PA Companies' service territory were originally placed indoors, and over time, more meters were placed outdoors during new service installations. Indoor meters are also not

Exhibit X – 10
FirstEnergy Pennsylvania Companies
Number and Percentage of Meters Located Inside, Outside, or Unknown
As of September 27, 2013

	Unknown	Inside	Outside	Total
Met-Ed	1,652	25,467	531,997	559,116
	0.30%	4.55%	95.15%	100.00%
Penelec	1,135	20,122	574,187	595,444
	0.19%	3.38%	96.43%	100.00%
Penn Power	1,190	5,620	164,157	170,967
	0.70%	3.29%	96.02%	100.00%
West Penn Power	2,918	23,917	684,246	711,081
	0.41%	3.36%	96.23%	100.00%

Source: Data Request No. CS-50

considered to be an issue by the FE-PA Companies and there are currently no efforts to move meters outside or to classify the unknown meters.

Customer meter information is not readily available by FESC's Meter and Supports Systems Department to ensure data integrity and reliable data for annual reporting to the PUC. Meter reading by an employee or contractor for the utility (see Finding and Conclusion Nos. 1 and 2) and/or problems with a meter may not be able to be properly addressed if a meter is located inside a customer's premises or the location is unknown and accessibility is an issue. Problems can also be exacerbated due to a lack of readily available information interfaced with the customer billing information system such as meter number, meter address, location inside/outside of customer's property, customer class, customer account number, etc.

By maintaining a database and reports of meters in service with updated information for each meter; such as meter number, meter address, location inside/outside of a customer's property, customer class, and even customer account number, a utility is able to quickly identify information that would be needed for meter reading and billing purposes as well as assist in service restoration efforts to identify locations experiencing a service interruption. Unknown meter information, such as the address of the meter, the location of the meter inside/outside of the property, and customer class should be systematically resolved when the meter is actually read, and/or the customer billing information should be cross-referenced to the meter database. As discussed in the Background section of this chapter, the implementation of smart meters could also effectively address the problems identified.

Recommendations

- 1. Improve meter reading performance levels through increased staffing and/or use of contractors while implementing smart meter technologies.**

- 2. Initiate measures to comply with PUC regulations by eliminating and/or substantially reducing the number of meters not read within six and twelve month periods.**
- 3. Reduce billing reversals and meter estimates by implementing appropriate process and procedure improvements, and better determining the cause by beginning to classify miscellaneous billing reversals.**
- 4. Implement measures to improve the Contact Center performance levels including efforts to reduce Customer Service Representative turnover levels.**
- 5. Initiate measures to eliminate or substantially reduce the frequency of residential disputes that are not responded to in 30 days as required by PUC regulations.**
- 6. Expand efforts to reduce arrearages to levels comparable with a panel of PA EDC averages.**
- 7. Monitor all new service installation performance to ensure new service installations are being completed within the targeted deadlines.**
- 8. Develop and maintain a customer meter record database which provides accurate data for reporting purposes, and eliminates unknown meter location classifications as part of the AMI implementation process.**

XI. HUMAN RESOURCES

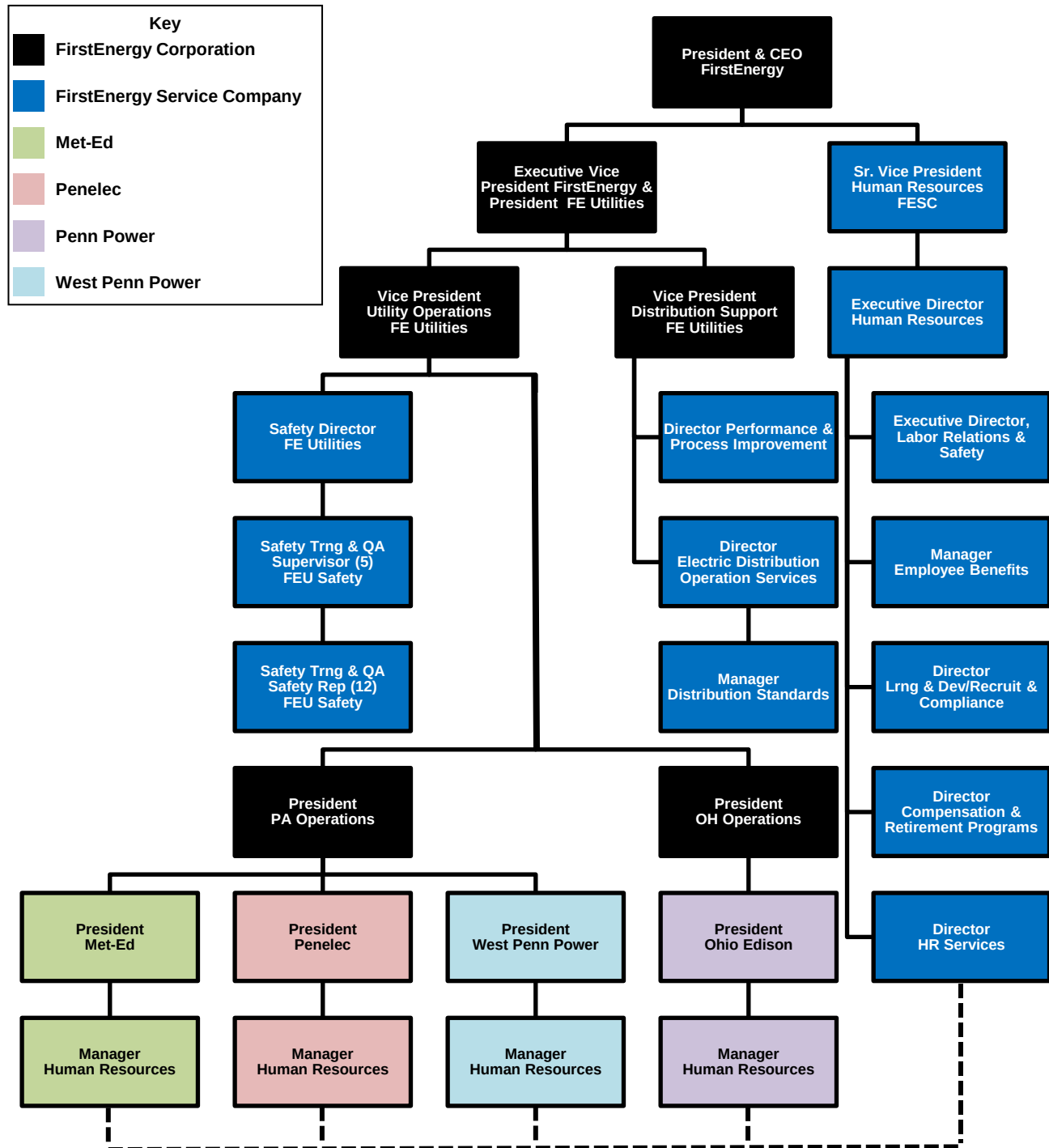
Background

As discussed in Chapter II – Background, FirstEnergy Corporation’s (FirstEnergy or FE) Regulated Distribution business segment distributes electricity through FirstEnergy’s ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. Penn Power is a subsidiary of Ohio Edison Company (Ohio Edison), another FirstEnergy Utilities electric distribution operating company, and therefore operationally Penn Power is treated as a division of Ohio Edison. FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates including Human Resource (HR) services. The HR functions for FirstEnergy and the FE-PA Companies are performed by a combination of personnel within FirstEnergy, FESC and each of the FE-PA Companies. The reporting structure for the applicable HR positions that perform work for or on behalf of the FE-PA Companies is displayed in Exhibit XI-1.

Reporting to the President and Chief Executive Officer of FirstEnergy are the Senior Vice President (VP) of FirstEnergy and President of FE Utilities (FEU), under which responsibilities including safety reside, and the Senior VP of HR for FESC, under which traditional HR responsibilities reside⁸. Reporting to the Senior VP of FirstEnergy and President of FEU is the VP of Utility Operations for FEU, who oversees the work of the FEU Director of Safety (an FESC employee), and the VP of Distribution Support for FEU, who oversees the work of the Director of Performance and Process Improvement (also FESC), and the Director of Electric Distribution Operations Services (also FESC) both of which have safety related roles as part of their responsibilities. The Manager of Distribution Standards, who reports to the Director of Electric Distribution Operations Services, is also responsible for safety related issues (all interactions with safety related issues will be detailed later in the report). At FirstEnergy, there is no direct reporting relationship between the FEU Director of Safety to any positions within the FE-PA Companies; however, the FEU Director of Safety is responsible for five Supervisors who are in turn responsible for two to four Safety Representatives each of whom provides support to the FE-PA Companies with safety audits, facility audits, feedback, and assisting in training if needed. Each Safety Representative has an assigned area which corresponds to a geographical portion of Pennsylvania. This usually corresponds to a portion of one or more of the FE-PA Companies’ operating territories. For example, one Safety Representatives is responsible for an area of Pennsylvania which has portions of both Penelec’s and West Penn Power’s service territories. Reporting to the FESC Senior VP of HR is the Executive Director of HR who has five reports: the Executive

⁸ At FirstEnergy, safety responsibilities are considered separate from traditional HR functions but in this audit report safety related concerns will be discussed in this HR Chapter.

**Exhibit XI – 1
FirstEnergy Corporation
Human Resources Structure
As of January 1, 2014**



Source: Data Request FM-27

Director of Labor Relations and Safety, the Manager of Employee Benefits (e.g., health care, insurance); the Director of Learning and Development, Recruiting and Compliance that among other areas is responsible for the development and coordination of FirstEnergy's Affirmative Action Program (AAP); the Director of Compensation and Retirement Programs (e.g., pensions); and the director of HR Services (e.g., health and absence management among other areas) who has an indirect or "dotted line" reporting relationship with the four HR managers from each of the FE-PA Companies.

The HR Managers at each of the FE-PA Companies report to their respective Operating Company President who in turn report to the President of State Operations. The President of State Operations reports to the Vice President of Utility Operations for FEU. The HR Manager at each of the FE-PA Companies is responsible for traditional HR responsibilities but also has assistance from the various FESC positions as needed.

FirstEnergy uses an SAP based HR information system (HRIS) and utilizes the "FirstEnergy Today" portal for reporting HR activities. Standard HR reports that can be generated include, but are not limited to: benefits and payroll, leave and attendance, employee information (including temporary employees), time reporting, job position information, hiring, transfers, retirements, terminations, and training reports. Additionally, HR staff can modify existing reporting tools to design customized reports to extract specifically needed information from the HRIS.

FirstEnergy's employee benefits are generally universal for all employees (i.e., union, exempt, and executives), with the exception of some benefits which are different for specific unions. The following employee benefits are offered to FirstEnergy, FESC, and FE-PA Company employees in 2013:

- Healthcare – employees and eligible dependents have a choice of Preferred Provider Organizations or a Consumer High Deductible Health Plan (HDHP), which includes a Health Savings Account option Open enrollment, is conducted every year in the fall.
- Prescription Drug Plan – employees and eligible dependents have a choice of two prescription drug plans. If the Consumer HDHP is selected, it includes prescription drug coverage. For medical and prescription drug coverage, FirstEnergy contributes 85% for the cost of employee coverage and 75% for dependents.
- Dental Plan – two plans are offered. Employees choose from either Basic Dental coverage or Plus Dental coverage depending on the needs of the employee and their dependents.
- Vision Plan – two plans are offered. Employees receive the Basic Vision Plan at no cost if they enroll in a medical plan. They also have a choice of purchasing a Supplemental Vision coverage depending on the needs of the employee and their dependents.

- Life insurance – FirstEnergy provides Basic Group Life Insurance at no cost to the employee. Employees are offered the option of purchasing Supplemental Group Life Insurance, Dependent Life and Accidental Death and Dismemberment coverage.
- Pension – there are multiple pension plans depending on date of hire and eligible group (i.e., non-bargaining, multiple unions) but in general, employees can retire as early as age 55 with 10 years of service. The formula for payout is based on years of service, earnings, and type of retirement (normal retirement is at 65 with early and deferred retirement options available).
- Long-Term Disability (LTD) – provides benefits equal to 50% of base earnings, in effect at the start of disability and supplemental LTD with an additional 16 2/3% disability income coverage.
- Savings Plan – employees are 100% vested in contributions at all times and the FirstEnergy matches 50% up to the first 4% of eligible earnings.
- Workers' Compensation – for job-related injuries or illnesses. Disability compensation for lost-time claims is paid in accordance with the scheduled levels of pay specified for the workers' compensation laws of Pennsylvania.
- Healthy Living Program – provides opportunities for employees to improve their health and well-being by assisting with the identification of personal health risks, offering tools to make positive long-term health choices and rewarding employees' progress toward their goals. Included is a health risk assessment, biometric screening, health coaching, condition management, wellness workshops and a payroll credit incentive for participating and meeting specific results criteria.
- Education Assistance Plan – helps employees further their development by assisting them with the costs of satisfactorily completed courses of study that are directly related to FirstEnergy's business. If requirements are met, reimbursement of 90% for a letter grade of an "A" is provided, 80% for a "B", a "C" or no letter grade is 70% up to an annual maximum of \$5,250. There is no reimbursement for a "D", "F", or an incomplete grade. FirstEnergy will also fully reimburse continuing education costs for recertification or re-licensing of certain professional accreditations at 100% up to \$1,500 per course.
- Work/Life Employee Assistance Program – offers resources designed to help the employee deal with a variety of work and life issues with confidential assessment, treatment, and referral services for employees and their dependents who are experiencing personal problems. Crisis intervention, personalized counseling, and family counseling are offered through this program.

Due to the requirements from The Patient Protection and Affordable Care Act (ACA⁹), FirstEnergy recently has had to make some changes to its health care provisions. A significant number of the ACA requirements were already in place at FirstEnergy (e.g., pre-existing conditions, preventable care provisions), and others have been added to ensure compliance including extended coverage for young adults. The majority of the provisions were implemented prior to January 1, 2013; however, some provisions will be implemented by January 1, 2016.

The Audit Staff reviewed the Total Compensation Program offered by FirstEnergy. The Compensation Section of FESC's HR Department is responsible for developing, implementing, and administering the program. The foundation of FirstEnergy's compensation philosophy is to reward individual performance, business unit and corporate results which are reflected in both base (i.e., merit) and variable (i.e., incentive or bonus) pay. FirstEnergy determines compensation levels and hourly rates (i.e., standard rates) through market pricing. The process begins with the participation in a variety of compensation surveys from various major consulting companies. The survey data is analyzed at the median (50th percentile) to assist in determining an appropriate standard rate for respective positions. Employees have the ability to achieve additional compensation based on individual performance. To encourage pay for performance, a salary range encompassing 80% to 120% of the standard rate is used. Employees performing the full scope of their job are typically compensated within a range of 90% to 105% of the standard rate. The high end of this range is applicable for employees with sustained exceptional performance. Employees not yet performing the full scope of the job are typically paid at the lower end of this range. Market pricing surveys are reviewed and updated annually.

In addition to base pay, the employee Short Term Incentive Compensation Program provides incentive awards to employees whose contributions support the successful achievement of Corporate Financial and Operational Key Performance Indicators (KPI). The corporate performance goals consist of FirstEnergy System KPIs which include financial and safety goals. Additionally, employees may also have operational goals that consist of specific Business Unit KPIs. Each KPI has a threshold, target, and stretch level of achievement (each level rewarded with increasing compensation respectively). All KPIs assigned to an employee are weighted based on the applicable incentive target percentage driven by an employee's standard rate. The nature, number, weighting, and targeted achievement levels of operational KPIs are at the discretion of the Business Unit's Vice President (e.g., the President of FEU for the FE-PA Companies, etc.). The Business Unit leadership is responsible for informing employees of the operational KPIs and the final KPI results achieved. There are various target levels, depending on business unit/job position. A sample KPI for 10% target levels with general descriptors is displayed in Exhibit XI-2.

⁹ Some provisions of the ACA first became effective on July 1, 2010. Various provisions have different effective dates with the last pertaining to FirstEnergy being the first quarter of 2016.

Exhibit XI – 2
FirstEnergy Corporation
Sample Key Performance Indicator (10% Target Level)
For the Year 2013

Financial Award Table				
Corporate Financial KPIs	Weight	Threshold	Target	Stretch
Financial KPI # 1 Award Potential	20%	1.00%	2.00%	4.00%
Financial KPI # 2 Award Potential	10%	0.50%	1.00%	2.00%
Subtotal	30%	1.50%	3.00%	6.00%
Operational KPIs	Weight	Threshold	Target	Stretch
Operational KPI #1 Award Potential	15%	0.75%	1.50%	2.25%
Operational KPI #2 Award Potential	15%	0.75%	1.50%	2.25%
Operational KPI #3 Award Potential	15%	0.75%	1.50%	2.25%
Operational KPI #4 Award Potential	15%	0.75%	1.50%	2.25%
Operational KPI #5 Award Potential	10%	0.50%	1.00%	1.50%
Subtotal	70%	3.50%	7.00%	10.50%
Total Award Table				
Award	Weight	Threshold	Target	Stretch
Corporate Financial Award Potential	30%	1.50%	3.00%	6.00%
Operational Award Potential	70%	3.50%	7.00%	10.50%
Total Award Opportunity	100%	5.00%	10.00%	16.50%

Source: Data Request HR-11

The Audit Staff reviewed individual compensation levels at FirstEnergy which included positions from the parent, FESC, and each of the FE-PA Companies. Corporate level, management level, and non-management level positions were all included as part of this review. Among the positions reviewed, there were various examples of employees which were paid below, at, and above the market rates which reflect FirstEnergy's position that employees are compensated based on merit. Additionally, various degrees of KPIs were earned in the compensation levels reviewed. Based on this sample, it appears that FirstEnergy is compensating its employees based on its established compensation objectives.

All approved FEU safety programs are compliant with Federal, State, and Local regulations as well as being reflective to current FEU Safety/Corporate Health and Safety Policies and Practices. Once a program is devised, each of the FE-PA Companies has the option of developing region-specific programs if there are additional needs unique to the respective operating company. Any region-specific program modifications are to be made in compliance with all federal, state, and local regulations. As of year-end 2013, FESC's Performance and Process Improvement Department, in conjunction with the FEU Safety Department and FESC's Distribution Standards Department, completed a work practice initiative in which the legacy practices of

Allegheny (all former Allegheny Energy companies) and legacy FirstEnergy (all FirstEnergy companies prior to the Allegheny Energy acquisition, including Met-Ed, Penelec, and Penn Power) were reviewed and consolidated into one work practice for all of FirstEnergy. A series of teams, comprised of subject matter experts from both legacy companies, convened to review and rewrite all work practices.

The Pennsylvania Public Utility Commission (PUC or Commission) has encouraged utilities to proactively improve diversity in their workforce and purchasing efforts for more than two decades. In March of 1992, the Commission issued a Secretarial letter directing all jurisdictional utilities affected by Section 516 of the Public Utility Code (i.e., utilities whose plant-in-service exceeds \$10 million) to file quarterly diversity status reports with the Commission. In May of 1994, the Commission issued an Order directing Section 516 utilities to file diversity status reports semi-annually rather than quarterly, to submit Equal Employment Opportunities plans annually, and to file certain diversity procurement data. In February 1995, the Commission adopted Chapter 69 regulations which encouraged utilities to include diversity efforts as a component of their business strategy. Later, in March of 1997, the Commission's diversity filing requirements changed from semi-annual to annual.

FirstEnergy has filed annual diversity reports on behalf of each of the FE-PA Companies with the PUC since 1995¹⁰. Included in the diversity reports are sections related to the diversity policies related to HR and procurement for each of the FE-PA Companies. In its annual diversity filing, FirstEnergy submits a separate HR section for each of the FE-PA Companies; however, because FirstEnergy procures materials and services through a centralized approach for all of its affiliates, the narrative and statistical information for the procurement section of the filing is provided on a consolidated basis for all of the FE-PA Companies. FirstEnergy has a discrimination policy and a complaint procedure which are outlined in its HR Policies and Procedures.

As previously mentioned, FESC's Vice President of HR has delegated to the Director of Learning and Development, Recruiting, and Compliance the responsibility for the development and coordination of FirstEnergy's Affirmative Action Program (AAP). FirstEnergy and its operating companies have implemented AAPs for minorities, women, individuals with disabilities, disabled veterans, recently separated veterans, other protected veterans, and Armed Forces service medal veterans which states the methods by which FirstEnergy provides equal employment opportunity and takes affirmative action to employ and advance in employment qualified individuals in these groups. FirstEnergy's diversity focus is centered on recruiting and retention. For recruitment, FirstEnergy works with, partners with, and sponsors targeted schools and universities and other numerous groups to reach diverse candidate pools. For retention, FirstEnergy uses annual talent reviews to identify high performers and create development plans and review succession plans in addition to supporting employee and enterprise groups to build an inclusive environment. Additionally, to encourage diverse

¹⁰ Penn Power was the only Pennsylvania utility owned by FirstEnergy in 1995. As the other operating companies were acquired through different mergers in subsequent years, FirstEnergy began to file annual diversity reports to the PUC for each of the other FE-PA Companies.

vendors, FirstEnergy has joined advocacy organizations to meet business owners and it mentors and assists all diverse business owners seeking to do business with FirstEnergy and its affiliates.

Findings and Conclusions

Our examination of the HR function included a review of the FE-PA Companies' HR information systems, policies and procedures, safety programs, training, compensation, benefits, and diversity programs. Based on our review of the HR function, the FE-PA Companies should initiate or devote additional efforts to improving the efficiency and/or effectiveness of the FE-PA Companies' HR areas by addressing the following:

1. The FE-PA Companies frequently do not achieve their safety goals nor are the goals aligned with corporate objectives.

The Executive Leadership Team (ELT) meets monthly to discuss the performance for each of the FirstEnergy Utilities, including the FE-PA Companies, in relation to achieving FEU's objectives (see Chapter III – Executive Management and Organizational Structure for further details). One of FEU's objectives is to deliver top decile safety performance. As such, safety related measurements are one of the focused areas of importance. There are three safety related metrics found in the ELT reports:

- Occupational Safety and Health Administration (OSHA) Incident Rate – the number of work related injuries / illnesses per full-time 100 employees per year. OSHA-recordable injuries are accidents that result in medical treatment beyond first aid, at least one day of either lost time, or restricted duty excluding the day of injury or a fatality. Lower values indicate better performance.
- Days Away, Restricted work or Transferred (DART) Rate – the number of work related injuries / illnesses that result in lost time or restricted work for 100 full-time employees per year. Lower values indicate better performance.
- Motor Vehicle Accident Rate (MVAR) – Number of fleet vehicle accidents per million miles driven. Lower values indicate better performance.

The ELT Reports also use OSHA recordable performance data from a panel survey of Edison Electric Institute (EEI) member utilities, and DART Rate and MVAR data based on internal historical measures. The most recent EEI survey data used in the ELT Reports is from 2010. Based on a comparison of the EEI data, the current FEU target goals established for the OSHA safety metric does not correlate to top decile performance. As of year-end 2013, there was no planned date in which the goal would be adjusted to align with top decile performance level. Although FEU has established

target goals for all three safety measures, in recent years these goals have changed several times. The goals have fluctuated either upward or downward in terms of performance objectives – not because of process improvements or industry averages but as a result of the individual performance of the FE-PA Companies. Exhibit XI-3 displays how the target goals for the three safety metrics have changed from 2009 to 2013 for each of the FE-PA Companies and also shows the 2013 goals established in the ELT Reports.

Exhibit XI – 3
FirstEnergy Pennsylvania Companies
Safety Target Goals vs EEI Top Decile Performance
For the Years 2009 through 2013

OSHA Rate	2009	2010	2011	2012	2013	EEI
Met-Ed	1.31	1.31	1.52	1.38	1.41	1.08
Penelec	1.31	1.31	1.52	1.38	1.41	
Penn Power	1.31	1.31	1.52	1.38	1.41	
West Penn Power	NA	NA	2.05	1.81	1.41	
DART Rate	2009	2010	2011	2012	2013	EEI
Met-Ed	0.98	0.82	0.85	0.78	0.69	0.52
Penelec	0.46	0.82	0.85	0.78	0.69	
Penn Power	0.64	0.82	0.85	0.78	0.69	
West Penn Power	NA	NA	0.85	0.78	0.69	
MVAR Rate	2009	2010	2011	2012	2013	EEI
Met-Ed	6.67	5.00	5.00	4.46	4.61	2.16
Penelec	4.45	5.00	5.00	4.46	4.61	
Penn Power	4.64	5.00	5.00	4.46	4.61	
West Penn Power	NA	NA	5.00	4.46	4.61	

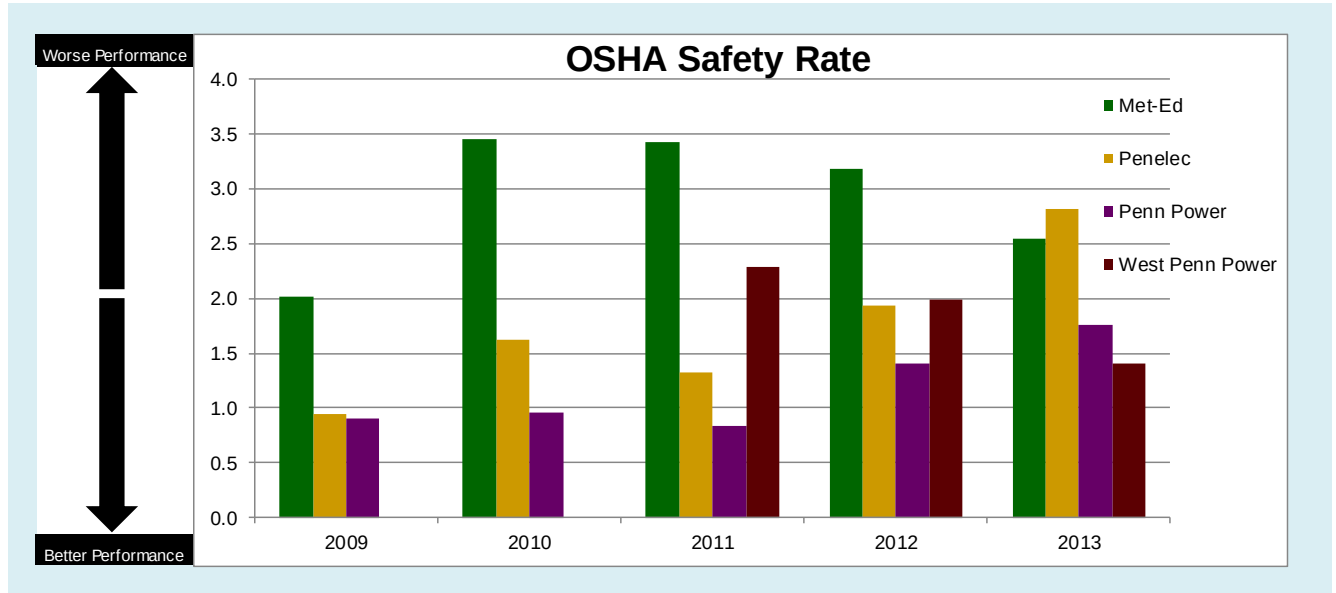
NA – West Penn Power was acquired after the beginning of the five-year period and was not a FirstEnergy Utility for this year.

Source: Data Requests EM-26, EM-29, HR-61, and Auditor Analysis

Although the Audit Staff does not believe this is a proper way to set goals (see Chapter III – Executive Management Finding and Conclusion No. 1), we analyzed actual performance data to determine if each of the FE-PA Companies were achieving their established goals in a given year. The actual performance of each of the FE-PA Companies for OSHA Incident Rate, DART Rate, and MVAR are displayed in Exhibit XI-4, Exhibit XI-5, and Exhibit XI-6 respectively. Finally, Exhibit XI-7 displays a summary of which goals were achieved for each of the FE-PA Companies for 2009 to 2013. It is important to note that although the FE-PA Companies' safety performance compare well to the industry as a whole, they have not been achieving their own goals and objectives.

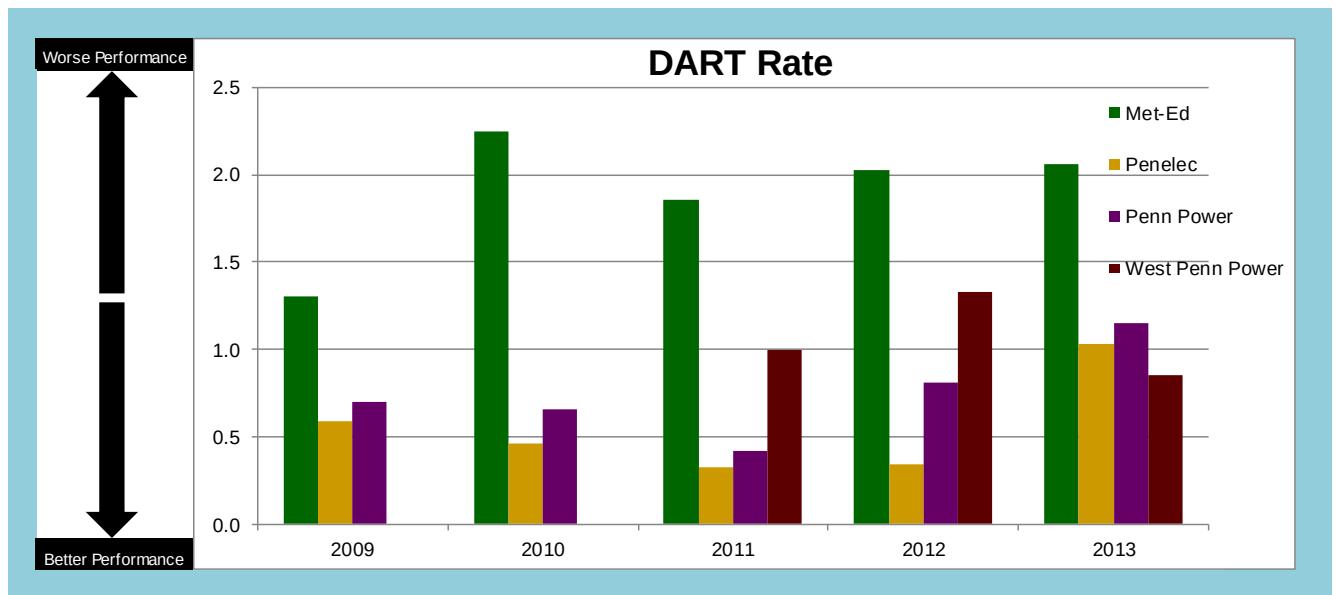
As illustrated in Exhibit XI-7, the goals were only met for 19 out of 54 of the individual measures. Based on the review of the safety programs at FirstEnergy and the FE-PA Companies, the Audit Staff concluded adequate resources and appropriate programs appear to be in place; however, a safety culture issue may exist in which a potential disconnect exists between the safety program intent and desired results.

Exhibit XI – 4
FirstEnergy Pennsylvania Companies
OSHA Safety Rate Performance
For the Years 2009 through 2013



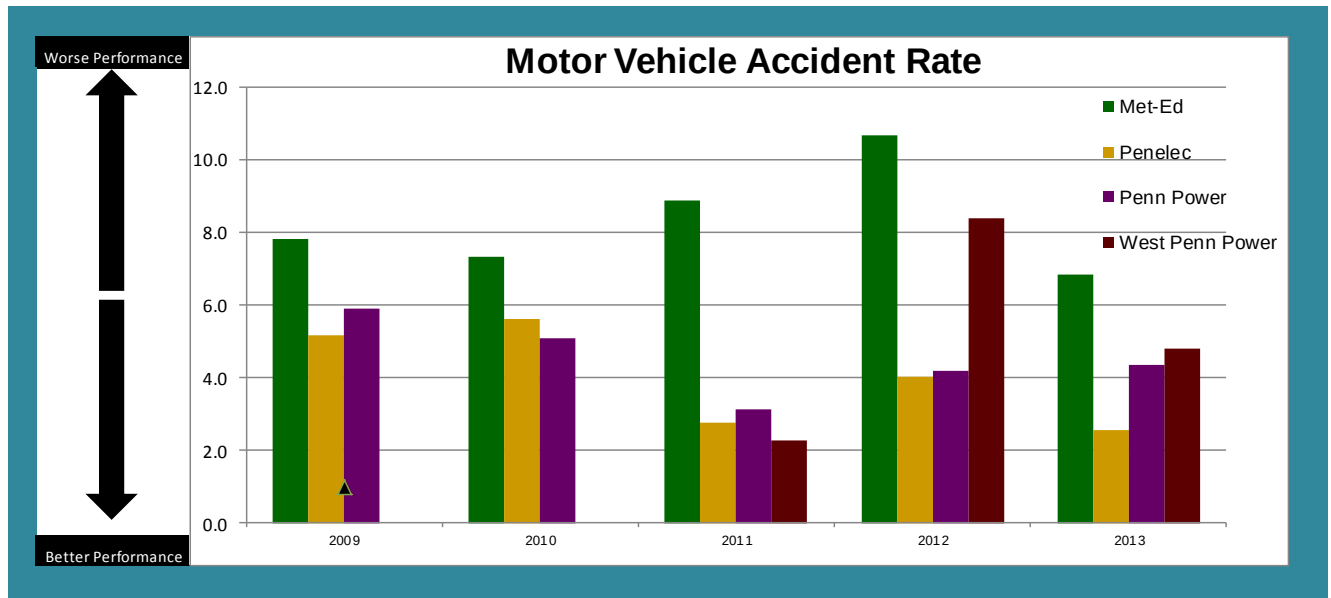
Source: Data Requests EM-26, EM-29, HR-61, and Auditor Analysis

Exhibit XI – 5
FirstEnergy Pennsylvania Companies
DART Rate Performance
For the Years 2009 through 2013



Source: Data Requests EM-26, EM-29, HR-61, and Auditor Analysis

Exhibit XI – 6
FirstEnergy Pennsylvania Companies
Motor Vehicle Accident Rate Performance
For the Years 2009 through 2013



Source: Data Requests EM-26, EM-29, HR-61, and Auditor Analysis

Exhibit XI – 7
FirstEnergy Pennsylvania Companies
Record of Achieving Safety Goals
For the Years 2009 through 2013

O = OSHA Safety Rate

D = Dart Rate

M = Motor Vehicle Accident Rate

Safety Goals Achieved By Year:

Company	2009			2010			2011			2012			2013		
	O	D	M	O	D	M	O	D	M	O	D	M	O	D	M
Met-Ed	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Penelec	✓	X	X	X	✓	X	✓	✓	✓	X	✓	✓	X	X	✓
Penn Power	✓	X	X	✓	✓	X	✓	✓	✓	X	X	✓	X	X	✓
West Penn Power							X	✓	✓	X	X	X	✓	X	X

✓ Achieved goal

X Did not achieve goal

Source: Data Requests EM-26, EM-29, HR-61, and Auditor Analysis

Safety culture surveys often reveal employee perceptions with respect to training, communications, policies, goals, behaviors, etc. Regularly measuring employee safety perceptions, communicating results to employees, and comparing the results to safety improvement efforts provide insight into how changes are impacting employee perceptions and behaviors throughout the organization which may be useful when implementing or improving safety programs. Evaluating the safety training provided to different groups of employees and their safety performance over a period of time is one way to gather information on how quickly safety changes, initiatives, practices, etc. are assimilated into the safety culture of the company and the best way to implement changes in the future so that they are reinforced by the existing safety culture. Additionally, behavioral aspects should be considered to obtain insight into how workers actually behave on the job to help identify safety weaknesses and opportunities for improvement. A safety process review should measure the effectiveness and performance of safety efforts (i.e., goals to actual performance) as well as provide a measure of the quality of training provided (i.e., training rating, skills learned, skills transferred into practice, etc.). The information collected can be used to reinforce, change, or re-align a company's safety efforts to achieve its overall vision and strategy.

Most of the primary OSHA and DART related causes are likely preventable with repeated and proper training, preparation, ergonomic equipment, and attention to vehicle surroundings when parked. A summary of the causal information for accidents at the FE-PA Companies for 2009 to 2013 is displayed in Exhibit XI-8.

Exhibit XI – 8
FirstEnergy Corporation
Causes of Accidents by FE-PA Companies
For the Years 2009 through 2013

Cause	Met-Ed	Penelec	Penn Power	West Penn Power*	Combined Total	Combined % Total
Caused solely by other driver	2	2	2	0	6	2.4%
Clothing improper	1	1	0	0	2	0.8%
Equip / Tool Improper Use	11	6	0	1	18	7.3%
Guarding inadequate / improper	1	1	0	0	2	0.8%
Grip Insecure / Improper	7	3	0	1	11	4.9%
Inattention to work environment (incl. surface, materials, space issues, body position among others)	66	27	10	9	112	45.3%
Job briefing inadequate	1	0	0	0	1	0.4%
Loading Improper	0	1	0	0	1	0.4%
No injury / illness	0	7	0	0	7	2.9%
Not determined	17	13	3	2	35	14.3%
Other	2	12	0	8	22	9.0%
Position Unsafe / Improper	6	3	1	2	12	4.5%
Personal protection equipment related	2	2	0	0	4	1.6%
Procedure inaccurate / not followed	4	4	3	2	13	5.3%
Totals	120	82	19	25	246	100.0%

* West Penn Power causal information is only available for 2012-2013.

Source: Data Request HR-53

Approximately 45% of the accidents relate to an inattention to the work environment which includes many different factors of which the primary is surface materials, spacing issues, and body position. Approximately 14% of the accidents have undetermined causes but resulted in sprains and strains. Based on an aging analysis from August 2013 (see Exhibit VII-38 in Chapter VII – Electric Operations), the FE-PA Companies have 453 out of 1,098 field operations employees over the age of 50. This group of employees may be especially vulnerable to some of the primary causes of work related injuries (e.g., body positioning, sprains and strains, etc.). FirstEnergy should emphasize proper equipment usage, body positioning, and a survey of the surroundings before work begins. In order to properly maintain and improve safety at the FE-PA Companies, FirstEnergy should ensure that safety training, meetings, and reviews properly address the primary causes of accidents at each of the FE-PA Companies.

To address the safety concerns encompassing OSHA, DART and MVAR, FirstEnergy has implemented numerous programs over the recent years. Often times, these programs are implemented in conjunction with each of the FE-PA Companies' respective union; therefore, the programs have not been implemented with all four unions simultaneously. Recent programs implemented include the following:

- All four FE-PA Companies (October 2012) – Devised and implemented an “Induced Voltage” training program – which enabled regional personnel to protect themselves against a potential hazard that has historically been misunderstood across the entire utility industry.
- All four FE-PA Companies (March 2013) – Devised a safety communication process – thereby ensuring that all significant events are immediately identified/communicated both before an accident investigation (via the “Safety Alert” for notification purposes) and after (via the “Safety Snapshot” for the purpose of communicating applicable corrective actions) across the operational footprint. Furthermore, in the event of an incident that directly affects regional personnel (e.g., product recall), an “FEU Safety Tips Bulletin” is devised and distributed to regional supervisors for the purpose of directly communicating (and posting) the issue to the employees.
- Met-Ed (January 2013) – Devised and implemented a behavior accident prevention program – empowering a representative sample of union employees to conduct crew visits (on a full-time basis), identify positive and negative behaviors, provide feedback to their peers at the work site, and compile a report (devoid of names) for regional management. Additionally, morning meetings have included driving discussions regarding back-in parking, circles of safety (i.e., in other words, inspection of the area adjacent to the vehicle), and defensive driving.
- Penn Power (January 2013) – Focused on circle of safety training.

- Penn Power/Penelec (January 2012) – Reassigned a number of supervisors and union employees from their primary roles and trained them as temporary safety representatives (duration: 6 months) – therein affording regional employees of an enhanced understanding of safety (specifically, the policies/programs) when they are returned to their original roles within their company.
- Penelec (January 2013) – Supervisor and Manager driving training was conducted through the Leadership Academy program and (February 2013) – Drive Team provided baseline fresher training.
- West Penn Power (June 2012) – Implemented system-wide driver observation program and ride along assessments and (May 2013) – Instructed regional personnel to stage a series of traffic cones (i.e. visual cues) fore and aft of a parked industrial vehicle – thereby requiring regional personnel to perform a circle of safety prior to operating the industrial vehicle.

Aside from the recently implemented safety program measures, FirstEnergy should also conduct a safety culture survey. By conducting a safety culture survey, employee perceptions can be garnered to determine the accuracy of perceptions and take corrective actions, as necessary, to correct any misconceptions and identify potential behavioral and training issues that may need to be further addressed in order to achieve safety goals and objectives.

2. The FE-PA Companies are experiencing high absenteeism rates primarily among bargaining unit employees.

Another metric in the ELT Reports that the Company uses to monitor the effectiveness of particular HR programs is the absentee rate. Similarly to the safety related metrics, this measure is also greatly impacted by Electric Operations as field operation employees comprise a significant portion of the FE-PA Companies' overall workforce. FEU has established absenteeism goals for each of the FE-PA Companies based on their historical averages. Absenteeism includes both call-offs due to non-work related illnesses and also work related injuries and illnesses.

The following exhibits display the goals for each of the FE-PA Companies actual performance for absenteeism for 2009 to 2013. Note that for 2009 to 2011, FirstEnergy did not maintain data to distinguish which absence hours were due to sick call-off days versus work related or occupational reasons for missing work or the data for bargaining unit vs. non-bargaining unit employees. Consequently, two charts are used to exhibit results for the different time periods. Exhibit XI-9 displays the absenteeism rates for 2009 to 2011 and Exhibit XI-10 displays the absenteeism rates for 2012 to 2013 and identifies the breakdown of absent related reasons segregated by work groups.

Exhibit XI – 9
FirstEnergy Pennsylvania Companies
Average Absenteeism Hours per Employee per Year
For the Years 2009 through 2011

Company	Year		
	2009	2010	2011
Met-Ed	54.4	51.5	58.1
Penelec	39.0	35.2	42.0
Penn Power*	39.5	32.9	43.0
West Penn Power**	-	-	79.1

* Includes Ohio Edison statistics

** Was not tracked at West Penn Power until 2011

Source: Data Request HR-61

Exhibit XI – 10
FirstEnergy Pennsylvania Companies
Average Hours of Absence per Employee per Year
For the Years 2012 and 2013

Type of Absence	Met-Ed		Penelec		Penn Power*		West Penn Power	
	2012	2013	2012	2013	2012	2013	2012	2013
Bargaining Unit Sick	63.2	61.7	44.2	43.0	41.6	53.9	60.3	67.2
Bargaining Unit Occupational	4.2	4.0	2.7	0.6	0.5	0.6	9.3	9.4
Non-Bargaining Unit Sick	27.2	24.5	17.8	16.7	32.0	29.8	42.0	37.0
Non-Bargaining Unit Occupational	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	58.2	56.0	38.1	34.9	38.6	45.8	60.2	61.1
Goal (goal is for "Total")	41.5	41.5	42.0	42.0	38.5	38.5	50.8	50.8
Difference	16.7	14.5	-3.9	-7.1	0.1	7.3	9.4	10.3
% Difference	40%	35%	-9%	-17%	<1%	19%	19%	20%

Bold indicates average absence hours per employee that is greater than the 2012-2013 goals.

* Includes Ohio Edison

Source: Data Request HR 55 and Auditor Analysis

As shown in Exhibit XI-10, the majority of absentee hours was from bargaining unit employees due to call-offs. It should be noted that sick time is exclusively call-offs and does not include medical appointments (with the exception of West Penn Power data prior to 2012 for the information presented). Although the goals are established for each of the FE-PA Companies as a whole (bargaining and non-bargaining combined), when separated, it appears that each of the bargaining units have incurred sick usage well above the goal set for each of the respective FE-PA Companies. This appears to

be the main driver behind the FE-PA Companies not achieving their absenteeism goals. In contrast, the sick usage incurred for the non-bargaining unit employees for each of the FE-PA Companies is significantly lower.

In an effort to reduce absenteeism, FirstEnergy is implementing numerous programs, namely the Absence Management Process Standardization (AMPS) program. A summary of the most recent activities for each of the FE-PA Companies is as follows:

- Met-Ed: AMPS training for supervisors and managers occurred in February 2013. The HR and management team will be accountable for absence management. This includes bi-weekly monitoring, absence review meetings, strictly enforcing collective bargaining agreement and using outside professionals for medical case management.
- Penelec: AMPS started in October 2012 but the full program was implemented in January 2013. Included are bi-weekly meetings and identification of Return to Work options, daily absence reporting, identification of employees which show patterns of absences or reach unacceptable levels of absences and seeking expert medical advice and monitoring as needed.
- Penn Power (in conjunction with Ohio Edison): Biannual absenteeism reviews began in February 2012.
- West Penn Power: Developed an absentee reporting mechanism in March 2013. Previously, West Penn Power began to coordinate with an independent medical professional and FE's workers compensation portion of the Compensation and Retirement Programs Department to reduce lost work days in January 2013. In June 2013, West Penn Power began to track and monitor absences to ensure the Family Medical Leave Act is applied and coded correctly.

To determine the methods each of the FE-PA Companies could utilize to reduce absenteeism, the Audit Staff requested the union contract for each of the respective FE-PA Companies. Upon review, each contract contained language which detailed criteria defining employee abuse of sick time. The FE-PA Companies need to enforce the existing contract language for employees who, in their supervisor's and the contracted medical staff's opinion, are abusing sick time via the appropriate methods of escalation (e.g., evaluation of legitimacy of sick, warnings, punishments, etc.). The Audit Staff believes all of these options for enforcement are available through the AMPS program which has been implemented in various stages at each of the FE-PA Companies (often times union related issues have impacted the timeline of which portions of AMPS are implemented).

One incentive of reduced absenteeism is the reduction in costs due to sick time usage. Since the bargaining units' use of sick time is the driving factor behind the goals

not being achieved for three of the four FE-PA Companies, the Audit Staff calculated approximate cost savings that would be realized if the overall absenteeism usage was at the goal level for these three FE-PA Companies based on the salaries of field operations personnel. Based upon the 2013 sick time usage, Met-Ed, Penn Power, and West Penn Power could annually save approximately \$138,000; \$25,000; and \$92,000 annually, respectively if overall sick time per employee was reduced to meet each of the FE-PA Companies' respective goals. In addition to financial costs, high absentee rates also affect productivity for field operations employees and all operations support employees who are assigned to work with employees who abuse sick time. Although absenteeism is not directly or primarily attributable to reliability and overtime issues (see Chapter VII – Electric Operations Finding and Conclusions Nos. 1 and 2), it is likely that high absenteeism is, in part, a contributing factor.

Recommendations

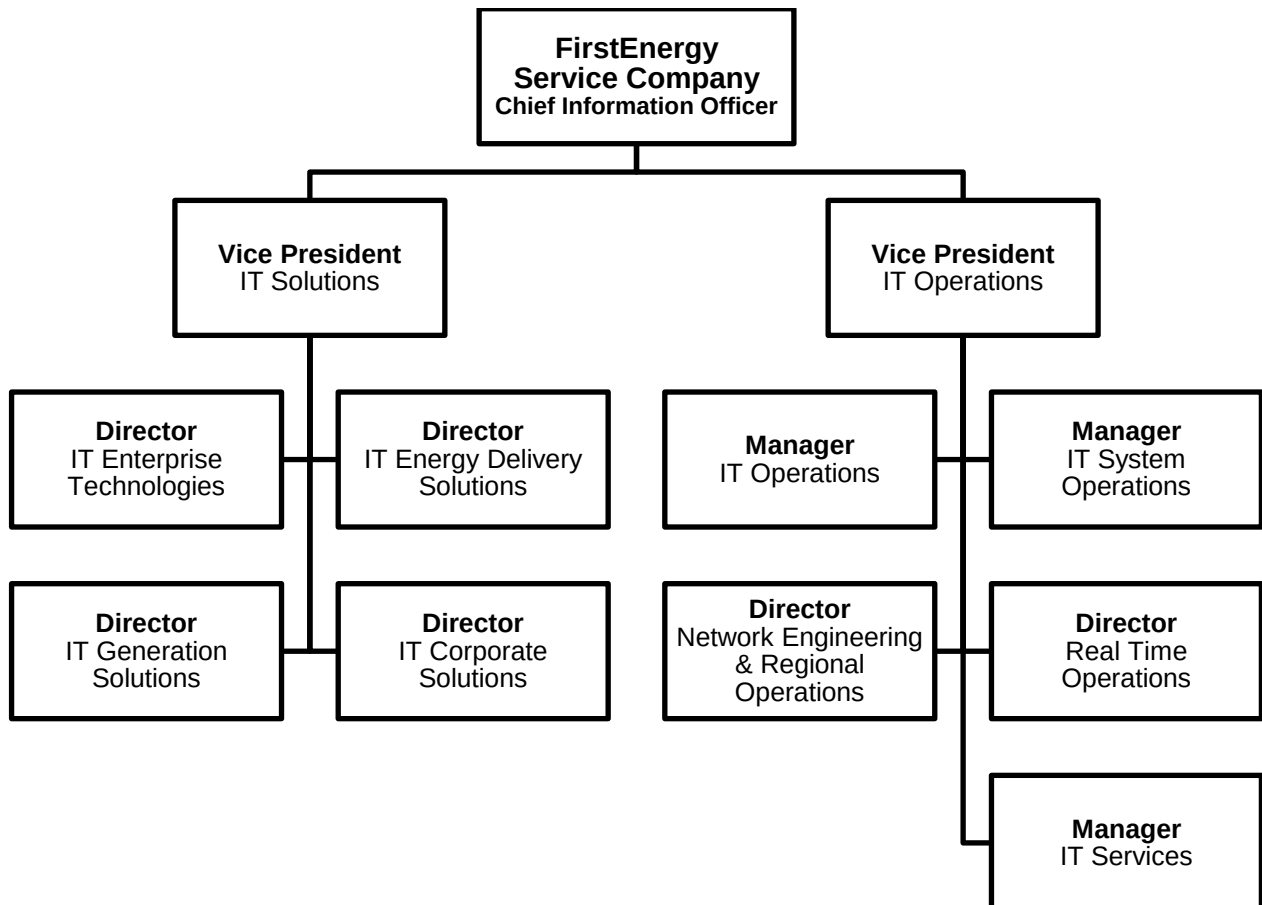
- 1. Conduct a safety culture survey in order to identify employee safety related concerns, perceptions, behaviors and implement training, methodologies, equipment, and ergonomic changes which address the primary causes of accidents at the FE-PA Companies in order to improve actual performance and ensure safety goals are aligned with corporate objectives.**
- 2. Reduce absenteeism through appropriate enforcement of union contract language regarding provisions for sick leave as well as encouraging employee attendance.**

XII. INFORMATION TECHNOLOGY

Background

As discussed in Chapter II – Background, FirstEnergy Corporation's (FirstEnergy) Regulated Distribution business segment distributes electricity through FirstEnergy's ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. In addition, FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates, including the FE-PA Companies. The information technology (IT) function is controlled and managed by FESC, but there are also regional operations employees for each of the FE-PA Companies dedicated to IT. The organization for the IT function is shown in Exhibit XII-1.

Exhibit XII – 1
FirstEnergy Service Company
Information Technology – Organizational Chart
As of November 21, 2013



Source: Data Request No. EM 27

As shown on Exhibit XII-1, FirstEnergy's Information Technology (IT) function is under the direction of FESC's Chief Information Officer (CIO). There are two Vice Presidents (VPs) that directly report to the CIO; VP of IT Solutions and VP of IT Operations. IT Solutions is comprised of four Directors; IT Enterprise Technologies, IT Energy Delivery Solutions, IT Generation Solutions, and IT Corporate Solutions. Three managers and two directors make up the IT Operations group.

Each Division of IT Solutions and Operations has its own set of responsibilities and daily obligations to safeguard FirstEnergy's IT goal. Corporate IT has set a goal of delivering easy to use, reliable business systems and information with current and future technology that provide the highest value to FirstEnergy in response to the dynamics of its changing business. The duties of the aforementioned IT Solutions, IT Operations and subgroups are summarized below:

- **IT Solutions** – primary contact to all FirstEnergy business units for technology related needs, strategy/solution planning, maintaining and supporting IT systems
 - *Energy Delivery* – billing & revenue operation, automated metering, work management, front office and utility systems
 - *Corporate Services* – finance, accounting, budgeting, human resource, payroll, employee benefits, recruiting, training, supply chain, inventory management, and procurement
 - *Enterprise Technologies* – business intelligence, business integration, mobile solutions, corporate support (i.e., legal, records, security, etc.), and SAP
- **IT Operations** – enable business unit objective through strategic use of technology, maintaining network & telecommunications, incident management, and “Real-Time” technology support
 - *Network Engineering and Regional Operations* – in charge of communications (i.e., radio, circuit transport, etc.), data communications engineering, IT service desk, and installing & maintaining field communications equipment
 - *Operations/System Operations* – responsible for servers, database, storage, and SAP; data centers, system & network operations center, email, mobile device engineering, patch management, and cyber security systems
 - *Real-Time Operations* – supports Energy Management System used in Regional Dispatch Offices; Critical Infrastructure Protection Compliance, Generation Management System, Supervisory Control and Data Acquisition systems, and other Real-Time reporting tools
 - *Services* – asset management, license compliance, capital & expense planning, resource planning, print services and disaster recovery

To optimize business system functionalities, existing systems need to be constantly updated and/or upgraded by implementing the newest technologies on the

market. FirstEnergy, in their efforts to enhance and ensure they meet their goal(s), have many current projects underway and conduct annual IT/cyber security audits. Within IT Solutions, Energy Delivery and Enterprise Technologies are accountable for IT projects and upgrades. Their responsibilities include the project management, process mapping, requirement gathering, developing and testing technology enhancements. Due to their sensitive nature, projects and audit results were provided to and reviewed by the Audit Staff, but are not disclosed in this audit report.

Findings and Conclusions

Our examination of FirstEnergy and the FE-PA Companies' Information Technology included a review of the policies and procedures, cyber security measures, critical infrastructure protection, vulnerability assessments, employee IT training techniques and all related information. Based on our review of FirstEnergy and the FE-PA Companies' information technology efforts, no particular evidence came to our attention that would lead the Audit Staff to conclude that areas reviewed were not being addressed adequately.

Recommendation – None.

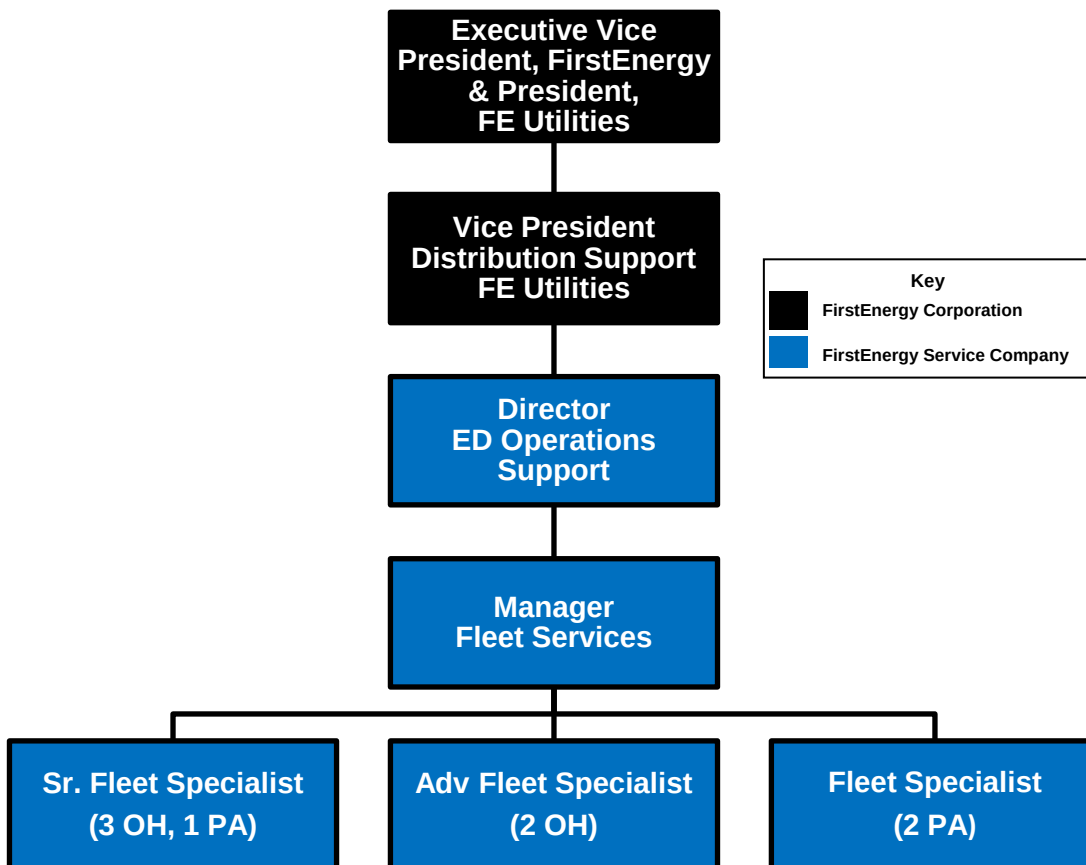
XIII. FLEET MANAGEMENT

Background

Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are owned by FirstEnergy Corporation (FirstEnergy or FE) and receive a considerable amount of support services from FirstEnergy Service Company (FESC), including the Fleet Management function.

FESC's Manager of Fleet Services reports to the Director of Electric Delivery (ED) Operations Support as shown in Exhibit XIII-1. FirstEnergy Fleet Services (FEFS) provides support to each of the FE-PA Companies including vehicle and equipment acquisition, leasing, and disposal, manages the Fleet Management Information System, and facilitates licensing, permitting, and compliance with regulations.

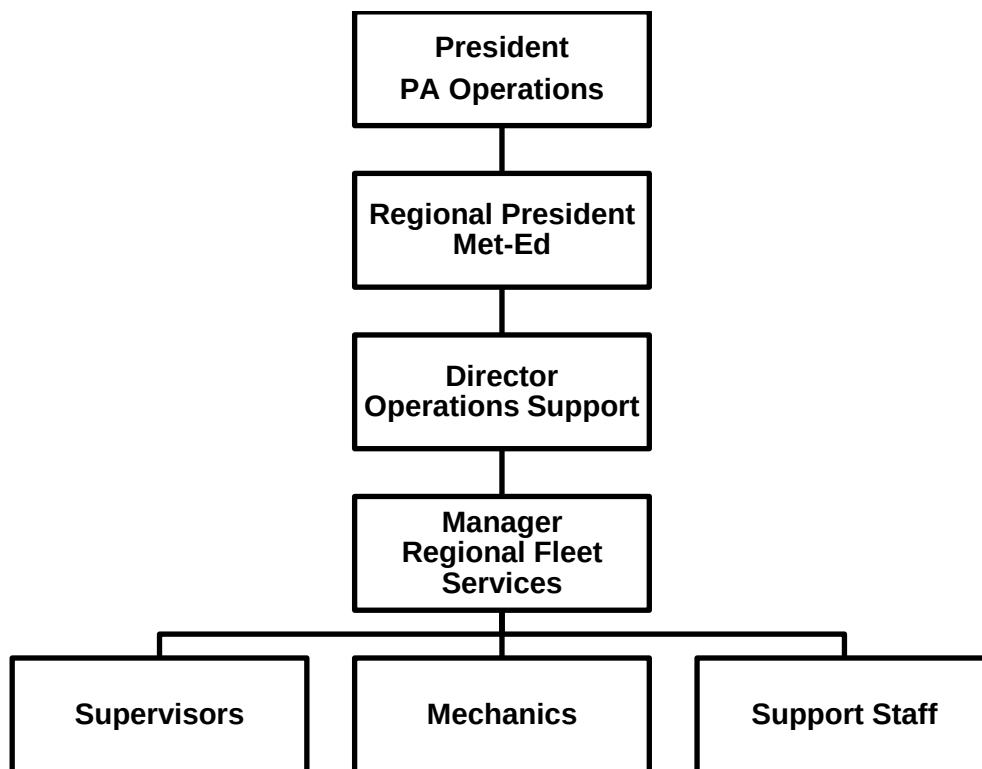
**Exhibit XIII – 1
FirstEnergy Service Company
Fleet Services Organization Chart
As of November 21, 2013**



Source: Data Request Nos. FM-27, SS-55, and Auditor Analysis

In addition, each of the FE-PA Companies has its own Manager of Regional Fleet Services, each of whom reports to their respective Director of Operations Support as shown in Exhibit XIII-2 (as an example, the regional Fleet Services organization for Met-Ed is shown in Exhibit XIII-2). The respective Manager of Regional Fleet Services for each of the FE-PA Companies is responsible for maintaining fleet equipment and directing supervisors of the mechanic work force and fleet support personnel at one or more maintenance repair facilities engaged in the inspection and repair of fleet vehicles and equipment. In addition, the Manager of Regional Fleet Services at Met-Ed, Penn Power, and West Penn Power is also responsible for Facility and Environmental activities at their respective companies.

**Exhibit XIII – 2
Metropolitan Edison Company
Fleet Services Organization Chart
As of June 28, 2013**



Source: Data Request Nos. EM-2, SS-65, and Auditor Analysis

The FE-PA Companies have 39 maintenance and repair facilities throughout Pennsylvania (see Exhibit XIII-3 for a summary of locations and staffing). The facilities are staffed with supervisors, mechanics and clerical staff to provide maintenance and repairs to the regional fleet. FirstEnergy uses its own mechanics for the repair, maintenance and replacement of parts for the fleet of vehicles and equipment, including safety inspections. However, outside vendors are used for certain specialized repairs such as glass, tires and body work.

Exhibit XIII – 3
FirstEnergy Pennsylvania Companies
Fleet Services Repair Facilities and Staffing
As of April, 2014

Company	Repair Facilities	Total Regional Fleet Services Staff (a)	Total Fleet Services Staff (b)	Number of Mechanics
Met-Ed	4	32	27	20
Penelec	16	32	32	25
Penn Power	3	52 (c)	7 (d)	5 (d)
West Penn Power	16	32	23	18

(a) Includes Fleet, Facilities, and Environmental employees for Met-Ed, Penn Power, and West Penn Power

(b) Includes Fleet employees only

(c) Includes Ohio Edison and Penn Power employees

(d) Includes Penn Power employees only

Note: The number of mechanics is included in the total fleet services staff

Source: Data Request Nos. SS-65, SS-52, SS-85, SS-131, supplemental documentation from FirstEnergy and Auditor Analysis

FEFS defines its fleet by class, as shown in Exhibit XIII-4. Classes 1-6 are considered rolling stock, which are 90% leased, while Classes 7-9 are 60% owned. As of October 2013, the FE-PA Companies had 2,974 vehicles in their fleet.

Exhibit XIII – 4
FirstEnergy Pennsylvania Companies
Fleet Vehicles by Class
As of October 2013

Class	Class Description	Met-Ed	Penelec	Penn Power	West Penn Power	FE-PA Companies
1	Light Duty	148	159	24	226	557
2	Medium Duty	162	196	56	151	565
3	Heavy Duty	21	24	6	6	57
4	Aerial Trucks	128	196	59	154	537
5	Digger Derrick Trucks	34	45	12	29	120
6	Crane Trucks	14	8	6	15	43
7	Trailers	187	320	62	233	802
8	Construction Equipment	20	47	7	22	96
9	Miscellaneous	41	96	8	52	197
Totals		755	1,091	240	888	2,974

Source: SS-85, Auditor Analysis.

FirstEnergy uses a web-based software suite for fleet management called FleetFocus M5 by AssetWorks. FleetFocus M5 tracks all functions related to the maintenance of vehicles and equipment, including processing repair and preventive

maintenance (PM) work orders, operating expenses (e.g., fuel, oil, licensing, etc.), and offers billing and tracking for vehicle equipment usage. In addition, FirstEnergy uses mileage information for compiling safety statistics, calculating the monthly motor vehicle accident rate, tax reporting, maintenance scheduling, replacement projections, and utilization reports. Vehicle mileage is reported weekly for all vehicles in Asset Classes 1-6. One of the metrics monitored is vehicles with mileage utilization under 500, 50, and 0 miles for the month by affiliate. Other metrics tracked include cost per unit, cost per Maintenance Repair Factor (MRF), PM jobs per mechanic, average number of PM jobs overdue, and indirect vs. direct hours of staff mechanics. The MRF is a weighting factor that is derived by assigning points to each vehicle type. The MRF is higher on a more complex vehicle (e.g., 8 points for a line truck compared to 2 points for a pick-up truck). The MRF normalizes the actual maintenance work associated with each vehicle across the fleet and provides a more accurate view of workload per mechanic.

As shown in Exhibit XIII-5, the FE-PA Companies spent approximately \$8 million on parts and labor to maintain its fleet in 2013, an increase of approximately \$1.4 million, or 21.5%, over the amount spent in 2012. Approximately \$1 million of the \$1.4 million increase was related to increases in fleet services expenses for West Penn Power which was acquired in 2011 as part of the Allegheny Energy merger.

Exhibit XIII – 5
FirstEnergy Pennsylvania Companies
Fleet Services Parts and Labor Expenses (\$000)
For the Years 2009 through 2013

Company	2009	2010	2011	2012	2013	% Change 2009-13
Met-Ed	\$2,256	\$2,460	\$2,237	\$1,593	\$1,817	-19.5%
Penelec	\$2,832	\$4,060	\$3,645	\$2,109	\$2,402	-15.2%
Penn Power	\$565	\$573	\$631	\$735	\$647	14.4%
West Penn Power	NA	NA	NA	\$2,145	\$3,132	DNA
Totals	\$5,654	\$7,093	\$6,513	\$6,582	\$7,999	41.5%

NA = Not available – West Penn Power was not a FirstEnergy operating company until 2012.

DNA = Does not apply

Source: Data Request Nos. SS-57, SS-118, SS-120 and Auditor Analysis

FEFS performs an annual manpower fleet study that provides details on the current manpower to fleet ratio relative to preventive maintenance (PM) tasks. PMs are scheduled preventive maintenance tasks, tests or inspections that need to be performed to meet Original Equipment Manufacturer (OEM) requirements, American National Standards Institute and Occupational Safety and Health Administration Standards, and comply with State or Federal requirements, etc. PMs are considered critical when the work must be completed by a specific date for compliance and operator safety.

The FE-PA Companies also participate in the Utilimarc Fleet Benchmarking Survey. FEFS provides information to Utilimarc annually; Utilimarc provides online

access to the survey results via a secured website and login. The website provides various queries and reports that can be run to compare FirstEnergy affiliates with other companies in the industry.

In addition, FirstEnergy operates four small passenger corporate aircraft that are used on a regular basis. The Air Fleet staff of 19 employees consists of a Director, 10 Pilots, 5 maintenance employees, 2 scheduling employees, and one administration employee.

The total cost of the Air Fleet and each of the FE-PA Companies' share of these costs for 2008 to 2013 are shown in Exhibit XIII-6. The total costs allocated to all of the FE-PA Companies ranged from a high of 20.3% in 2009 to a low of 14.8% in 2013.

Exhibit XIII – 6
FirstEnergy Pennsylvania Companies
Share of Total Air Fleet Costs (\$000)
For the Years 2008 through 2013

	2008	2009	2010	2011	2012	2013
Met-Ed	\$1,000	\$1,304	\$1,115	\$895	\$537	\$847
Penelec	\$846	\$1,080	\$974	\$803	\$523	\$945
Penn Power	\$160	\$184	\$176	\$145	\$118	\$200
West Penn Power	\$100	\$82	\$147	\$557	\$400	\$804
Total FE-PA	\$2,106	\$2,650	\$2,412	\$2,400	\$1,578	\$2,797
Total Cost of Air Fleet	\$10,542	\$13,050	\$12,841	\$12,658	\$10,290	\$18,845
FE-PA % of Total Cost	20.0%	20.3%	18.8%	19.0%	15.3%	14.8%

Source: Data Request Nos. SS-57, SS-120 and Auditor Analysis

As a reference point for considering the replacement of vehicles in the fleet, FirstEnergy uses the vehicle replacement criteria as shown in Exhibit XIII-7. For asset classes 1-6, replacement consideration is based on either age or mileage. For asset classes 7-9, replacement consideration is based only on age.

FEFS oversees the acquisition of vehicles and equipment throughout the Company with the exception of equipment used directly with coal at the coal fired generation plants, railcars, and/or aircraft. FEFS uses a one for one vehicle replacement program. Any additional units require approval by senior management. The annual vehicle replacement process is as follows:

- FEFS compiles a list of units for the FE-PA Companies that qualify for replacement based on age, mileage, or both using the vehicle replacement criteria.
- The Manager of Fleet Services for FEFS then meets with FirstEnergy's upper management to discuss vehicle and equipment replacements.

Exhibit XIII – 7
FirstEnergy Corporation
Vehicle Replacement Criteria
As of September 2013

Class	Asset Class	Age (Years)	Mileage
1	Light Duty <8,500 GVW*	10	>=100,000
2	Medium Duty 8,591-17,499 GVW	10	>=100,000
3	Heavy Duty >17,499 GVW	12	>=125,000
4	Aerial Trucks	15	>=150,000
5	Digger Derrick Trucks	15	>=150,000
6	Crane Trucks	12	>=125,000
7	Trailers	15	
8	Construction Equipment	15	
9	Forklifts, Mowers, Miscellaneous	15	

* The Gross Vehicle Weight (GVW) Rating is the maximum limit for how much weight can be supported by a vehicle. In this case, Class 1 includes cars, vans, and light trucks less than 8,500 pounds.

Source: Data Request No. SS-58

- Once FEFS receives approval from upper management, information is provided to Treasury in terms of the quantity of units being acquired and projected acquisition costs.
- Treasury then conducts an updated Lease vs. Buy analysis to determine whether vehicles and equipment should be purchased or leased.
- Once FEFS receives the Lease vs. Buy recommendation from Treasury, the list of units qualifying for replacement along with a replacement worksheet showing dollars allocated for each company are sent to the Manager of Regional Fleet Services at each of the FE-PA Companies.
- The Manager of Regional Fleet Services at each of the FE-PA Companies reviews the list of vehicles qualifying for replacement along with applicable maintenance records to determine the best units to replace. Vehicle utilization reports are also reviewed to ensure that the replacement units are still needed.
- FEFS proceeds to acquire the units by working with the Supply Chain Buyer, approved vendors, and personnel from the FE-PA Companies. They put together technical specifications, order decals, process invoices for payment, work with the leasing company, if applicable, set up units in the M5 Fleet System, perform titling, licensing, etc.

Findings and Conclusions

Our examination of the Fleet Management function included a review of maintenance, operating, and safety policies and procedures, staffing levels, acquisition practices, vehicle maintenance and operating costs, utilization levels, and benchmarking analyses. Based on our review, the Company should devote additional efforts to improving the efficiency and/or effectiveness of its fleet management practices by addressing the following:

1. Current practices with respect to vehicle replacement deviate from the Vehicle Replacement Criteria.

FirstEnergy's Vehicle Replacement Criteria, as shown in Exhibit XIII-8, were established in 1997 and have not been subsequently updated since that time. For Asset Classes 1 to 6, replacement is based on either age (i.e., 10, 12, or 15 years) or mileage (i.e., 100,000, 125,000, or 150,000 miles). For Asset Classes 7 to 9, replacement is based on strictly age (i.e., 15 years). An analysis of fleet age by vehicle class is shown in Exhibit XIII-8. As of August 2013, Met-Ed, Penelec, Penn Power, and West Penn Power had 38.0%, 45.7%, 24.7%, and 13.3%, respectively, of their individual company fleet greater than 15 years old. FirstEnergy's Vehicle Replacement Criteria specifies these vehicles should have been replaced.

Exhibit XIII – 8
FirstEnergy Pennsylvania Companies
Fleet Age Analysis by Vehicle Class (Years)
As of August 2013

Class	Met Ed			Penelec			Penn Power			West Penn Power		
	Units > 15 Yrs	% of Total	Avg Age (Yrs)	Units > 15 Yrs	% of Total	Avg Age (Yrs)	Units > 15 Yrs	% of Total	Avg Age (Yrs)	Units > 15 Yrs	% of Total	Avg Age (Yrs)
1	55	27.8%	9.0	31	14.9%	8.0	4	15.4%	6.0	3	1.3%	5.0
2	47	25.0%	7.2	60	26.5%	8.3	0	0.0%	6.0	6	3.7%	6.2
3	13	56.5%	16.9	16	64.0%	16.0	2	33.3%	11.0	0	0.0%	5.3
4	40	23.8%	7.0	47	18.1%	7.3	7	10.6%	6.0	0	0.0%	6.7
5	22	53.7%	10.5	44	66.7%	13.0	4	30.8%	9.0	3	9.7%	7.0
6	12	75.0%	20.0	7	70.0%	18.0	6	85.7%	17.0	0	0.0%	4.4
7	100	52.4%	21.3	261	79.8%	22.0	30	48.3%	18.0	79	33.8%	13.0
8	14	70.0%	20.2	38	80.9%	21.0	1	14.3%	12.0	11	50.0%	14.0
9	34	82.9%	21.2	75	75.8%	20.0	8	100.0%	26.0	20	37.0%	13.0
Totals	337	38.0%	14.8	579	45.7%	14.8	62	24.7%	12.3	122	13.3%	8.3

Source: Data Request No SS-57 and Auditor Analysis

As mentioned previously, the Manager of Regional Fleet Services at each of the FE-PA Companies reviews the list of vehicles qualifying for replacement along with applicable maintenance records to determine the most appropriate units to replace. Also, vehicle utilization reports are reviewed to ensure that the replacement units are still needed. However, a formal vehicle replacement policy should be developed which clearly indicates the Vehicle Replacement Criteria and applicable maintenance records, utilization reports, etc. that are to be utilized when making vehicle replacement decisions.

2. Fleet Services does not have adequate vehicle fuel disbursement controls nor does it track fuel usage by vehicle.

The FE-PA Companies operate over 43 on-site fueling stations with 44 diesel and 34 unleaded fuel pumps throughout the Pennsylvania service territory. Off-site fuel is purchased using either Wright Express (WEX) or Comdata fuel cards. West Penn Power and Penn Power use WEX fuel cards while Met-Ed and Penelec use Comdata fuel cards. Fuel cards are used if a vehicle is outside the service territory or during storm emergencies. During the Audit Staff's fieldwork, management indicated that there were no administrative controls (i.e., system or processes) to control fuel disbursements and record on-site refueling of vehicles; however, during our field site visit to a repair facility in Reading, the fuel station was found to contain a fuel management system, which was disabled after the GPU merger with FirstEnergy in 2001. While Met-Ed and Penelec have disabled their fuel management systems, West Penn Power and Penn Power do not have fuel management system capabilities or a process to control fuel disbursements and record individual vehicle refueling. As a result, the FE-PA Companies do not track fuel usage by vehicle from any of the on-site fueling stations. The total cost of fuel purchases for the fueling stations at each of the FE-PA Companies as of October 2013 is shown in Exhibit XIII-9.

Exhibit XIII – 9
FirstEnergy Pennsylvania Companies
Total Cost of Fuel Purchases for Fueling Stations
For 2012 and January through October 2013

Company	2012	2013*
Met-Ed	\$2,688,004	\$1,575,904
Penelec	\$3,661,514	\$2,930,883
Penn Power	\$871,371	\$590,621
West Penn Power	\$2,829,424	\$2,213,331
Total	\$10,052,325	\$7,312,752

* January through October 2013

Source: Data Request No.SS-84 and Auditor Analysis

In 2012, the FE-PA Companies used over 1.49 million gallons of diesel fuel and over 698,000 gallons of gasoline at a total cost of approximately \$10 million. The

current practices for refueling vehicles allow easy access for theft and prohibit the FE-PA Companies from regularly tracking fuel use by individual vehicle. At the present time, fuel usage can only be tracked via bulk fuel delivery shipment to the individual on-site fueling stations. Establishing vehicle refueling controls and tracking fuel usage by individual vehicle is a good business practice and would not only provide security against theft but would enable management to further gauge the operating effectiveness of individual vehicles or the overall fleet.

3. The FE-PA Companies had a large number of vehicles that reported no monthly usage during 2012.

Fleet Services maintains monthly usage data by vehicle class for each FirstEnergy utility, including vehicles driven 500 miles or less and vehicles with no miles driven in a given month. For the period January 2008 to July 2013, the number of vehicles with no usage (i.e., zero miles driven) in a given month varied by vehicle class and FE- PA Company. More specifically for 2012 (the most recent period for which a full year of data was available), the percentage of vehicles not used monthly at Met-Ed, Penelec, Penn Power, and West Penn Power ranged from approximately 18% to 33%, 17% to 31%, 19% to 26%, and 22% to 56%, respectively. This equates to approximately 510 to 935 (or approximately 19 % to 34%) of 2,710 class 1-6 vehicles with no reported usage in a given month in 2012 for the FE-PA Companies.

Management indicated that no or low mileage vehicles can occur due to reasons ranging from lack of mileage reporting, employee absences related to extended sick leave, specialty vehicles that are only used on an as needed basis, vehicles pending disposal, and vehicles recently placed into service. While these explanations may account for some of the zero mile driven vehicles, it does not correlate to the overall number of zero mile driven vehicles. Moreover, if the users of the vehicles are not properly reporting their mileage upon using a vehicle, corrective action should be taken to enforce the administrative controls established to ensure vehicle mileage is reported as required. The Manager of Regional Fleet Services at each of the FE-PA Companies is responsible for reviewing such vehicles monthly and determining why the units have not been used. These managers should ensure that all vehicles with no usage in a given month are used and useful. A utilization analysis should be performed periodically (e.g., quarterly) to identify vehicles that have little or no usage and eliminate vehicles that are no longer considered used and useful. Utilization for vehicles in classes 4-6 (i.e., aerial trucks, digger derrick trucks, and crane trucks) should be tracked on an hourly and a mileage basis since these types of vehicles often sit at a work site. Adding hourly usage data for classes 4-6 will lead to better decisions regarding maintaining or eliminating such vehicles.

Vehicles which are rarely driven still need to be maintained by Fleet Services on a regular basis. The FE-PA Companies spent on average approximately \$1,645 per vehicle on parts and labor for its Class 1-6 vehicles in 2012 with approximately 19% to 34% of the vehicles not being used in a given month. Without performing a detailed analysis of the vehicles not used or effectively utilized in 2012, the Audit Staff was

unable to determine which vehicles could be eliminated from the fleet to reduce maintenance expenses (i.e., parts and labor). In addition, the FE-PA Companies would also realize a one-time benefit from the sale of any vehicles deemed no longer useful to their respective fleets.

4. A backlog of fleet preventive maintenance work has increased while staffing levels for mechanics have decreased.

Fleet Services performs preventive maintenance (PM) tasks on its fleet, including the annual inspections required by law. PMs are scheduled in the M5 Fleet System based on the criticality of the work and the work load of the repair facility. PMs are prioritized to ensure that critical tasks (e.g., an aerial bucket inspection) are completed while less critical tasks can be deferred (e.g., an oil and filter change). PMs have a compounding impact on safety and reliability. As vehicles age they require more maintenance. As mentioned earlier, replacement criteria are based on age or mileage for asset classes 1-6 and age alone for asset classes 7-9. As shown in Exhibit XIII-8, significant numbers of the FE-PA Companies fleet is older than 15 years.

In a study performed by FirstEnergy's Performance and Process Improvement, the number of mechanics at Ohio Edison/Penn Power, Penelec, and Met-Ed were reduced by 10, 6, and 3, respectively, from the end of 2008 to the end of June 2013. The number of mechanics at West Penn Power remained unchanged from year end 2012 to June 2013. While the number of mechanics has decreased by 19, the fleet size of the FE-PA Companies has remained about the same. As a result, as shown in Exhibit XIII-10, a backlog of preventive maintenance tasks has occurred. As of December 31, 2013, approximately 3,743 PMs or 25% of the FE-PA Companies Fleet had overdue PMs including 291, or approximately 2%, considered critical. Furthermore, of the overdue PMs, approximately 2,360 or 63% were greater than 90 days overdue.

**Exhibit XIII – 10
FirstEnergy Pennsylvania Companies
Overdue Preventive Maintenance Tasks
Year-End 2013**

Company	% of Fleet with PMs Overdue	# of Critical PMs Overdue	Total # of PMs Overdue	PMs Overdue >90 Days Old
Ohio Edison/Penn Power	33.3%	180	1,797	1,189
West Penn Power	23.6%	68	826	627
Penelec	11.2%	20	365	154
Met-Ed	29.1%	23	755	390
Totals	24.9%	291	3,743	2,360

Source: SS-134

Without completing preventive maintenance tasks as prescribed in accordance with internal standards and/or manufacturer specifications, vehicle expenses and

reliability could be negatively impacted resulting in excessive downtime and potentially precluding timely repair of electric distribution infrastructure during outage events.

Recommendations

- 1. Develop a written vehicle replacement policy.**
- 2. Install adequate mechanisms/controls at fueling stations to control fuel disbursements and track fuel usage by vehicle.**
- 3. Evaluate the need and/or usefulness of vehicles that report zero monthly usage and eliminate underutilized vehicles as appropriate.**
- 4. Initiate efforts to eliminate or minimize the level of overdue preventive maintenance jobs.**

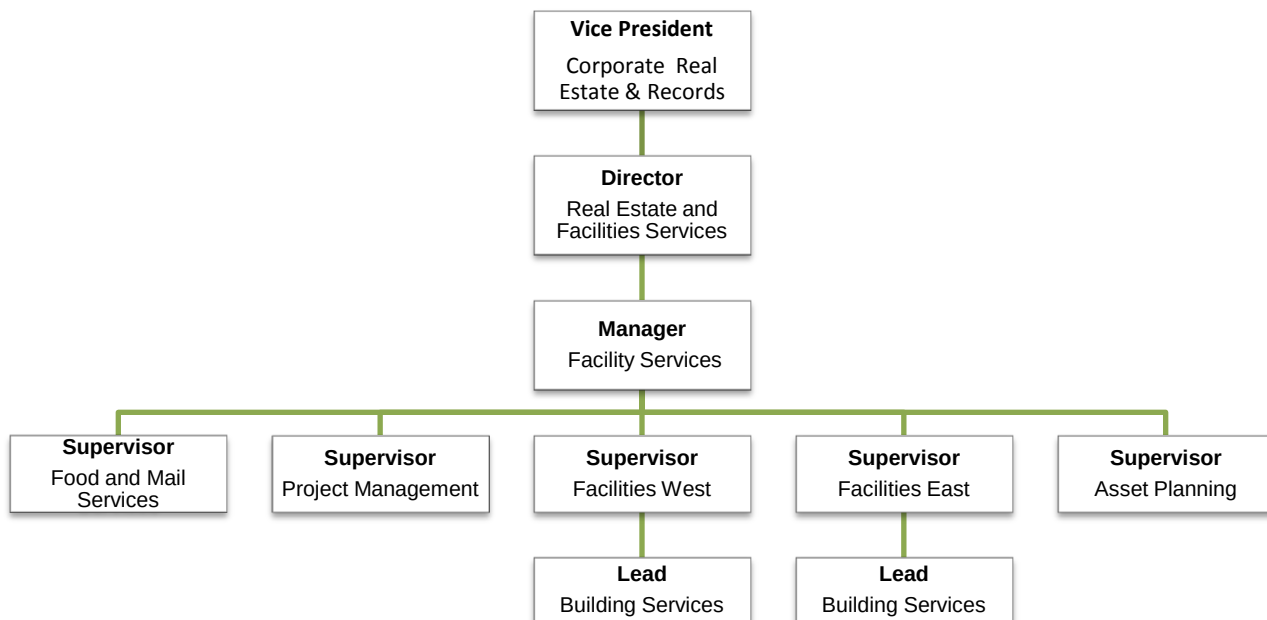
XIV. FACILITIES MANAGEMENT

Background

As discussed in Chapter II – Background, FirstEnergy Corporation's (FirstEnergy) Regulated Distribution business segment distributes electricity through FirstEnergy's ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU.

FirstEnergy's facility management function is coordinated by FirstEnergy's Real Estate and Facility Services (REFS) organization. Under the Director of Real Estate and Facility Services is the Manager of Facility Services. The manager is in charge of corporate related facility operations for maintenance, project management, food services, mail services and related asset planning. Reporting to the manager are supervisors located in Akron, Ohio; Reading, Pennsylvania; and Fairmont, West Virginia that are in charge of related duties for the FirstEnergy operating companies. There are two Facilities Supervisors, West and East, whom have responsibilities for corporate buildings located in Pennsylvania. The organization is outlined below in Exhibit XIV-1.

Exhibit XIV – 1
FirstEnergy Corporation
Corporate Real Estate and Facilities Services Organization
As of November 2013



Source: Data Request FM-2

Facility Services provides property management oversight for all shared facilities such as office buildings that house both shared service and operating company employees, and other shared buildings including warehouse, repair shops, and control centers. The FE-PA Companies are responsible for the operations and maintenance (O&M) of their own facilities. Within each of the FE-PA Companies, the facility management function is overseen by the regional Director of Operations Support (refer to Chapter VII – Electric Operations). However, the FE-PA Companies rely upon the Facility Services organization for support to forecast and budget on various facility matters such as leasing, space usage, real estate purchases, expansions, etc.

Annual Regional facilities O&M budgeting is based on historical expenditures and any anticipated maintenance work for the budget year. Capital project budgeting is determined by expected facility needs such as expansions, upgrades, improvements, etc. Capital budgeting for projects with a multi-year schedule will include a more detailed scope for the upcoming annual capital budget. Capital projects can be filtered into four standard investment categories:

- Mandatory – a nondiscretionary investment required by law, regulatory order or other externally driven regulatory commitment, or duty to serve customers (FirstEnergy Facilities Services owned)
- Maintain – an investment to support and maintain existing infrastructure at existing performance levels (FirstEnergy Facilities Services owned)
- Improve – investment to improve existing infrastructure or performance levels beyond existing business plan key performance metric commitments (Regional Operations Support owned)
- Value-add – a nonrecurring investment for a defined initiative which improves or expands existing infrastructure or creates new business opportunities and drives or improves economic value (Regional Operations Support owned)

In addition to capital and O&M projects, the REFS group is responsible for real estate property matters, such as purchasing, leasing, sale of property, etc. As of October 2013, FirstEnergy had nine vacant lots and buildings, all in the Penelec operating area. FirstEnergy stated they intend to sell the properties at a total approximate value of \$1.8 million. Lastly, FirstEnergy and the FE-PA Companies lease five facilities and negotiate annual lease rates with property owners to ensure the best possible rate.

Findings and Conclusions

Our examination of the Facilities Management function included a review of corporate and regional facilities, budgeting and forecasting, leasing versus owned procedures, maintenance policies and procedures, daily operations, etc. Based on our

review, FirstEnergy and the FE-PA Companies should initiate or devote additional efforts to improving the efficiency and the effectiveness of its Facilities Management by addressing the following:

1. FirstEnergy and the FE-PA Companies do not have written facilities management policies and procedures.

As a result of the 2007 Stratified Management and Operations Audit of FirstEnergy Pennsylvania Companies, the consultant, Barrington-Wellesly Group, Inc., issued a recommendation for the development of facilities management policies and procedures. FirstEnergy accepted the consultant's recommendation, and indicated progress on drafting and implementing various policies via its annual Implementation Plan Progress Reports filed with the Commission. However upon inquiry from Audit Staff during the course of our fieldwork, management responded that no formal written facilities management policies and procedures were available for review without offering any further qualification or explanation.

Developing and maintaining written facilities management policies and procedures will ensure that FirstEnergy and the FE-PA Companies will interact and make appropriate decisions consistent with other FirstEnergy policies. Additionally, the policies should define proper techniques and procedures to ensure facility service operations are performed in the most cost-effective manner for FirstEnergy and its operating companies.

Recommendation

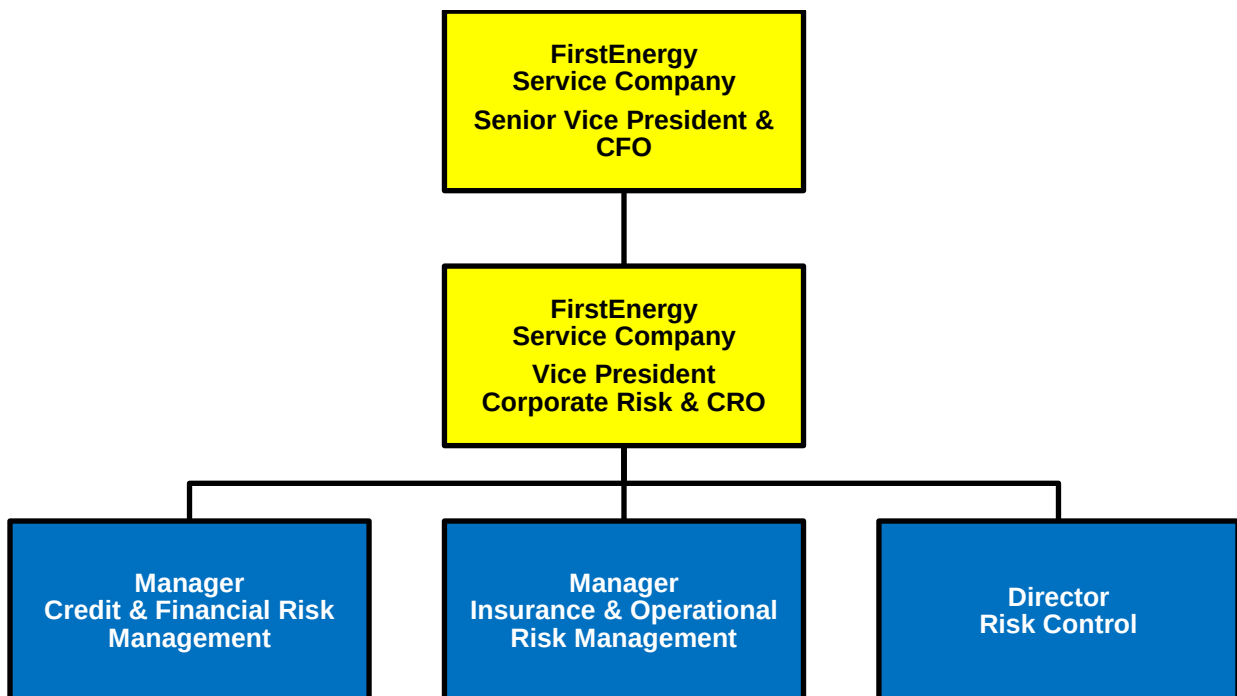
1. Develop written facilities management policies and procedures to assure business activities between corporate and regional facilities managers are consistent with FirstEnergy policies.

XV. RISK MANAGEMENT

Background

As discussed in Chapter II – Background, FirstEnergy Corporation’s (FirstEnergy or FE) Regulated Distribution business segment distributes electricity through FirstEnergy’s ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates including risk management. FESC’s Enterprise Risk Management Department includes three functional areas, all reporting to the Chief Risk Officer (CRO). The CRO supports the Chief Executive Officer, the Audit Committee of the Board of Directors, and the Risk Policy Committee in their risk oversight responsibilities. The CRO is responsible for evaluating risks on an enterprise-wide basis, implementing a systematic risk assessment approach throughout FirstEnergy, and helping to mitigate exposure to unwanted risk through an understanding of FirstEnergy’s overall risk tolerance. FESC’s Risk Management Department is shown in Exhibit XV-1.

Exhibit XV – 1
FirstEnergy Service Company
Risk Management Department Organizational Structure
As of January 1, 2014



Source: Data Request No. SS-82, supporting documentation from FirstEnergy, and Auditor Analysis

FESC's Credit and Financial Risk Management Department is responsible for assessing the credit worthiness of customers, vendors, and counter-parties with which FirstEnergy does business and ensuring adequate cash flow of FirstEnergy to cover all of its liabilities. Credit risk monitors an obligator's ability to meet the terms of a contract or otherwise perform as agreed. The Credit and Financial Risk Management Department monitors FirstEnergy's default service suppliers to ensure they continue to meet the credit requirements of the supplier agreements.

FESC's Risk Control Department is responsible for maintaining compliance with relevant risk management policies and controls, verifying commodity transaction attributes within trading and risk management systems, maintaining forward market price information, and preparing and distributing commodity risk reports. The Risk Control Department also monitors FirstEnergy's exposure to securing non-shopping customer load as a default service provider obligation.

FESC's Insurance and Operational Risk Management Department is responsible for assessing the equitable transfer of the risk of loss through insurance products and evaluating and monitoring operational risk. The Insurance and Operational Risk Management Department procures and monitors the insurance of FirstEnergy as well as ensures large projects are meeting necessary timelines and budgets.

The Risk Policy Committee is comprised of senior management responsible for recognizing and managing significant risks of FirstEnergy. The Risk Policy Committee conducts standing meetings on a quarterly and monthly basis. Quarterly meetings are conducted with the full Risk Policy Committee during which FirstEnergy's risks are discussed and meeting minutes are taken. There is also a Risk Policy Subcommittee that meets monthly if necessary to approve transactions typically greater than \$60 million. Meeting minutes are also taken for the Subcommittee meetings.

A Corporate Risk Management (CRM) Policy is in place to create an environment where corporate risks are identified, understood, and effectively managed. This CRM Policy establishes the authority and responsibility for managing FirstEnergy's risks, establishes a hierarchy of risk oversight accountability within FirstEnergy, and provides for the creation of formal risk management programs. The CRM Policy establishes the roles and responsibilities of the Chief Risk Officer, the Risk Policy Committee, Internal Audit, and Business Unit management within the framework of the enterprise risk management process.

A Utilities Commodity Risk Management (UCRM) Policy applies to all FirstEnergy electric distribution companies (EDCs), including the FE-PA Companies. This UCRM Policy establishes the control requirements and the framework for which employees of Regulated Commodity Sourcing and Regulated Generation & Dispatch are to assess, manage, measure, and report the risks inherent in its management of power supply and related commodity portfolio management activities on behalf of FEU. This UCRM Policy defines the requirement to follow state mandated procurement plans and defines the utilities obligation to prudently utilize utility assets and governs the various credit activities with customers (e.g., new application for service).

FESC's Insurance and Operation Risk Management Department oversees a corporate insurance program which includes property and casualty insurance that covers nuclear and other generation sources, and transmission and distribution operations. Documentation was reviewed by the Audit Staff that detailed the procedures for budgeting and monitoring expenses, and monthly variance reports. In addition, the Audit Staff reviewed several management reports, including:

- 2012 and 2013 YTD Summary of Accomplishments and Outlook for the remainder of 2013
- 2012 Budget Summary for the years 2008-2012
- 2012 Property Loss Control Summary
- Outstanding Surety Bonds as of July 30, 2013

FirstEnergy primarily self-insures, but does obtain lines of coverage for specific insurance needs. Exhibits XV-2, XV-3, XV-4 and XV-5 show the insurance lines of coverage and associated premium expenses in effect as of January 1, 2014 for Met-Ed, Penelec, Penn Power, and West Penn Power for the years 2008 through 2013. Expenses have remained fairly stable at Met-Ed (1.72% compound growth) and Penn Power (4.21% compound growth) for the period while decreasing at Penelec (-7.94% compound growth) and decreasing significantly at West Penn Power (-27.68% compound growth).

Exhibit XV – 2
Metropolitan Edison Company
Insurance Premium Expenses
For the Years 2008 through 2013

Lines of Coverage	2008	2009	2010	2011	2012	2013
Liability Insurance	\$433,534	\$296,761	\$291,183	\$322,085	\$322,039	\$404,800
Workers Compensation Insurance	\$16,843	\$16,520	\$17,050	\$17,926	\$13,721	\$18,770
Property Insurance	\$141,210	\$214,274	\$133,543	\$19,009	\$121,928	\$197,532
Boiler & Machinery Insurance	\$6,405	\$8,972	\$8,273	\$19,296	\$38,558	\$560
Surety Bonds	\$35,638	\$63,688	\$55,899	\$29,043	\$32,426	\$13,754
Insurance EIB	\$19,816	\$27,433	\$16,233	\$10,873	(\$10,833)	(\$6,165)
Nuclear Liability Insurance Refunds	(\$75,629)	\$0	\$0	\$0	\$0	\$0
Totals	\$577,817	\$627,648	\$522,181	\$418,232	\$517,839	\$629,251

Source: Data Request No. SS-35

Exhibit XV – 3
Pennsylvania Electric Company
Insurance Premium Expenses
For the Years 2008 through 2013

Lines of Coverage	2008	2009	2010	2011	2012	2013
Liability Insurance	\$376,206	\$319,120	\$312,373	\$344,644	\$343,564	\$224,219
Workers Compensation Insurance	\$21,136	\$20,751	\$21,073	\$22,144	\$16,957	\$11,813
Property Insurance	\$174,803	\$275,083	\$180,806	\$14,500	\$157,075	\$141,151
Boiler & Machinery Insurance	\$7,251	\$8,973	\$8,273	\$23,145	\$49,161	\$712
Surety Bonds	\$14,944	\$78,788	\$69,152	\$35,929	\$38,529	\$8,874
Insurance EIB	\$17,196	\$29,500	\$17,415	\$11,667	(\$14,980)	(\$7,311)
Nuclear Liability Insurance Refunds	(\$37,814)	\$0	\$0	\$0	\$0	\$0
Totals	\$573,722	\$732,215	\$609,092	\$452,029	\$590,306	\$379,458

Source: Data Request No. SS-35

Exhibit XV – 4
Pennsylvania Power Company
Insurance Premium Expenses
For the Years 2008 through 2013

Lines of Coverage	2008	2009	2010	2011	2012	2013
Liability Insurance	\$34,235	\$86,183	\$84,577	\$93,239	\$92,946	\$60,916
Workers Compensation Insurance	\$5,050	\$4,970	\$4,622	\$4,852	\$3,701	\$2,645
Property Insurance	\$13,640	\$21,616	\$14,731	\$780	\$13,046	\$11,549
Boiler & Machinery Insurance	\$2,900	\$0	\$0	\$1,340	\$4,159	\$61
Surety Bonds	\$6,836	\$16,308	\$14,313	\$7,437	\$10,189	\$4,362
Insurance EIB	\$1,565	\$7,967	\$4,715	\$3,157	(\$568)	(\$599)
Totals	\$64,226	\$137,044	\$122,958	\$110,805	\$123,473	\$78,934

Source: Data Request No. SS-35

Exhibit XV – 5
West Penn Power Company
Insurance Premium Expenses
For the Years 2008 through 2013

Lines of Coverage	2008	2009	2010	2011	2012	2013
Workers Compensation Insurance	\$283,343	\$309,405	\$300,330	\$73,765	\$8,962	\$10,676
Workers Compensation State Assessments*	\$109,896	\$127,344	\$139,706	\$178,294	\$0	\$0
Injuries and Damages Insurance	\$396,736	\$462,879	\$593,514	\$441,835	\$379,200	\$272,375
Property Insurance	\$894,526	\$1,111,705	\$1,150,574	\$339,687	\$161,602	\$132,596
Aircraft Insurance	\$14,067	\$14,043	\$14,440	\$(6,276)	\$0	\$0
Other Insurance	\$101,815	\$126,672	\$113,815	\$10,973	\$276,483	\$(6,867)
Directors & Officers Liability*	\$290,983	\$234,779	\$215,506	\$164,984	\$0	\$0
Fiduciary Liability*	\$33,571	\$30,719	\$27,601	\$42,411	\$0	\$0
Bonds Insurance	\$20,985	\$36,319	\$34,722	\$31,971	\$12,088	\$14,889
Boiler & Machinery Insurance	\$0	\$0	\$0	\$0	\$36,919	\$860
Totals	\$2,145,922	\$2,453,865	\$2,590,208	\$1,277,644	\$875,254	\$424,529

* - These lines of coverage were unique to West Penn Power as an operating subsidiary of Allegheny Energy during the period 2008-2011 and no longer continued as an operating subsidiary of FirstEnergy.

Source: Data Request No. SS-35

Findings and Conclusions

Our examination of the Risk Management function included a review of the organization and administration of risk management services provided to the FE-PA Companies. Specifically, the Audit Staff reviewed the Risk Management function's goals and objectives, policies and procedures, reporting, budgeting, insurance coverage, and insurance expenses. Based on our review of the Risk Management function, it appears that the delivery of risk management services is being performed in a satisfactory manner.

Recommendation

None.

XVI. LEGAL SERVICES AND EXTERNAL AFFAIRS

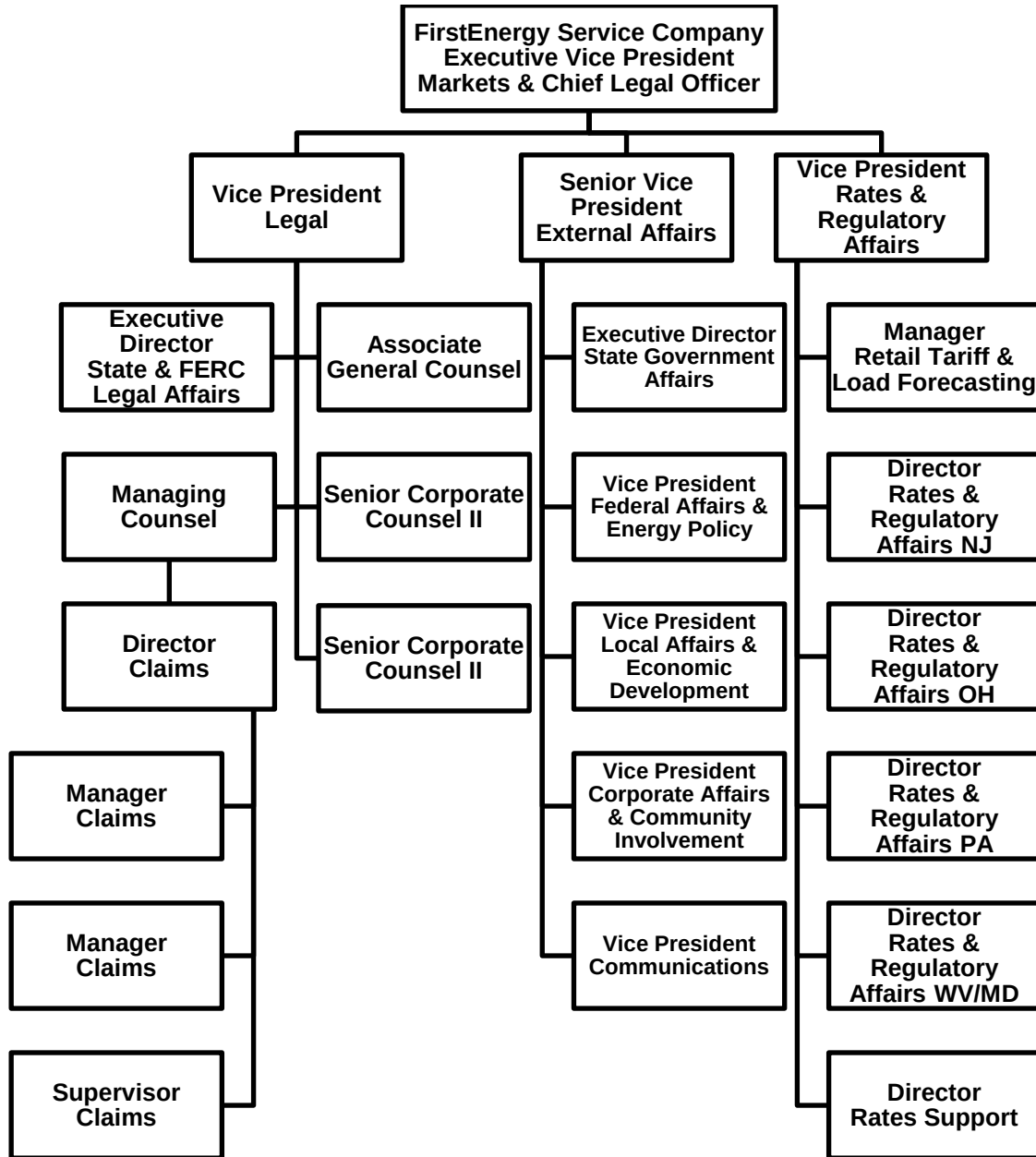
Background

As discussed in Chapter II – Background, FirstEnergy Corporation's (FirstEnergy or FE) Regulated Distribution business segment distributes electricity through FirstEnergy's ten utility operating companies, which is also referred to as FirstEnergy Utilities (FEU). Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn Power), collectively referred to as the FirstEnergy Pennsylvania Companies (FE-PA Companies), are the Pennsylvania operating companies within FEU. FirstEnergy Service Company (FESC) is a subsidiary of FirstEnergy that provides various corporate services to all affiliates including legal, claims, and external affairs services. The organization of the FESC Legal, External Affairs, and Regulatory Affairs Departments are shown in Exhibit XVI-1.

The Legal Department is led by FESC's Executive Vice President of Markets and Chief Legal Officer. Reporting directly to the Executive Vice President of Markets and Chief Legal Officer is the Vice President of Legal who has six direct reports including the Executive Director – State & Federal Energy Regulatory Commission (FERC) Legal Affairs, Associate General Counsel, Managing Counsel, and two Senior Corporate Counsels. The Executive Director of State & FERC Legal Affairs manages three attorneys responsible for individual teams of attorneys and staff dedicated to FERC regulatory matters, state regulatory matters for FirstEnergy's regulated subsidiaries, and state regulatory matters for FirstEnergy's other subsidiaries. The Associate General Counsel manages a team of attorneys dedicated to representation of FirstEnergy and its subsidiaries in corporate, securities, treasury, fuel procurement, and supply chain matters. The Managing Counsel manages a team of attorneys and staff dedicated to the representation of FirstEnergy and its subsidiaries in matters related to commercial litigation, bankruptcy, labor employment, tax, and real estate. One of the two Senior Corporate Counsels is dedicated to representation of FirstEnergy and its subsidiaries in environmental matters with three direct reports, while the other represents FirstEnergy and its subsidiaries in nuclear matters with no direct reports.

As necessary, FESC uses outside counsel and different factors are considered in this decision that include the workload of the individual attorney, the need for a particular specialty skill, the need for additional professional support for project staffing, and an assessment of efficiencies that can be gained by an external or internal allocation of the work. When external counsel is used, internal counsel remains in charge of the matter, and all major decisions in strategy and handling remain with the internal counsel responsible. This allows internal counsel to closely monitor the billing and properly factor in the full measure of operational, financial and strategic considerations.

Exhibit XVI – 1
FirstEnergy Service Company
Legal and External Affairs Departments Organizational Structure
As of January 1, 2014



Source: Data Request Nos. EM- 30, FM-27, SS-34 and Auditor Analysis

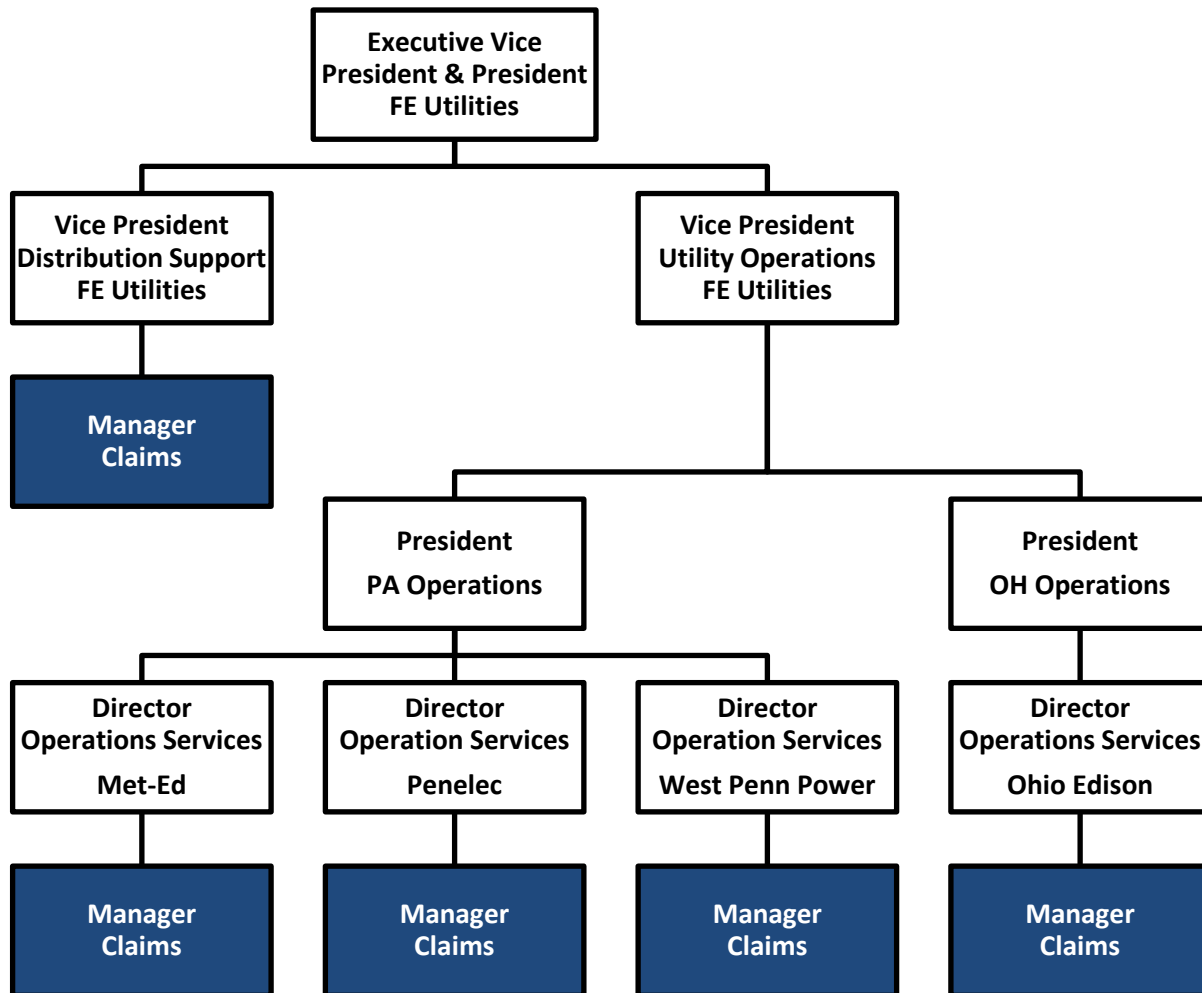
The Legal Department utilizes a process in which performance surveys are conducted annually to rate its outside legal counsel. Additionally, internal counsel is expected to continually monitor not only budgets and individual case strategy, but also the performance of external counsel under their supervision. Where performance concerns arise, they are addressed individually by the respective internal counsel and management. Outside counsel may also be subject to review following specific engagements. A document entitled FirstEnergy Policy and Billing Procedures for Outside Counsel was provided to the Audit Staff that serves as a guideline to control the use of outside counsel.

Reporting to the Managing Counsel is the Director of Claims who is responsible for oversight of the Corporate Claims function. The Corporate Claims Department which is comprised of attorneys and support staff handles all personal injury claims, litigated claims, and property damage claims for claims that exceed \$20,000. In addition, there is a FEU Claims Department residing within the FESC Distribution Support Group which specifically provides guidance to the FE-PA Companies regarding claims handling and regulations which is governed by a Claims Processing Manual. The Vice President of Distribution Support reports to the Senior Vice President of FirstEnergy and President of FEU. The FEU Claims Department provides the FE-PA Companies with the tools necessary to promote consistency and coordinate efforts with the Corporate Claims Department. The roles and responsibilities are to identify, investigate, document, and resolve claims as needed across each service territory of the FE-PA Companies. Job duties include customer contact, field investigations, and recording, reviewing, and filing documentation aimed at rendering fair and equitable claims decisions. The organization for the FEU Claims Department and the claims function within each of the FE-PA Companies is shown in Exhibit XVI-2. Penn Power is a subsidiary of Ohio Edison Company (Ohio Edison), and as such, the Director of Operations Services for Ohio Edison is responsible for claims related to Penn Power.

Exhibit XVI-3 shows the Legal Department expenses for each of the FE-PA Companies for 2008 through 2013. For the FE-PA Companies as a whole, the legal expenses have declined significantly in 2013 after remaining relatively stable for the prior five years, other than a high in 2010 which was driven by West Penn Power's higher than average use of outside counsel. In 2013, West Penn Power experienced a reduction in a longstanding operating reserve held on its books associated with the ongoing litigation. The reduction resulted from West Penn Power's successes in insurance related litigation in which West Penn Power received a substantial insurance reimbursement payment as well as past, present and future insurance commitments from its insurance companies. Consequently, these entries led to a net operating credit for West Penn Power's legal expenses for 2013 which offset normal operating expense levels.

Budgeting and monitoring of legal expenditures is handled at various levels of the Legal Department. Budgets are prepared on an annual basis, revised quarterly as necessary, and reviewed monthly by the management. The Legal Department budget is developed collaboratively by management and practice groups within the Legal Department, including Corporate Claims, usually in the third quarter of each year. Initial

Exhibit XVI – 2
FirstEnergy Utilities
Claims Department Organizational Structure
As of January 1, 2014



Source: Data Request Nos. FM-27, SS-34 and Auditor Analysis

guidance on annual budget amounts is provided by management; however, individual attorneys and practice groups are involved in the process.

Annual budgets are built based on historical experience adjusted for anticipated spending in the upcoming year and are reviewed, revised, and discussed by Legal Department management prior to official approval. The annual budget is supported by spending forecasts for major projects including the use of external law firms. The Legal Department management team reviews on a monthly basis budget and spending information, including project forecasts. The individual lawyers throughout the

Exhibit XVI – 3
FirstEnergy Service Company
Legal Department Expenses (in thousands)
For the Years 2008 through 2013

	2008	2009	2010	2011	2012	2013
Met-Ed	\$2,523	\$2,290	\$2,385	\$2,791	\$2,242	\$1,982
Penelec	\$1,524	\$2,743	\$2,403	\$2,332	\$2,563	\$1,934
Penn Power	\$600	\$530	\$511	\$753	\$605	\$516
West Penn Power	\$1,901	\$2,054	\$4,486	\$1,318	\$2,084	\$52
FE-PA Companies Totals	\$6,548	\$7,617	\$9,785	\$7,194	\$7,494	\$4,484

Source: Data Request No. SS-35 and Auditor Analysis

department are also expected to continually monitor the legal spend for the specific projects for which they are responsible to ensure budget adherence.

The time reporting system used by the Legal Department allocates employee time to the appropriate FirstEnergy affiliate. The time sheets are split between regulated and unregulated affiliates. Reports to management on legal and corporate claims matters occur through various forums, including management meetings and specific matter related meetings, as well as the continual tracking of matters through group case tracking logs. In addition to various Securities and Exchange Commission (SEC) related reporting requirements, the Legal Department reports on significant legal matters on an ongoing basis. The SEC related reports serve as a valuable method to track key issues and offer written updates on those issues throughout the year and are updated at scheduled intervals.

Each specific subject matter group within the Legal Department conducts routine meetings led by their immediate supervisor so that individual attorneys can report on the specific matters and tasks for which they are responsible. The Legal Department's management team meets monthly to conduct similar issue reviews. In addition, management meetings with the EVP & GC are held regularly in order for the team to discuss case strategy and provide procedural and substantive updates. Furthermore, ad hoc meetings are held between the EVP & GC and management on an as-needed basis to discuss legal issues that may come up on individual matters throughout the year.

The Legal and Corporate Claims Departments update the FE-PA Companies through periodic meetings on an as-needed basis, and include FE-PA Companies' management regularly as an integral part of strategy teams assembled to assist FESC's attorneys in handling individual legal matters affecting the FE-PA Companies. Generally, the responsible attorney for each claim or other legal matter assembles a team of subject matter experts and management from affected business units to assist in their representation in that matter. These teams provide input on major decisions and are regularly provided status updates.

The FEU Claims Department budget is targeted to the respective claims cost center for each of the FE-PA Companies. This includes labor, other than labor, and claims payable expenditures for small payable claims. Larger payable claims are the responsibility of Corporate Claims but are monitored by FE-PA Companies' management. Claims expenditures are monitored by FE-PA Companies' management via actual vs. budget reports for the claims cost center for the current month and year to date to track and manage financial performance and identify trends in payable claims.

The claims system is a Microsoft Access database that was developed internally. It separately tracks lawsuits, non-litigated claims and receivable claims and assigns a unique claim number to each case. The claim number is then used to track the progress of the claim from inception to closure. In April 2013, FirstEnergy contracted with a vendor to develop and implement a new claims system. The new system is expected to go live in November 2014. The FESC Corporate Claims Department is in the process of developing consistent management reports that will be utilized by all four FE-PA Companies. The target completion date for implementation of these reports is November 2014, when the new system goes live. Samples of Claims Management Reports used at each of the FE-PA Companies were reviewed by the Audit Staff.

The external affairs function was previously the responsibility of each of the individual regions until the beginning of 2013, when the External Affairs Department was formed as a corporate group. The External Affairs Department includes: State Government Affairs, Federal Affairs, Local Affairs, Corporate Affairs & Community Involvement and Communications. All employees are FirstEnergy Service Company employees. Each group reports to the Senior Vice President of External Affairs, who reports to FESC's Executive Vice President of Markets and Chief Legal Officer.

The Executive Director of State Government Affairs is responsible for overseeing effective relationships with state legislators, Governors and their respective staff and with state public utility commissioners and staff. State Government Affairs ensures the policy positions of state issues of interest to FirstEnergy are developed, that such policy is vetted by appropriate internal business groups and that FirstEnergy's positions are known throughout FirstEnergy and through its participation in certain state organizations such as the Energy Association of Pennsylvania.

The Vice President of Federal Affairs is responsible for overseeing effective relationships and activities with the U.S. Congress, the White House and the Administration (including the Environmental Protection Agency, Department of Energy, and FERC). The Federal Affairs group shares its role with FirstEnergy's main trade associations – the Edison Electric Institute and Nuclear Energy Institute. The Energy Policy group ensures the policy positions of federal issues of interest to FirstEnergy are developed, that such policy is vetted by appropriate internal business groups and that FirstEnergy's positions are known throughout FirstEnergy.

The Vice President of Local Affairs & Economic Development is responsible for overseeing effective relationships with all local, regional elected and appointed officials (everything not covered by State and Federal Government Affairs: including mayors,

city councils, city service directors, county elected officials, local chambers, schools, townships, etc.). The Economic Development group is responsible for providing company-wide support to attract new business development and to retain and grow existing business.

The Vice President of Corporate Affairs & Community Involvement is responsible for strategically investing resources in the communities served by FirstEnergy through the corporate and the FirstEnergy Foundation. In addition, the Corporate Affairs group manages corporate giving (e.g., contributions, sponsorships, dues & memberships), community initiatives (e.g., employee volunteerism) and the FirstEnergy Foundation, to align corporate & employee community involvement, and enhance a positive corporate image & reputation. The following are descriptions of the outreach programs provided by FirstEnergy to the communities in which it serves:

- The FirstEnergy Foundation – Since 2001, the FirstEnergy Foundation has awarded thousands of grants to community-based organizations. Funded solely by FirstEnergy, the FirstEnergy Foundation awards grants to not-for-profit, tax-exempt health and human services agencies; educational organizations; cultural and arts programs and institutions; and civic groups throughout the service area and in communities where FirstEnergy's facilities are located.

FirstEnergy's strategy for community involvement through the FirstEnergy Foundation has four overarching priorities:

1. Help improve the vitality of its communities and support key safety initiatives.
2. Promote local and regional economic development and revitalization efforts.
3. Support FirstEnergy employees' community leadership and volunteer interests.
4. Advance an educated workforce by supporting professional development, literacy, and science, technology, engineering and mathematics education initiatives.

The FirstEnergy Foundation has provided grants to over 1,000 organizations located in the West Penn Power service territory from 2011 to 2013; and Penn Power, Penelec and Met-Ed service territories from 2009 to 2013 totaling more than \$3.6 million.

- Matching Gifts Program – Part of the FirstEnergy Foundation, the Matching Gifts Program encourages and builds on a tradition of giving with a dollar-for-dollar match, up to \$5,000 annually, on employee contributions to qualifying institutions.
- Corporate Memberships – FirstEnergy encourages and supports participation in professional organizations through corporate memberships in trade and

civic organizations across its service territory and where FirstEnergy has facilities. FirstEnergy and its employees are active in industry and professional organizations as well as chambers of commerce and economic development groups. FirstEnergy believes that these memberships strengthen the social and economic fabric of the communities as well as advance the personal and professional development of its employees.

- Corporate Contributions – FirstEnergy and its subsidiary companies support organizations and events that enrich the quality of life in the communities it serves. Whether it's the United Way or a local, charitable agency, FirstEnergy's corporate contributions are directed toward organizations and projects dedicated to improving the environmental, economic, social, educational and cultural aspects of the community.
- Educational Resources and School Activities – FirstEnergy provides support to the neighborhood schools. For example, FirstEnergy promotes electrical safety; career development; proficiency and skills development for students; science, technology, engineering and mathematics; and literacy initiatives.

The FirstEnergy Educational Advisory Council – a panel of elementary, middle and high school teachers and administrators – helps FirstEnergy create and select timely and relevant educational materials that FirstEnergy provides to local schools and community groups.

- STEM Classroom Grants – FirstEnergy proudly supports classroom projects and teacher professional development initiatives focusing on science, technology, engineering and mathematics (STEM). One of the ways is by offering STEM educational grants of up to \$500 to educators at schools and youth groups in communities served by FirstEnergy's electric operating companies and areas where FirstEnergy has facilities. These grants have funded projects ranging from electric safety, magnetism and robotics to the physics of kites, superconductors and high-speed transportation.
- Customer Service outreach programs – FirstEnergy is involved in the following customer service outreach programs for low income and elderly customers (descriptions of each program are found in Chapter X – Customer Service):
 - Customer Assistance Program (“CAP”)
 - Customer Assistance and Referral Evaluation Services (“CARES”)
 - Emergency Hardship Funds
 - Gatekeeper Program
 - WARM – a LIURP Program
 - Low Income Home Energy Assistance Program (“LIHEAP”)
 - ACT 129 Low Income Program

The Vice President of Communications is also responsible for overseeing and providing accurate, timely, clear and objective information to internal and external audiences to help FirstEnergy achieve overall corporate goals and enhance the Company's reputation with key stakeholders. Communications areas of focus include:

- Financial and operating
- Employee and public safety
- Regulatory and legislative activities
- Competitive electric generation sales
- Reliability
- Environmental stewardship

The Vice President of Rates and Regulatory Affairs, who reports to the Executive Vice President of Markets and Chief Legal Officer, is responsible for overseeing the various regulatory matters before the state regulatory utility commissions in which the FirstEnergy Utilities operate. The Director of Rates and Regulatory Affairs for Pennsylvania reports to the Vice President of Rates and Regulatory Affairs. There is a manager and a number of analysts that report to the Director of Rates and Regulatory Affairs. Some of the more significant regulatory issues addressed by each of the FE-PA Companies before the Pennsylvania Public Utility Commission (PUC or Commission) in 2013 have been as follows:

- Focused Mutual Assistance Assessment
- Met-Ed Focused Reliability Assessment
- Inspection & Maintenance Biennial Plans
- Outage Response Proposed Policy Statement
- Utility Best Practices Group For Storm Events
- Smart Meter Implementation Plan
- Default Service Programs
- Mutual Assistance Agreement
- Enforcement proceeding against West Penn regarding accident following failure of overhead line in 2009
- Met-Ed Hurricane Sandy Accounting Deferral Request
- Allegheny Energy-FirstEnergy Merger Proceeding
- Energy Efficiency Phase II Plans

Findings and Conclusions

Our examination of the Legal and External Affairs functions included a review of the organization and administration of legal and external affairs services provided to the FE-PA Companies. Specifically, the Audit Staff reviewed the Legal and External Affairs functions' goals and objectives, policies and procedures, staffing, reporting, budgeting and assignment and management of caseload to external legal firms. Based on our

review of the Legal and External Affairs functions, it appears that the delivery of legal and external affairs services is being performed in a satisfactory manner.

Recommendation

None.

XVII. ACKNOWLEDGEMENTS

We wish to express our appreciation for the cooperation and assistance given to us during the course of this Focused Management and Operations Audit by the officers and staff of FirstEnergy Corporation, FirstEnergy Service Company, Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company.

This audit was conducted by George Dorow, Bryan Borres, Tim Kerestes, Eric McKeever, Craig Bilecki and Nathan Paul of the Management Audit Staff of the Bureau of Audits.

XVIII. APPENDICES

Appendix A	Metropolitan Edison Company Financial and Operating Data and Statistics
Appendix B	Metropolitan Edison Company Balance Sheet
Appendix C	Pennsylvania Electric Company Financial and Operating Data and Statistics
Appendix D	Pennsylvania Electric Company Balance Sheet
Appendix E	Pennsylvania Power Company Financial and Operating Data and Statistics
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Appendix H	West Penn Power Company Balance Sheet
Appendix I	Comparative Data and Statistics for the Pennsylvania Panel

Metropolitan Edison Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Plant In Service</u>						
Land and Land Rights	\$29,953,273	\$29,953,219	\$30,363,647	\$30,599,012	\$30,362,865	0.3%
Structures and Improvements	\$5,408,211	\$6,408,201	\$6,430,931	\$6,922,756	\$6,875,742	6.2%
Station Equipment	\$131,019,449	\$140,062,869	\$144,645,828	\$157,723,195	\$154,363,635	4.2%
Towers and Fixtures	\$36,830,487	\$36,829,628	\$36,829,628	\$41,748,924	\$38,567,754	1.2%
Poles and Fixtures	\$38,174,014	\$39,368,100	\$39,344,721	\$42,256,214	\$42,139,144	2.5%
Overhead Conductors and Devices	\$63,044,218	\$65,481,004	\$67,385,216	\$72,826,963	\$72,205,827	3.5%
Underground Conduit	\$0	\$0	\$0	\$0	\$0	NM
Underground Conductors and Devices	\$332,189	\$332,580	\$331,839	\$530,596	\$455,427	8.2%
Roads and Trails	\$715,548	\$715,548	\$715,548	\$744,678	\$746,972	1.1%
Asset Retirement Costs for Transmission Plant	\$4,666	\$4,666	\$4,666	\$4,666	\$4,666	0.0%
Total Transmission Plant	\$305,482,055	\$319,155,815	\$326,052,024	\$353,357,004	\$345,722,032	3.1%
Land and Land Rights	\$31,255,409	\$31,616,585	\$31,791,820	\$31,776,395	\$31,776,395	0.4%
Structures and Improvements	\$11,504,243	\$11,776,765	\$11,815,495	\$12,589,766	\$12,661,180	2.4%
Station Equipment	\$157,604,977	\$163,808,768	\$175,745,810	\$186,647,773	\$181,778,561	3.6%
Poles, Towers, and Fixtures	\$270,347,687	\$277,772,267	\$285,168,716	\$337,909,316	\$313,173,296	3.7%
Overhead Conductors and Devices	\$278,812,509	\$321,320,051	\$351,808,906	\$406,819,107	\$388,856,281	8.7%
Underground Conduit	\$27,786,297	\$27,820,207	\$27,846,510	\$29,916,018	\$30,080,504	2.0%
Underground Conductors and Devices	\$146,503,417	\$152,228,558	\$159,697,079	\$178,542,383	\$174,910,185	4.5%
Line Transformers	\$318,158,523	\$335,992,647	\$347,985,465	\$378,697,043	\$368,066,955	3.7%
Services	\$143,824,149	\$148,332,298	\$150,525,130	\$162,511,049	\$163,193,362	3.2%
Meters	\$54,890,321	\$54,836,292	\$55,402,406	\$61,310,088	\$58,879,986	1.8%
Installations on Customer Premises	\$3,905,377	\$3,951,742	\$4,039,328	\$4,290,778	\$4,280,164	2.3%
Street Lighting and Signal Systems	\$10,515,683	\$10,933,050	\$11,280,019	\$10,871,879	\$11,232,525	1.7%
Asset Retirement Costs for Distribution Plant	\$37,210	\$37,210	\$37,210	\$37,210	\$37,210	0.0%
Total Distribution Plant	\$1,455,145,802	\$1,540,426,440	\$1,613,143,894	\$1,801,918,805	\$1,738,926,604	4.6%
Total Plant In Service	\$1,760,627,857	\$1,859,582,255	\$1,939,195,918	\$2,155,275,809	\$2,084,648,636	4.3%
<u>Total Materials and Supplies</u>						
Assigned - Operations and Maintenance						
Transmission Plant (estimated)	\$0	\$0	\$0	\$0	\$0	NM
Distribution Plant (estimated)	\$0	\$0	\$0	\$0	\$0	NM
<u>Operating Revenues</u>						
<u>Sales of Electricity</u>						
Residential Sales	\$584,085,498	\$620,250,721	\$701,824,011	\$736,886,198	\$587,019,547	0.1%
Commercial Sales	\$406,607,875	\$424,752,641	\$452,494,171	\$213,739,329	\$157,659,391	-21.1%
Industrial Sales	\$275,105,769	\$273,769,775	\$281,219,802	\$97,126,297	\$73,976,131	-28.0%
Public Street and Highway Lighting Sales	\$6,181,015	\$6,197,333	\$7,600,420	\$7,712,494	\$7,053,290	3.4%
Total Sales to Ultimate Customers	\$1,271,980,157	\$1,324,970,470	\$1,443,138,404	\$1,055,464,318	\$825,708,359	-10.2%
Sales for Resale	\$268,861,442	\$283,824,161	\$312,909,953	\$103,085,831	\$45,847,261	-35.7%
Total Sales of Electricity	\$1,540,841,599	\$1,608,794,631	\$1,756,048,357	\$1,158,550,149	\$871,555,620	-13.3%
Provision for Rate Refunds	\$105,250	(\$105,250)				NM
Total Revenues Net Provisions	\$1,540,736,349	\$1,608,899,881	\$1,756,048,357	\$1,158,550,149	\$871,555,620	-13.3%
<u>Megawatt Hours Sold</u>						
<u>Sales of Electricity</u>						
Residential Sales	5,597,600	5,448,240	5,656,253	5,587,870	5,362,818	-1.1%
Commercial Sales	4,776,548	4,568,227	4,708,981	2,947,296	2,907,035	-11.7%
Industrial Sales	3,831,118	3,438,601	3,595,567	5,403,990	5,261,037	8.3%
Public Street and Highway Lighting Sales	34,532	33,611	34,724	30,476	28,469	-4.7%
Total Sales to Ultimate Customers	14,239,798	13,488,679	13,995,525	13,969,632	13,559,359	-1.2%
Sales for Resale	-	-	-	-	-	NM
Total Sales of Electricity	14,239,798	13,488,679	13,995,525	13,969,632	13,559,359	-1.2%
<u>Average Number of Customers Per Month</u>						
<u>Sales of Electricity</u>						
Residential Sales	482,596	484,382	485,969	486,318	486,863	0.2%
Commercial Sales	62,544	63,028	63,413	64,825	65,078	1.0%
Industrial Sales	1,776	1,756	1,723	878	875	-16.2%
Public Street and Highway Lighting Sales	641	652	671	610	589	-2.1%
Total Sales to Ultimate Customers	547,557	549,818	551,776	552,631	553,405	0.3%
Sales for Resale	-	-	-	-	-	NM
Total Sales of Electricity	547,557	549,818	551,776	552,631	553,405	0.3%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Metropolitan Edison Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Operation and Maintenance Expenses</u>						
<u>Transmission</u>						
Total Operation	\$316,262,167	\$150,573,750	\$265,960,670	\$6,250,421	\$6,032,860	-62.8%
Maintenance Supervision and Engineering	\$620,218	\$285,198	\$149,935	\$224,020	\$424,697	-9.0%
Maintenance of Structures	\$502,621	\$387,130	\$319,471	\$343,205	\$381,793	-6.6%
Maintenance of Station Equipment	\$1,902,982	\$1,462,746	\$1,474,011	\$1,643,004	\$1,442,210	-6.7%
Maintenance of Overhead Lines	\$2,929,392	\$2,367,734	\$2,473,514	\$2,468,780	\$6,334,534	21.3%
Maintenance of Underground Lines	\$0	\$0	\$3,384	\$0	\$351	NM
Maintenance of Misc. Transmission Plant	\$0	\$3,791	\$5,711	\$59	\$44,458	NM
Total Maintenance	\$5,955,213	\$4,506,599	\$4,426,026	\$4,679,068	\$8,628,043	9.7%
Total Transmission O&M Expenses	\$322,217,380	\$155,080,349	\$270,386,696	\$10,929,489	\$14,660,903	-53.8%
<u>Distribution</u>						
Total Operation	\$13,189,186	\$9,209,173	\$10,097,945	\$8,887,855	\$8,138,915	-11.4%
Maintenance Supervision/Engineering	\$428,991	\$316,157	\$269,927	\$222,309	\$380,760	-2.9%
Maintenance of Structures	\$276,349	\$84,546	\$3,354	\$12,336	\$9,511	-56.9%
Maintenance of Station Equipment	\$4,332,077	\$2,584,897	\$2,464,943	\$2,688,704	\$3,018,624	-8.6%
Maintenance of Overhead Lines	\$18,477,818	\$15,872,287	\$19,387,496	\$30,606,270	\$30,955,815	13.8%
Maintenance of Underground Lines	\$1,701,773	\$809,743	\$788,928	\$1,272,541	\$1,954,082	3.5%
Maintenance of Line Transformers	\$28,580	\$16,058	\$15,528	\$10,670	\$1,594	-51.4%
Maintenance of Street Lighting/Signal Systems	\$589,876	\$673,535	\$793,592	\$637,170	\$709,746	4.7%
Maintenance of Meters	\$2,805,085	\$1,926,152	\$2,166,751	\$2,365,039	\$2,219,526	-5.7%
Maintenance of Misc. Distribution Plant	\$2,549,250	\$1,881,101	\$1,623,547	\$1,781,820	\$1,990,820	-6.0%
Total Maintenance	\$31,189,799	\$24,164,476	\$27,514,066	\$39,596,859	\$41,240,478	7.2%
Total Distribution O&M Expenses	\$44,378,985	\$33,373,649	\$37,612,011	\$48,484,714	\$49,379,393	2.7%
Total Transmission and Distribution Expenses	\$366,596,365	\$188,453,998	\$307,998,707	\$59,414,203	\$64,040,296	-35.4%
<u>Customer Service and Info. Expenses</u>						
Supervision	\$747,666	\$411,735	\$214,595	\$218,642	\$225,476	-25.9%
Customer Assistance Expenses	\$16,187,585	\$22,049,535	\$30,882,251	\$46,034,802	\$45,897,629	29.8%
Information and Instructional Expenses	\$6,600	\$1,588	\$1,843	\$807	\$360	-51.7%
Misc Customer Service and Info. Expenses	\$5,388,151	\$3,815,522	\$4,061,409	\$5,031,075	\$5,046,209	-1.6%
Total Customer Service and Info. Expenses	\$22,330,002	\$26,278,380	\$35,160,098	\$51,285,326	\$51,169,674	23.0%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Metropolitan Edison Company
Balance Sheet

Appendix B
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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>UTILITY PLANT</u>						
Utility Plant	\$2,033,523,035	\$2,133,809,305	\$2,211,118,223	\$2,359,987,084	\$2,381,395,374	4.0%
Construction Work in Progress	\$64,629,149	\$43,907,174	\$60,353,959	\$162,460,465	\$300,507,260	46.8%
TOTAL UTILITY PLANT	\$2,098,152,184	\$2,177,716,479	\$2,271,472,182	\$2,522,447,549	\$2,681,902,634	6.3%
Accum. Depreciation and Amortization	\$779,691,852	\$810,746,056	\$845,959,307	\$886,875,764	\$922,715,601	4.3%
NET UTILITY PLANT	\$1,318,460,332	\$1,366,970,423	\$1,425,512,875	\$1,635,571,785	\$1,759,187,033	7.5%
<u>OTHER PROPERTY AND INVESTMENTS</u>						
Nonutility Property	\$1,378,877	\$1,225,346	\$1,225,346	\$1,223,874	\$1,223,874	-2.9%
Accum. Depreciation and Amortization	(\$404,665)	(\$354,233)	(\$371,775)	(\$390,352)	(\$407,460)	0.2%
Investments in Associated Companies	\$0	\$0	\$0	\$0	\$0	0.0%
Investment in Subsidiary Companies	\$17,187,805	\$17,687,230	\$19,550,316	\$0	\$0	-100.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Other Investments	\$1,459	\$19,522	\$31,049	\$32,094	\$41,022	130.3%
Special Funds	\$226,138,841	\$267,321,554	\$405,803,531	\$358,814,341	\$321,830,400	9.2%
TOTALS	\$244,302,317	\$285,899,419	\$426,238,467	\$359,679,957	\$322,687,836	7.2%
<u>CURRENT AND ACCRUED ASSETS</u>						
Cash	\$0	\$0	\$0	\$0	\$0	NM
Special Deposits	\$115,548	\$116,023	\$116,487	\$156,947	\$157,321	8.0%
Working Fund	\$6,594	\$1,000	\$0	\$0	\$0	-100.0%
Temporary Cash Investments	\$0	\$0	\$243,100,000	\$0	\$0	0.0%
Notes Receivable	\$0	\$0	\$0	\$0	\$0	0.0%
Customer Accounts Receivable	\$51,622,480	\$61,543,221	\$47,990,001	\$82,794,605	\$77,327,324	10.6%
Other Accounts Receivable	\$14,920,922	\$7,062,297	\$8,473,996	\$12,718,451	\$9,329,207	-11.1%
Accum. for Uncollectible Accounts	\$0	(\$98)	\$0	(\$3,015,338)	(\$3,023,320)	NM
Notes Receivable from Assoc. Companies	\$26,059,138	\$116,588,668	\$33,206,862	\$0	\$0	0.0%
Accts Receivable from Assoc. Companies	\$32,539,392	\$43,589,938	\$24,919,653	\$11,715,751	\$1,638,629	-52.6%
Fuel Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Fuel Stock Expenses Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Residuals and Extracted Products	\$0	\$0	\$0	\$0	\$0	0.0%
Plant Materials and Operating Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Merchandise	\$0	\$0	\$0	\$0	\$0	0.0%
Other Materials and Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Nuclear Materials Held for Sales	\$0	\$0	\$0	\$0	\$0	0.0%
Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Stores Expense Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Gas Stored Underground-Current	\$0	\$0	\$0	\$0	\$0	0.0%
Liquefied Gas Stored and Held for Proc.	\$0	\$0	\$0	\$0	\$0	0.0%
Prepayments	\$7,624,467	\$16,615,652	\$2,452,170	\$2,488,583	\$15,593,016	19.6%
Advances for Gas	\$0	\$0	\$0	\$0	\$0	0.0%
Interest and Dividends Receivable	\$0	\$0	\$1,681,009	\$0	\$0	NM
Rents Receivable	\$3,866,239	\$3,956,937	\$4,087,039	\$4,223,749	\$7,053,612	0.0%
Accrued Utility Revenues	\$66,924,208	\$61,454,561	\$77,413,034	\$59,210,825	\$45,413,364	0.0%
Miscellaneous Current and Accrued Assets	\$0	\$0	\$143,137	\$584,289	\$1,432,607	NM
TOTALS	\$203,678,988	\$310,928,199	\$443,583,388	\$170,877,862	\$154,921,760	-6.6%
<u>DEFERRED DEBITS</u>						
Unamortized Debt Expenses	\$2,127,877	\$3,764,045	\$3,109,618	\$3,465,826	\$1,912,024	-2.6%
Extraordinary Property Losses	\$0	\$0	\$0	\$0	\$0	0.0%
Unrecovered Plant and Regulatory Study	\$0	\$0	\$0	\$0	\$0	0.0%
Other Regulatory Assets	\$726,928,295	\$637,093,449	\$551,014,608	\$604,677,497	\$505,194,804	-8.7%
Prelim. Survey and Investigation Charges	\$163,307	\$405,837	\$487,571	\$524,668	\$552,032	0.0%
Clearing Accounts	\$0	\$0	\$0	\$0	\$0	0.0%
Temporary Facilities	\$284,403	\$284,403	\$284,404	\$518,288	\$645,182	0.0%
Misc. Deferred Debits	\$430,716,453	\$438,302,059	\$438,940,590	\$427,947,824	\$427,859,201	-0.2%
Def. Losses from Disposition of Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Research, Devel. and Demonstration	\$0	\$3,127	\$339,791	\$346,297	\$350,641	0.0%
Unamortized Loss on Reacquired Debt	\$11,012,468	\$9,367,871	\$7,723,273	\$6,078,676	\$4,435,350	-20.3%
Accum. Deferred Income Taxes	\$418,338,416	\$346,710,288	\$418,222,928	\$478,359,985	\$458,966,125	2.3%
TOTALS	\$1,589,571,219	\$1,435,931,079	\$1,420,122,783	\$1,521,919,061	\$1,399,915,359	-3.1%
TOTAL ASSETS AND OTHER DEBITS	\$3,356,012,856	\$3,399,729,120	\$3,715,457,513	\$3,688,048,665	\$3,636,711,988	2.0%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Metropolitan Edison Company
Balance Sheet

Appendix B
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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>PROPRIETARY CAPITAL</u>						
Common Stock Issued	\$1,196,172,053	\$1,197,070,403	\$1,197,076,077	\$842,743,836	\$797,750,017	-9.6%
Preferred Stock Issued	\$0	\$0	\$0	\$0	\$0	NM
Capital Stock Subscribed	\$0	\$0	\$0	\$0	\$0	0.0%
Stock Liability for Conversion	\$0	\$0	\$0	\$0	\$0	0.0%
Premium on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Donations from Stockholders	\$0	\$0	\$0	\$0	\$0	0.0%
Gain on Required Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other Paid-in Capital Stock	(\$140,984,020)	(\$143,551,186)	(\$142,383,078)	\$0	\$0	-100.0%
Installments Received on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Discount on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Expense	\$0	\$0	\$0	\$0	\$0	0.0%
Retained Earnings	\$0	\$0	\$0	\$0	\$0	0.0%
Unappropriated Undistributed Earnings	(\$64,089,992)	(\$9,066,632)	\$17,077,693	(\$63,671,883)	(\$21,721,143)	-23.7%
Reacquired Capital Stock	\$12,966,395	\$13,465,820	\$15,328,906	\$0	\$0	-100.0%
Other	\$0	(\$143,551,186)	(\$142,383,078)	\$27,528,103	\$23,696,998	NM
TOTALS	\$1,004,064,436	\$914,367,219	\$944,716,520	\$806,600,056	\$799,725,872	-5.5%
<u>LONG-TERM DEBT</u>						
Bonds	\$42,190,000	\$42,190,000	\$42,190,000	\$28,500,000	\$28,500,000	-9.3%
Reacquired Bonds	\$0	\$0	\$0	\$0	\$0	0.0%
Advances from Associated Companies	\$0	\$0	\$0	\$0	\$0	0.0%
Other Long-Term Debt	\$500,000,000	\$800,000,000	\$700,000,000	\$700,000,000	\$700,000,000	8.8%
Unamortized Premium on Long-Term Debt	\$689,345	\$651,745	\$614,144	\$0	\$0	0.0%
Unamortized Discount on Long-Term Debt	(\$627,812)	(\$469,013)	(\$342,713)	(\$222,913)	(\$104,427)	-36.1%
TOTALS	\$542,251,533	\$842,372,732	\$742,461,431	\$728,277,087	\$728,395,573	7.7%
<u>OTHER NONCURRENT LIABILITIES</u>						
Obligations Under Capital Leases-Noncurrent	\$170,999,138	\$180,297,007	\$197,557,430	\$209,638,965	\$237,981,742	8.6%
Accum. Provision for Property Insurance	\$0	\$0	\$0	\$0	\$0	0.0%
Accum. Provision for Injuries and Damages	\$2,676,121	\$2,251,160	\$1,108,924	\$911,753	\$1,077,314	-20.3%
Accum. Provision for Pensions and Benefits	\$145,443,342	\$33,662,173	\$29,151,125	\$42,115,106	\$91,267,772	-11.0%
Accum. Misc. Operating Provisions	\$0	\$0	\$0	\$0	\$0	NM
Accum. Provision for Rate Refunds	\$105,250	\$0	\$0	\$79,187,811	\$33,931,206	0.0%
Long-Term Portion - Instrument Liabilities	\$0	\$0	\$0	\$0	\$0	NM
TOTALS	\$319,223,851	\$216,210,340	\$227,817,479	\$331,853,635	\$364,258,034	3.4%
<u>CURRENT AND ACCRUED LIABILITIES</u>						
Notes Payable	\$250,000,000	\$0	\$0	\$0	\$0	0.0%
Accounts Payable	\$55,313,906	\$41,012,230	\$29,830,838	\$42,819,069	\$23,194,887	-19.5%
Notes Payable to Associated Companies	\$15,003,369	\$0	\$124,078,555	\$257,563,171	\$219,022,522	0.0%
Account Payable to Associated Companies	\$28,707,090	\$40,521,325	\$33,941,582	\$21,092,385	\$46,249,973	12.7%
Customer Deposits	\$0	\$0	\$0	\$11,872,982	\$13,723,930	NM
Taxes Accrued	\$13,900,973	\$9,894,399	\$60,087,498	\$9,358,401	\$8,180,938	-12.4%
Interest Accrued	\$0	\$0	\$0	\$0	\$0	0.0%
Dividends Declared	\$6,733,922	\$17,349,684	\$16,057,673	\$15,996,106	\$16,562,035	25.2%
Matured Long-Term Debt	\$11,148,828	\$3,442,990	\$417,732	\$519,272	\$0	0.0%
Matured Interests	\$0	\$0	\$0	\$0	\$0	0.0%
Tax Collections Payable	\$1,674,350	\$1,913,977	\$1,661,684	\$169,563	\$309,730	-34.4%
Misc. Current and Accrued Liabilities	\$18,186,153	\$11,156,373	\$16,715,872	\$19,971,811	\$27,797,740	11.2%
Obligations Under Capital Leases-Current	\$0	\$0	\$260,095	\$519,956	\$2,387,437	NM
TOTALS	\$400,668,591	\$125,290,978	\$283,051,529	\$379,882,716	\$357,429,192	-2.8%
<u>DEFERRED CREDITS</u>						
Customer Advances for Construction	\$280,243	\$266,185	\$227,593	\$91,747	\$269,578	-1.0%
Accum. Deferred Investments Tax Credits	\$464,517,508	\$453,591,834	\$544,452,518	\$565,423,721	\$564,842,480	5.0%
Def. Gains from Disposition of Utility Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Other Deferred Credits	\$223,074,727	\$222,208,628	\$227,234,711	\$266,021,979	\$147,204,907	-9.9%
Other Regulatory Liabilities	\$191,481,899	\$156,515,663	\$129,909,735	\$148,963,869	\$137,323,187	-8.0%
Unamortized Gain on Reacquired Debt	\$2,140,945	\$1,803,365	\$1,525,835	\$1,844,863	\$1,550,252	-7.8%
Accum. Deferred Income Taxes	\$372,364,630	\$365,903,459	\$355,649,668	\$459,089,222	\$535,712,913	9.5%
TOTALS	\$1,253,859,952	\$1,200,289,134	\$1,259,000,060	\$1,441,435,401	\$1,386,903,317	2.6%
TOTAL LIABILITIES AND OTHER CREDITS	\$3,520,068,363	\$3,298,530,403	\$3,457,047,019	\$3,688,048,895	\$3,636,711,988	0.8%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Pennsylvania Electric Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Plant In Service</u>						
Land and Land Rights	\$12,735,594	\$14,647,694	\$14,651,608	\$14,651,572	\$14,651,572	3.6%
Structures and Improvements	\$8,480,662	\$10,445,723	\$14,588,928	\$17,482,857	\$16,848,359	18.7%
Station Equipment	\$122,849,620	\$130,394,820	\$142,471,141	\$173,205,253	\$151,699,783	5.4%
Towers and Fixtures	\$25,588,863	\$25,816,190	\$26,825,556	\$27,753,276	\$27,857,804	2.1%
Poles and Fixtures	\$59,289,566	\$61,066,790	\$62,506,716	\$80,308,658	\$67,996,834	3.5%
Overhead Conductors and Devices	\$112,438,946	\$118,598,997	\$117,418,262	\$128,286,235	\$125,443,390	2.8%
Underground Conduit	\$0	\$0	\$0	\$0	\$0	NM
Underground Conductors and Devices	\$50,932	\$51,061	\$108,759	\$127,041	\$145,580	30.0%
Roads and Trails	\$0	\$0	\$0	\$0	\$0	NM
Asset Retirement Costs for Transmission Plant	\$6,988	\$6,988	\$6,988	\$6,988	\$6,989	0.0%
Total Transmission Plant	\$341,441,171	\$361,028,263	\$378,577,958	\$441,821,880	\$404,650,311	4.3%
Land and Land Rights	\$17,271,824	\$17,336,540	\$17,338,902	\$17,374,012	\$17,281,558	0.0%
Structures and Improvements	\$12,171,883	\$12,315,493	\$12,957,854	\$14,185,814	\$13,035,293	1.7%
Station Equipment	\$193,332,109	\$197,903,062	\$209,719,898	\$233,030,305	\$226,618,878	4.1%
Poles, Towers, and Fixtures	\$378,446,950	\$390,815,883	\$404,298,650	\$447,132,656	\$442,389,291	4.0%
Overhead Conductors and Devices	\$518,231,340	\$569,144,945	\$605,696,535	\$693,156,449	\$671,343,398	6.7%
Underground Conduit	\$32,725,622	\$32,728,664	\$33,096,535	\$35,328,110	\$35,665,442	2.2%
Underground Conductors and Devices	\$119,507,788	\$122,109,819	\$125,448,830	\$137,875,899	\$134,392,270	3.0%
Line Transformers	\$279,661,007	\$293,110,170	\$306,679,886	\$337,376,835	\$329,659,474	4.2%
Services	\$101,733,606	\$103,606,117	\$105,179,462	\$112,718,793	\$111,962,277	2.4%
Meters	\$56,406,928	\$55,036,767	\$55,357,243	\$60,318,708	\$57,897,594	0.7%
Installations on Customer Premises	\$28,439,612	\$28,533,093	\$28,506,233	\$29,542,414	\$29,326,809	0.8%
Street Lighting and Signal Systems	\$29,960,274	\$31,050,399	\$32,221,263	\$35,150,659	\$33,314,276	2.7%
Asset Retirement Costs for Distribution Plant	\$80,653	\$80,653	\$80,653	\$80,653	\$80,653	0.0%
Total Distribution Plant	\$1,767,969,596	\$1,853,771,605	\$1,936,581,944	\$2,153,271,307	\$2,102,967,213	4.4%
Total Plant In Service	\$2,109,410,767	\$2,214,799,868	\$2,315,159,902	\$2,595,093,187	\$2,507,617,524	4.4%
<u>Total Materials and Supplies</u>						
Assigned - Operations and Maintenance						
Transmission Plant (estimated)	\$0	\$0	\$0	\$0	\$0	NM
Distribution Plant (estimated)	\$0	\$0	\$0	\$0	\$0	NM
<u>Operating Revenues</u>						
<u>Sales of Electricity</u>						
Residential Sales	\$469,135,369	\$467,471,553	\$516,806,881	\$600,232,402	\$502,214,401	1.7%
Commercial Sales	\$400,205,494	\$387,564,703	\$401,727,116	\$209,471,002	\$167,767,008	-19.5%
Industrial Sales	\$250,015,597	\$219,854,586	\$236,626,744	\$100,028,523	\$87,065,420	-23.2%
Public Street and Highway Lighting Sales	\$6,648,386	\$6,606,431	\$7,615,925	\$7,225,841	\$6,661,568	0.0%
Total Sales to Ultimate Customers	\$1,126,004,846	\$1,081,497,273	\$1,162,776,666	\$916,957,768	\$763,708,397	-9.2%
Sales for Resale	\$267,048,031	\$285,581,860	\$318,314,590	\$112,951,604	\$86,551,218	-24.5%
Total Sales of Electricity	\$1,393,052,877	\$1,367,079,133	\$1,481,091,256	\$1,029,909,372	\$850,259,615	-11.6%
Provision for Rate Refunds	\$105,250	(\$105,250)	\$0	\$0	\$0	NM
Total Revenues Net Provisions	\$1,392,947,627	\$1,367,184,383	\$1,481,091,256	\$1,029,909,372	\$850,259,615	-11.6%
<u>Megawatt Hours Sold</u>						
<u>Sales of Electricity</u>						
Residential Sales	4,557,862	4,471,133	4,645,663	4,554,116	4,425,053	-0.7%
Commercial Sales	5,185,820	5,018,687	5,192,010	3,533,712	3,537,965	-9.1%
Industrial Sales	4,593,995	4,044,173	4,236,750	6,005,071	5,862,496	6.3%
Public Street and Highway Lighting Sales	40,927	40,801	41,370	40,724	39,449	-0.9%
Total Sales to Ultimate Customers	14,378,604	13,574,794	14,115,793	14,133,623	13,864,963	-0.9%
Sales for Resale	-	-	-	-	-	NM
Total Sales of Electricity	14,378,604	13,574,794	14,115,793	14,133,623	13,864,963	-0.9%
<u>Average Number of Customers Per Month</u>						
<u>Sales of Electricity</u>						
Residential Sales	504,968	504,915	505,344	504,450	503,949	-0.1%
Commercial Sales	80,841	81,116	81,378	83,490	83,860	0.9%
Industrial Sales	2,354	2,311	2,267	877	889	-21.6%
Public Street and Highway Lighting Sales	854	859	863	834	807	-1.4%
Total Sales to Ultimate Customers	589,017	589,201	589,852	589,651	589,505	0.0%
Sales for Resale	-	-	-	-	-	NM
Total Sales of Electricity	589,017	589,201	589,852	589,651	589,505	0.0%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Pennsylvania Electric Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Operation and Maintenance Expenses</u>						
<u>Transmission</u>						
Total Operation	\$117,949,019	\$86,081,706	\$132,092,891	\$3,931,873	\$5,561,241	-53.4%
Maintenance Supervision and Engineering	\$935,111	\$287,117	\$133,439	\$177,917	\$262,153	-27.2%
Maintenance of Structures	\$0	\$0	\$0	\$361,975	\$400,459	NM
Maintenance of Station Equipment	\$2,054,192	\$1,525,399	\$1,682,404	\$2,204,658	\$1,510,043	-7.4%
Maintenance of Overhead Lines	\$5,518,538	\$3,375,569	\$2,943,346	\$3,551,810	\$7,840,864	9.2%
Maintenance of Underground Lines	\$0	\$0	\$0	\$1,063	(\$9)	NM
Maintenance of Misc. Transmission Plant	\$502,397	\$336,975	\$311,498	\$0	\$43,301	NM
Total Maintenance	\$9,010,238	\$5,525,060	\$5,070,687	\$6,297,423	\$10,056,811	2.8%
Total Transmission O&M Expenses	\$126,959,257	\$91,606,766	\$137,163,578	\$10,229,296	\$15,618,052	-40.8%
<u>Distribution</u>						
Total Operation	\$16,859,444	\$14,371,030	\$12,628,423	\$10,836,476	\$10,686,800	-10.8%
Maintenance Supervision/Engineering	\$448,584	\$271,837	\$235,591	\$200,051	\$367,602	-4.9%
Maintenance of Structures	\$0	\$0	\$0	\$0	\$0	NM
Maintenance of Station Equipment	\$5,580,048	\$3,978,120	\$3,665,449	\$4,025,230	\$3,711,848	-9.7%
Maintenance of Overhead Lines	\$21,134,734	\$16,467,011	\$10,483,576	\$14,128,867	\$29,236,055	8.5%
Maintenance of Underground Lines	\$864,813	\$697,105	\$1,513,308	\$1,515,541	\$2,516,088	30.6%
Maintenance of Line Transformers	\$36,216	\$333	\$2,190	\$54,370	\$451	-66.6%
Maintenance of Street Lighting/Signal Systems	\$1,535,616	\$1,212,772	\$1,032,202	\$969,152	\$1,062,024	-8.8%
Maintenance of Meters	\$3,331,340	\$2,621,279	\$2,419,734	\$2,468,177	\$2,072,770	-11.2%
Maintenance of Misc. Distribution Plant	\$2,422,404	\$1,647,725	\$1,558,645	\$1,808,450	\$2,270,179	-1.6%
Total Maintenance	\$35,353,755	\$26,896,182	\$20,910,695	\$25,169,838	\$41,237,017	3.9%
Total Distribution O&M Expenses	\$52,213,199	\$41,267,212	\$33,539,118	\$36,006,314	\$51,923,817	-0.1%
Total Transmission and Distribution Expenses	\$179,172,456	\$132,873,978	\$170,702,696	\$46,235,610	\$67,541,869	-21.6%
<u>Customer Service and Info. Expenses</u>						
Supervision	\$939,392	\$491,525	\$244,995	\$300,638	195,395	-32.5%
Customer Assistance Expenses	\$22,019,143	\$27,602,827	\$34,104,692	\$47,155,930	47,062,260	20.9%
Information and Instructional Expenses	\$6,522	\$1,286	\$1,843	\$24,201	39,604	57.0%
Misc Customer Service and Info. Expenses	\$4,292,761	\$2,669,079	\$4,236,439	\$5,238,870	5,064,150	4.2%
Total Customer Service and Info. Expenses	\$27,257,818	\$30,764,717	\$38,587,969	\$52,719,639	\$52,361,409	17.7%

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Source: Pa PUC Annual Reports

Pennsylvania Electric Company
Balance Sheet

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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>UTILITY PLANT</u>						
Utility Plant	\$2,275,863,195	\$2,371,625,137	\$2,491,142,911	\$2,681,050,287	\$2,713,691,194	4.5%
Construction Work in Progress	\$74,147,059	\$84,302,306	\$71,975,025	\$190,482,465	\$318,971,569	44.0%
TOTAL UTILITY PLANT	\$2,350,010,254	\$2,455,927,443	\$2,563,117,936	\$2,871,532,752	\$3,032,662,763	6.6%
Accum. Depreciation and Amortization	(\$865,278,680)	(\$901,990,319)	(\$935,258,900)	(\$982,261,203)	(\$1,023,134,896)	4.3%
NET UTILITY PLANT	\$1,484,731,574	\$1,553,937,124	\$1,627,859,036	\$1,889,271,549	\$2,009,527,867	7.9%
<u>OTHER PROPERTY AND INVESTMENTS</u>						
Nonutility Property	\$572,928	\$572,928	\$587,985	\$587,985	\$587,985	0.7%
Accum. Depreciation and Amortization	(\$286,187)	(\$296,418)	(\$309,351)	(\$321,345)	(\$349,816)	5.1%
Investments in Associated Companies	\$0	\$0	\$0	\$0	\$0	0.0%
Investment in Subsidiary Companies	\$25,925,850	\$26,714,884	\$30,559,009	\$15,000	\$15,000	-84.5%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Other Investments	\$6,582	\$12,914	\$18,012	\$20,995	\$25,583	40.4%
Special Funds	\$358,845,471	\$282,723,523	\$239,842,212	\$261,608,542	\$233,212,379	-10.2%
TOTALS	\$385,064,644	\$309,727,831	\$270,697,867	\$261,911,177	\$233,491,131	-11.8%
<u>CURRENT AND ACCRUED ASSETS</u>						
Cash	\$0	\$0	\$0	\$0	\$0	0.0%
Special Deposits	\$0	\$0	\$0	\$0	\$0	0.0%
Working Fund	\$12,159	\$2,800	\$2,300	\$2,000	\$1,700	-38.9%
Temporary Cash Investments	\$0	\$0	\$0	\$0	\$0	0.0%
Notes Receivable	\$0	\$0	\$0	\$0	\$0	0.0%
Customer Accounts Receivable	\$42,690,845	\$48,360,777	\$39,481,064	\$74,134,104	\$80,195,868	17.1%
Other Accounts Receivable	\$23,650,789	\$16,196,906	\$9,273,742	\$19,513,401	\$9,487,339	-20.4%
Accum. for Uncollectible Accounts	(\$65,300)	(\$3,036)	(\$1,258)	(\$2,244,701)	(\$2,341,326)	144.7%
Notes Receivable from Assoc. Companies	\$23,391,921	\$17,691,002	\$16,550,371	\$0	\$0	-100.0%
Accts Receivable from Assoc. Companies	\$80,804,933	\$89,165,552	\$67,342,492	\$18,493,138	\$624,763	-70.3%
Fuel Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Fuel Stock Expenses Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Residuals and Extracted Products	\$0	\$0	\$0	\$0	\$0	0.0%
Plant Materials and Operating Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Merchandise	\$0	\$0	\$0	\$0	\$0	0.0%
Other Materials and Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Nuclear Materials Held for Sales	\$0	\$0	\$0	\$0	\$0	0.0%
Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Stores Expense Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Gas Stored Underground-Current	\$0	\$0	\$0	\$0	\$0	0.0%
Liquefied Gas Stored and Held for Proc.	\$0	\$0	\$0	\$0	\$0	0.0%
Prepayments	\$17,718,321	\$20,277,409	\$15,441,133	\$8,906,883	\$6,090,574	-23.4%
Advances for Gas	\$0	\$0	\$0	\$0	\$0	0.0%
Interest and Dividends Receivable	\$0	\$0	\$0	\$0	\$0	0.0%
Rents Receivable	\$1,725,396	\$1,991,054	\$1,929,736	\$2,173,841	\$2,542,523	10.2%
Accrued Utility Revenues	\$61,277,288	\$50,664,204	\$67,462,400	\$54,235,289	\$43,290,198	-8.3%
Miscellaneous Current and Accrued Assets	\$0	\$0	\$143,051	\$563,688	\$958,115	NM
TOTALS	\$251,206,352	\$244,346,668	\$217,625,031	\$175,777,643	\$140,849,754	-13.5%
<u>DEFERRED DEBITS</u>						
Unamortized Debt Expenses	\$2,994,558	\$7,002,582	\$6,157,690	\$6,703,349	\$5,117,783	14.3%
Extraordinary Property Losses	\$0	\$0	\$0	\$0	\$0	0.0%
Unrecovered Plant and Regulatory Study	\$0	\$0	\$0	\$0	\$0	0.0%
Other Regulatory Assets	\$154,709,359	\$232,069,472	\$314,640,738	\$372,251,942	\$361,032,319	23.6%
Prelim. Survey and Investigation Charges	\$110,860	\$314,932	\$402,763	\$421,727	\$377,665	35.9%
Clearing Accounts	\$0	\$0	\$0	\$0	\$0	0.0%
Temporary Facilities	\$219,500	\$236,650	\$247,069	\$492,695	\$729,892	35.0%
Misc. Deferred Debits	\$776,841,514	\$775,524,522	\$780,175,344	\$774,872,348	\$774,904,732	-0.1%
Def. Losses from Disposition of Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Research, Devel. and Demonstration	\$0	\$2,579	\$8,049	\$12,831	\$16,650	0.0%
Unamortized Loss on Reacquired Debt	\$8,522,640	\$8,649,365	\$7,320,658	\$5,934,571	\$4,475,305	-14.9%
Accum. Deferred Income Taxes	\$393,626,835	\$345,234,168	\$321,181,502	\$419,247,175	\$486,665,833	5.4%
TOTALS	\$1,337,025,266	\$1,369,034,270	\$1,430,133,813	\$1,579,936,638	\$1,633,320,179	5.1%
TOTAL ASSETS AND OTHER DEBITS	\$3,458,027,836	\$3,477,045,893	\$3,546,315,747	\$3,906,897,007	\$4,017,188,931	3.8%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Pennsylvania Electric Company
Balance Sheet

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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>PROPRIETARY CAPITAL</u>						
Common Stock Issued	\$88,551,540	\$88,551,540	\$88,551,540	\$88,551,540	\$88,551,540	0.0%
Preferred Stock Issued	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Subscribed	\$0	\$0	\$0	\$0	\$0	0.0%
Stock Liability for Conversion	\$0	\$0	\$0	\$0	\$0	0.0%
Premium on Capital Stock	\$912,204,147	\$913,134,871	\$913,134,871	\$913,134,871	\$838,134,871	-2.1%
Donations from Stockholders	\$0	\$0	\$0	\$0	\$0	0.0%
Gain on Required Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other Paid-in Capital Stock	(\$127,760,040)	(\$161,801,498)	(\$163,141,132)	(\$97,497,762)	(\$55,469,866)	-18.8%
Installments Received on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Discount on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Expense	\$0	\$0	\$0	\$0	\$0	0.0%
Retained Earnings	\$54,683,221	\$69,281,900	\$34,929,706	\$0	\$0	-100.0%
Unappropriated Undistributed Earnings	\$21,430,006	\$22,219,040	\$26,063,165	\$0	\$0	-100.0%
Reacquired Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other	\$0	\$0	\$50,381,914	\$37,053,217	\$31,430,442	NM
TOTALS	\$949,108,874	\$931,385,853	\$949,920,064	\$941,241,866	\$902,646,987	-1.2%
<u>LONG-TERM DEBT</u>						
Bonds	\$69,310,000	\$69,310,000	\$20,000,000	\$20,000,000	\$20,000,000	-26.7%
Reacquired Bonds	\$0	\$0	\$0	\$0	\$0	0.0%
Advances from Associated Companies	\$0	\$0	\$0	\$0	\$0	0.0%
Other Long-Term Debt	\$710,000,000	\$1,075,000,000	\$1,100,000,000	\$1,100,000,000	\$1,100,000,000	11.6%
Unamortized Premium on Long-Term Debt	\$1,003,808	\$228,902	\$0	\$0	\$0	-100.0%
Unamortized Discount on Long-Term Debt	(\$2,181,648)	(\$3,047,943)	(\$2,738,102)	(\$2,428,260)	(\$2,118,418)	-0.7%
TOTALS	\$778,132,160	\$1,141,490,959	\$1,117,261,898	\$1,117,571,740	\$1,117,881,582	9.5%
<u>OTHER NONCURRENT LIABILITIES</u>						
Obligations Under Capital Leases-Noncurrent	\$0	\$0	\$0	\$3,209,414	\$20,791,615	0.0%
Accum. Provision for Property Insurance	\$0	\$0	\$0	\$0	\$0	0.0%
Accum. Provision for Injuries and Damages	\$4,117,580	\$2,114,564	\$2,807,197	\$3,016,393	\$2,894,518	-8.4%
Accum. Provision for Pensions and Benefits	\$172,773,205	\$174,334,706	\$187,640,535	\$262,540,763	\$292,092,425	14.0%
Accum. Misc. Operating Provisions	\$0	\$0	\$0	\$0	\$0	NM
Accum. Provision for Rate Refunds	\$0	\$0	\$0	\$123,030,977	\$134,646,547	0.0%
Long-Term Portion - Instrument Liabilities	\$87,089,183	\$91,841,248	\$98,131,947	\$104,864,978	\$112,072,340	NM
TOTALS	\$263,979,968	\$268,290,518	\$288,579,679	\$496,662,525	\$562,497,445	20.8%
<u>CURRENT AND ACCRUED LIABILITIES</u>						
Notes Payable	\$250,000,000	\$0	\$0	\$0	\$0	-100.0%
Accounts Payable	\$48,617,429	\$41,954,360	\$41,391,199	\$29,422,782	\$26,984,402	-13.7%
Notes Payable to Associated Companies	\$31,402,598	\$41,473,156	\$101,337,937	\$57,900,103	\$17,475,142	0.0%
Account Payable to Associated Companies	\$63,691,835	\$39,883,853	\$42,098,857	\$36,601,593	\$93,678,304	10.1%
Customer Deposits	\$0	\$0	\$0	\$10,128,259	\$11,054,303	NM
Taxes Accrued	\$13,146,094	\$5,421,052	\$4,945,110	\$8,902,877	\$4,875,160	-22.0%
Interest Accrued	\$23,082,451	\$20,592,872	\$23,022,000	\$17,873,915	\$17,803,736	-6.3%
Dividends Declared	\$0	\$0	\$0	\$0	\$0	0.0%
Matured Long-Term Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Matured Interests	\$0	\$0	\$0	\$0	\$0	0.0%
Tax Collections Payable	\$1,662,883	\$1,702,237	\$1,726,825	\$352,594	\$700,689	-19.4%
Misc. Current and Accrued Liabilities	\$20,118,244	\$10,680,769	\$12,534,809	\$15,564,475	\$23,688,211	4.2%
Obligations Under Capital Leases-Current	\$0	\$0	\$0	\$522,338	\$2,771,159	NM
TOTALS	\$451,721,534	\$161,708,299	\$227,056,737	\$177,268,936	\$199,031,106	-18.5%
<u>DEFERRED CREDITS</u>						
Customer Advances for Construction	\$95,310	\$78,716	\$0	\$0	\$0	-100.0%
Accum. Deferred Investments Tax Credits	\$6,603,318	\$6,120,573	\$5,635,710	\$5,175,748	\$4,715,786	-8.1%
Def. Gains from Disposition of Utility Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Other Deferred Credits	\$94,367,362	\$93,839,848	\$84,397,048	\$140,950,366	\$97,711,629	0.9%
Other Regulatory Liabilities	\$242,421,665	\$175,678,234	\$101,354,804	\$111,903,273	\$118,208,626	-16.4%
Unamortized Gain on Reacquired Debt	\$1,412,049	\$1,317,335	\$1,222,621	\$1,127,907	\$1,033,209	-7.5%
Accum. Deferred Income Taxes	\$583,120,313	\$597,765,507	\$694,297,273	\$918,144,281	\$1,047,664,365	15.8%
TOTALS	\$928,020,017	\$874,800,213	\$886,907,456	\$1,177,301,575	\$1,269,333,615	8.1%
TOTAL LIABILITIES AND OTHER CREDITS	\$3,370,962,553	\$3,377,675,842	\$3,469,725,834	\$3,910,046,642	\$4,051,390,735	4.7%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Pennsylvania Power Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Plant In Service</u>						
Land and Land Rights	\$10,489,740	\$10,489,740	\$10,489,662	\$10,489,576	\$10,489,576	0.0%
Structures and Improvements	\$803,106	\$837,406	\$837,406	\$855,106	\$857,652	1.7%
Station Equipment	\$6,335,454	\$6,324,066	\$6,213,233	\$6,341,585	\$6,365,765	0.1%
Towers and Fixtures	\$7,576	\$7,576	\$7,576	\$7,576	\$7,576	0.0%
Poles and Fixtures	\$1,945,032	\$2,010,697	\$2,025,247	\$2,134,051	\$2,281,545	4.1%
Overhead Conductors and Devices	\$1,641,598	\$1,535,173	\$1,711,827	\$1,786,423	\$1,949,085	4.4%
Underground Conduit	\$64,654	\$64,654	\$64,654	\$64,654	\$64,654	0.0%
Underground Conductors and Devices	\$35,036	\$36,096	\$36,077	\$36,070	\$36,070	0.7%
Roads and Trails	\$6,324	\$6,324	\$6,324	\$6,324	\$6,324	0.0%
Asset Retirement Costs for Transmission Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Total Transmission Plant	\$21,328,520	\$21,311,732	\$21,392,006	\$21,721,365	\$22,058,247	0.8%
Land and Land Rights	\$7,306,351	\$6,361,701	\$6,368,207	\$6,368,207	\$6,368,207	-3.4%
Structures and Improvements	\$1,291,360	\$1,503,695	\$1,520,030	\$1,588,617	\$1,601,541	5.5%
Station Equipment	\$33,901,764	\$37,981,183	\$37,703,298	\$39,564,551	\$39,921,202	4.2%
Poles, Towers, and Fixtures	\$73,572,767	\$76,188,532	\$79,778,797	\$84,384,701	\$87,092,242	4.3%
Overhead Conductors and Devices	\$78,878,212	\$87,467,492	\$96,790,098	\$107,311,151	\$111,576,925	9.1%
Underground Conduit	\$6,060,013	\$6,179,004	\$6,209,329	\$6,576,307	\$6,699,916	2.5%
Underground Conductors and Devices	\$43,685,217	\$45,258,351	\$45,949,397	\$48,581,541	\$50,470,146	3.7%
Line Transformers	\$74,072,359	\$80,758,765	\$85,360,430	\$88,800,903	\$90,885,050	5.2%
Services	\$29,885,081	\$30,973,506	\$31,775,029	\$33,105,480	\$33,986,846	3.3%
Meters	\$23,684,328	\$22,990,178	\$23,375,048	\$23,882,622	\$24,145,608	0.5%
Installations on Customer Premises	\$3,383,676	\$3,434,758	\$3,510,210	\$3,622,439	\$3,682,686	2.1%
Street Lighting and Signal Systems	\$6,532,262	\$6,637,926	\$6,781,574	\$6,868,375	\$6,975,796	1.7%
Asset Retirement Costs for Distribution Plant	\$4,409	\$4,409	\$4,409	\$4,408	\$4,408	0.0%
Total Distribution Plant	\$382,257,799	\$405,739,500	\$425,125,856	\$450,659,302	\$463,410,573	4.9%
Total Plant In Service	\$403,586,319	\$427,051,232	\$446,517,862	\$472,380,667	\$485,468,820	4.7%
<u>Total Materials and Supplies</u>						
Assigned - Operations and Maintenance						
Transmission Plant (estimated)	\$0	\$0	\$0	\$0	\$0	0.0%
Distribution Plant (estimated)	\$0	\$0	\$0	\$0	\$0	0.0%
<u>Operating Revenues</u>						
<u>Sales of Electricity</u>						
Residential Sales	\$189,297,611	\$191,435,098	\$190,600,934	\$171,986,050	\$146,239,165	-6.2%
Commercial Sales	\$76,200,984	\$63,421,667	\$55,904,813	\$51,553,930	\$40,001,404	-14.9%
Industrial Sales	\$5,501,623	\$5,134,473	\$7,028,434	\$8,657,896	\$6,572,229	4.5%
Public Street and Highway Lighting Sales	\$1,690,296	\$1,667,240	\$1,666,869	\$1,552,896	\$1,402,992	-4.6%
Total Sales to Ultimate Customers	\$272,690,514	\$261,658,478	\$255,201,050	\$233,750,772	\$194,215,790	-8.1%
Sales for Resale	\$197,081	\$44,959	\$0	\$48,905	\$68,240	-23.3%
Total Sales of Electricity	\$272,887,595	\$261,703,437	\$255,201,050	\$233,799,677	\$194,284,030	-8.1%
Provision for Rate Refunds	\$0	\$0	\$0	\$0	\$0	0.0%
Total Revenues Net Provisions	\$272,887,595	\$261,703,437	\$255,201,050	\$233,799,677	\$194,284,030	-8.1%
<u>Megawatt Hours Sold</u>						
<u>Sales of Electricity</u>						
Residential Sales	1,666,785	1,634,012	1,696,494	1,710,846	1,668,049	0.0%
Commercial Sales	1,404,034	1,366,828	1,410,704	1,326,819	1,333,795	-1.3%
Industrial Sales	1,614,208	1,228,844	1,388,462	1,541,950	1,455,742	-2.6%
Public Street and Highway Lighting Sales	6,565	6,464	6,434	6,236	6,200	-1.4%
Total Sales to Ultimate Customers	4,691,592	4,236,148	4,502,094	4,585,851	4,463,786	-1.2%
Sales for Resale	-	-	-	-	-	0.0%
Total Sales of Electricity	4,691,592	4,236,148	4,502,094	4,585,851	4,463,786	-1.2%
<u>Average Number of Customers Per Month</u>						
<u>Sales of Electricity</u>						
Residential Sales	139,701	139,848	140,101	140,200	140,538	0.1%
Commercial Sales	19,342	19,410	19,486	19,813	19,953	0.8%
Industrial Sales	218	214	213	151	148	-9.2%
Public Street and Highway Lighting Sales	85	86	86	86	86	0.3%
Total Sales to Ultimate Customers	159,346	159,558	159,886	160,250	160,725	0.2%
Sales for Resale	-	-	-	-	-	0.0%
Total Sales of Electricity	159,346	159,558	159,886	160,250	160,725	0.2%

NM - Not Meaningful

Source: Pa PUC Annual Reports

Pennsylvania Power Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Operation and Maintenance Expenses</u>						
<u>Transmission</u>						
Total Operation	\$85,450	\$176,294	\$290,838	\$5,479,749	\$9,549,089	225.1%
Maintenance Supervision and Engineering	\$119,269	\$25,948	\$19,649	\$9,217	\$8,682	-48.1%
Maintenance of Structures	\$0	\$0	\$0	\$25,589	\$36,041	NM
Maintenance of Station Equipment	\$3,523	\$6,053	\$113,409	\$67,576	\$3,330	-1.4%
Maintenance of Overhead Lines	\$69,776	\$150,661	(\$15,089)	\$18,054	\$26,618	-21.4%
Maintenance of Underground Lines	\$0	\$0	\$0	\$0	\$0	0.0%
Maintenance of Misc. Transmission Plant	\$23,447	\$16,688	\$21,547	(\$1,306)	\$689	-58.6%
Total Maintenance	\$216,015	\$199,350	\$139,516	\$119,130	\$75,360	-23.1%
Total Transmission O&M Expenses	\$301,465	\$375,644	\$430,354	\$5,598,879	\$9,624,449	137.7%
<u>Distribution</u>						
Total Operation	\$2,096,473	\$1,956,122	\$1,857,728	\$1,534,126	\$1,587,417	-6.7%
Maintenance Supervision/Engineering	\$82,657	\$46,435	\$43,312	\$36,925	\$85,407	0.8%
Maintenance of Structures	\$0	\$0	\$0	\$0	\$0	0.0%
Maintenance of Station Equipment	\$1,213,328	\$1,170,705	\$946,560	\$1,049,451	\$867,462	-8.0%
Maintenance of Overhead Lines	\$12,092,034	\$3,995,625	\$3,746,216	\$3,582,548	\$6,690,245	-13.8%
Maintenance of Underground Lines	\$352,718	\$228,102	\$154,063	\$365,362	\$1,201,901	35.9%
Maintenance of Line Transformers	\$4,336	\$5,967	\$493	\$40	\$44	-68.3%
Maintenance of Street Lighting/Signal Systems	\$231,981	\$23,106	\$262,765	\$264,296	\$408,611	15.2%
Maintenance of Meters	\$1,160,709	\$707,106	\$811,087	\$802,608	\$759,985	-10.0%
Maintenance of Misc. Distribution Plant	\$380,140	\$259,997	\$254,501	\$281,538	\$325,163	-3.8%
Total Maintenance	\$15,517,903	\$6,437,043	\$6,218,997	\$6,382,768	\$10,338,818	-9.7%
Total Distribution O&M Expenses	\$17,614,376	\$8,393,165	\$8,076,725	\$7,916,894	\$11,926,235	-9.3%
Total Transmission and Distribution Expenses	\$17,915,841	\$8,768,809	\$8,507,079	\$13,515,773	\$21,550,684	4.7%
<u>Customer Service and Info. Expenses</u>						
Supervision	\$0	\$0	\$0	\$0	\$0	0.0%
Customer Assistance Expenses	\$5,679,325	\$9,942,511	\$12,303,598	\$15,847,774	\$16,181,759	29.9%
Information and Instructional Expenses	\$1,400	\$495	\$994	\$375	\$92	-49.4%
Misc Customer Service and Info. Expenses	\$953,818	\$967,882	\$1,451,468	\$1,499,872	\$1,348,137	9.0%
Total Customer Service and Info. Expenses	\$6,634,543	\$10,910,888	\$13,756,060	\$17,348,021	\$17,529,988	27.5%

NM - Not Meaningful

Source: Pa PUC Annual Reports

**Pennsylvania Power Company
Balance Sheet**

**Appendix F
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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>UTILITY PLANT</u>						
Utility Plant	\$412,869,924	\$437,284,355	\$462,807,242	\$492,679,724	\$506,838,675	5.3%
Construction Work in Progress	\$20,591,373	\$18,249,305	\$13,622,031	\$32,052,688	\$49,765,947	24.7%
TOTAL UTILITY PLANT	\$433,461,297	\$455,533,660	\$476,429,273	\$524,732,412	\$556,604,622	6.5%
Accum. Depreciation and Amortization	(\$152,250,864)	(\$158,514,370)	(\$163,646,872)	(\$173,972,059)	(\$179,613,162)	4.2%
NET UTILITY PLANT	\$281,210,433	\$297,019,290	\$312,782,401	\$350,760,353	\$376,991,460	7.6%
<u>OTHER PROPERTY AND INVESTMENTS</u>						
Nonutility Property	\$527,810	\$527,810	\$295,524	\$295,504	\$295,504	-13.5%
Accum. Depreciation and Amortization	(\$182,582)	(\$184,583)	(\$35,977)	(\$36,928)	(\$38,879)	-32.1%
Investments in Associated Companies	\$93,428,629	\$0	\$0	\$0	\$0	-100.0%
Investment in Subsidiary Companies	\$2,991,188	\$3,222,320	\$0	\$0	\$0	-100.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Other Investments	\$1,116	\$1,960	\$237	\$110	\$149	-39.6%
Special Funds	\$8,721,619	\$11,782,396	\$13,247,457	\$14,490,596	\$9,421,042	1.9%
TOTALS	\$105,487,780	\$15,349,903	\$13,507,241	\$14,749,282	\$9,677,816	-45.0%
<u>CURRENT AND ACCRUED ASSETS</u>						
Cash	\$0	\$0	\$0	\$0	\$0	0.0%
Special Deposits	\$0	\$0	\$0	\$0	\$0	0.0%
Working Fund	\$1,550	\$1,850	\$1,850	\$1,550	\$1,550	0.0%
Temporary Cash Investments	\$0	\$0	\$52,150,000	\$0	\$0	0.0%
Notes Receivable	\$0	\$0	\$0	\$0	\$0	0.0%
Customer Accounts Receivable	\$12,092,513	\$6,457,191	\$19,272,364	\$16,089,006	\$20,379,506	13.9%
Other Accounts Receivable	\$1,875	\$247,008	\$280,711	\$5,016,793	\$575,646	318.6%
Accum. for Uncollectible Accounts	\$0	\$0	(\$1,022,175)	(\$948,440)	(\$731,393)	NM
Notes Receivable from Assoc. Companies	\$78,643,266	\$111,250,581	\$1,478,902	\$38,456,489	\$74,259,590	0.0%
Accts Receivable from Assoc. Companies	\$43,076,530	\$16,696,601	\$30,857,837	\$4,534,219	\$54,228	-81.2%
Fuel Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Fuel Stock Expenses Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Residuals and Extracted Products	\$0	\$0	\$0	\$0	\$0	0.0%
Plant Materials and Operating Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Merchandise	\$0	\$0	\$0	\$0	\$0	0.0%
Other Materials and Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Nuclear Materials Held for Sales	\$0	\$0	\$0	\$0	\$0	0.0%
Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Stores Expense Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Gas Stored Underground-Current	\$0	\$0	\$0	\$0	\$0	0.0%
Liquefied Gas Stored and Held for Proc.	\$0	\$0	\$0	\$0	\$0	0.0%
Prepayments	\$597,168	\$2,258,489	\$2,504,606	\$2,289,348	\$671,617	3.0%
Advances for Gas	\$0	\$0	\$0	\$0	\$0	0.0%
Interest and Dividends Receivable	\$2,342,021	\$0	\$14,231	\$0	\$0	-100.0%
Rents Receivable	\$591,719	\$755,928	\$638,913	\$597,149	\$1,733,010	0.0%
Accrued Utility Revenues	\$13,206,304	\$14,850,662	\$15,858,444	\$16,735,883	\$11,214,497	0.0%
Miscellaneous Current and Accrued Assets	\$0	\$0	\$0	\$0	\$167,593	NM
TOTALS	\$150,552,946	\$152,518,310	\$122,035,683	\$82,771,998	\$108,325,844	-7.9%
<u>DEFERRED DEBITS</u>						
Unamortized Debt Expenses	\$99,458	\$1,439,845	\$1,278,960	\$1,325,001	\$1,054,562	80.5%
Extraordinary Property Losses	\$0	\$0	\$0	\$0	\$0	0.0%
Unrecovered Plant and Regulatory Study	\$0	\$0	\$0	\$0	\$0	0.0%
Other Regulatory Assets	\$12,762,395	\$8,736,561	\$1,750,274	\$2,714,585	\$2,732,344	-32.0%
Prelim. Survey and Investigation Charges	\$30,135	\$80,038	\$102,658	\$112,455	\$115,901	40.0%
Clearing Accounts	\$0	\$0	\$0	\$0	\$0	0.0%
Temporary Facilities	\$53,831	\$73,755	\$90,137	\$296,894	\$470,233	71.9%
Misc. Deferred Debits	\$109,613	\$3,137,996	\$3,004,513	\$1,121,818	\$896,598	69.1%
Def. Losses from Disposition of Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Research, Devel. and Demonstration	\$0	\$0	\$0	\$0	\$0	0.0%
Unamortized Loss on Reacquired Debt	\$6,095,293	\$5,673,191	\$5,390,601	\$4,954,249	\$4,517,692	-7.2%
Accum. Deferred Income Taxes	\$31,649,081	\$16,939,558	\$21,086,113	\$22,666,351	\$26,891,259	-4.0%
TOTALS	\$50,799,806	\$36,080,944	\$32,703,256	\$33,191,353	\$36,678,589	-7.8%
TOTAL ASSETS AND OTHER DEBITS	\$588,050,965	\$500,968,447	\$481,028,581	\$481,472,986	\$531,673,709	-2.5%

NM - Not Meaningful

Source: Pa PUC Annual Reports

**Pennsylvania Power Company
Balance Sheet**

**Appendix F
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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>PROPRIETARY CAPITAL</u>						
Common Stock Issued	\$188,700,000	\$140,064,450	\$140,064,450	\$140,064,450	\$140,064,450	-7.2%
Preferred Stock Issued	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Subscribed	\$0	\$0	\$0	\$0	\$0	0.0%
Stock Liability for Conversion	\$0	\$0	\$0	\$0	\$0	0.0%
Premium on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Donations from Stockholders	\$0	\$0	\$0	\$0	\$0	0.0%
Gain on Required Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other Paid-in Capital Stock	\$75,790,043	\$49,638,875	\$49,653,142	\$29,735,400	\$29,800,370	-20.8%
Installments Received on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Discount on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Expense	\$0	\$0	\$0	\$0	\$0	0.0%
Retained Earnings	\$91,336,541	\$61,220,784	\$12,267,873	(\$24,775,200)	(\$11,355,849)	NM
Unappropriated Undistributed Earnings	(\$1,452)	\$229,680	\$0	\$0	\$0	-100.0%
Reacquired Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other	(\$35,483,375)	(\$32,561,247)	(\$33,605,289)	\$8,514,153	\$7,206,996	NM
TOTALS	\$320,341,757	\$218,592,542	\$168,380,176	\$153,538,803	\$165,715,967	-15.2%
<u>LONG-TERM DEBT</u>						
Bonds	\$17,247,000	\$116,273,000	\$108,799,000	\$107,825,000	\$106,851,000	57.8%
Reacquired Bonds	\$0	\$0	\$0	\$0	\$0	0.0%
Advances from Associated Companies	\$62,900,000	\$0	\$0	\$0	\$0	-100.0%
Other Long-Term Debt	\$1,000,000	\$1,000,000	\$0	\$0	\$0	-100.0%
Unamortized Premium on Long-Term Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Unamortized Discount on Long-Term Debt	(\$31,146)	(\$28,998)	\$0	\$0	\$0	-100.0%
TOTALS	\$81,115,854	\$117,244,002	\$108,799,000	\$107,825,000	\$106,851,000	7.1%
<u>OTHER NONCURRENT LIABILITIES</u>						
Obligations Under Capital Leases-Noncurrent	\$0	\$3,040,313	\$2,864,063	\$459,721	\$3,243,242	NM
Accum. Provision for Property Insurance	\$0	\$0	\$0	\$0	\$0	0.0%
Accum. Provision for Injuries and Damages	\$1,815,662	\$1,766,247	\$1,843,400	\$1,445,456	\$2,909,754	12.5%
Accum. Provision for Pensions and Benefits	\$50,091,586	\$24,756,225	\$24,775,283	\$27,556,149	\$33,079,577	-9.9%
Accum. Misc. Operating Provisions	\$164,000	\$0	\$0	\$0	\$0	-100.0%
Accum. Provision for Rate Refunds	\$0	\$0	\$0	\$0	\$0	0.0%
Asset Retirement Obligations	\$180,450	\$192,363	\$205,062	\$218,600	\$233,031	NM
TOTALS	\$52,251,698	\$29,755,148	\$29,687,808	\$29,679,925	\$39,465,604	-6.8%
<u>CURRENT AND ACCRUED LIABILITIES</u>						
Notes Payable	\$0	\$0	\$0	\$0	\$0	0.0%
Accounts Payable	\$13,667,966	\$16,001,446	\$11,306,992	\$6,248,436	\$4,721,712	-23.3%
Notes Payable to Associated Companies	\$0	\$0	\$10,350,644	\$0	\$0	0.0%
Account Payable to Associated Companies	\$5,504,618	\$2,553,176	\$20,765,028	\$10,504,460	\$31,106,318	54.2%
Customer Deposits	\$0	\$0	\$2,577,231	\$2,668,317	\$2,872,962	NM
Taxes Accrued	\$1,461,000	\$231,652	\$339,866	\$4,235,212	\$6,479,735	45.1%
Interest Accrued	\$47,597	\$301,188	\$0	\$224,547	\$314,526	60.3%
Dividends Declared	\$469,513	\$1,593,808	\$1,271,254	\$0	\$0	-100.0%
Matured Long-Term Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Matured Interests	\$0	\$0	\$0	\$0	\$0	0.0%
Tax Collections Payable	\$380,393	\$281,627	\$250,922	\$174,433	\$0	-100.0%
Misc. Current and Accrued Liabilities	\$5,276,436	\$4,188,971	\$5,001,075	\$5,480,883	\$8,875,672	13.9%
Obligations Under Capital Leases-Current	\$0	\$176,250	\$176,250	\$81,412	\$388,394	NM
TOTALS	\$26,807,523	\$25,328,118	\$52,039,262	\$29,617,700	\$54,759,319	19.6%
<u>DEFERRED CREDITS</u>						
Customer Advances for Construction	\$199,855	\$160,034	\$109,217	\$57,854	\$32,520	-36.5%
Accum. Deferred Investments Tax Credits	\$1,381,965	\$1,193,181	\$1,004,397	\$815,613	\$626,829	-17.9%
Def. Gains from Disposition of Utility Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Other Deferred Credits	\$367,507	\$313,194	\$684,249	\$12,561,165	\$15,939,234	156.6%
Other Regulatory Liabilities	\$20,683,700	\$10,095,443	\$16,867,741	\$17,764,783	\$16,800,739	-5.1%
Unamortized Gain on Reacquired Debt	\$289,014	\$269,081	\$249,150	\$229,218	\$209,290	-7.8%
Accum. Deferred Income Taxes	\$84,612,092	\$98,017,704	\$103,207,580	\$129,382,923	\$131,273,207	11.6%
TOTALS	\$107,534,133	\$110,048,637	\$122,122,334	\$160,811,557	\$164,881,819	11.3%
TOTAL LIABILITIES AND OTHER CREDITS	\$588,050,965	\$500,968,447	\$481,028,580	\$481,472,985	\$531,673,709	-2.5%

NM - Not Meaningful

Source: Pa PUC Annual Reports

West Penn Power Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Plant In Service</u>						
Land and Land Rights	\$32,470,202	\$32,470,202	\$32,764,401	\$32,748,141	\$32,766,223	0.2%
Structures and Improvements	\$4,915,091	\$5,042,695	\$6,186,827	\$6,214,715	\$6,214,715	6.0%
Station Equipment	\$105,139,285	\$102,253,028	\$107,293,091	\$108,641,826	\$109,151,589	0.9%
Towers and Fixtures	\$43,767,650	\$43,767,650	\$43,767,650	\$40,767,650	\$43,767,650	0.0%
Poles and Fixtures	\$59,078,134	\$59,078,134	\$59,078,134	\$60,078,134	\$59,082,971	0.0%
Overhead Conductors and Devices	\$87,921,318	\$87,921,318	\$87,921,318	\$87,080,848	\$88,619,238	0.2%
Underground Conduit	\$0	\$0	\$0	\$0	\$0	0.0%
Underground Conductors and Devices	\$264,051	\$264,051	\$264,052	\$264,052	\$264,052	0.0%
Asset Retirement Costs for Transmission Plant	\$1,721	\$1,721	\$1,721	\$1,721	\$1,721	0.0%
Total Transmission Plant	\$333,557,452	\$330,798,799	\$337,277,194	\$335,797,087	\$339,868,159	0.5%
Land and Land Rights	\$15,819,645	\$16,010,993	\$16,309,230	\$16,430,236	\$16,430,236	1.0%
Structures and Improvements	\$18,440,788	\$18,447,427	\$18,613,520	\$18,632,320	\$18,632,320	0.3%
Station Equipment	\$244,942,692	\$249,902,405	\$271,125,092	\$276,706,201	\$277,491,494	3.2%
Poles, Towers, and Fixtures	\$262,094,315	\$273,040,493	\$285,737,510	\$301,750,389	\$300,292,935	3.5%
Overhead Conductors and Devices	\$253,626,041	\$259,150,093	\$272,596,526	\$299,410,476	\$314,502,531	5.5%
Underground Conduit	\$26,649,193	\$27,717,086	\$28,621,216	\$29,629,736	\$29,653,491	2.7%
Underground Conductors and Devices	\$91,245,600	\$98,807,127	\$105,396,332	\$112,388,655	\$112,891,603	5.5%
Line Transformers	\$285,471,150	\$295,274,106	\$313,613,840	\$325,898,336	\$329,599,161	3.7%
Services	\$86,121,369	\$87,254,695	\$89,938,106	\$89,911,321	\$91,089,924	1.4%
Meters	\$77,774,167	\$78,419,339	\$82,133,045	\$85,111,912	\$84,625,059	2.1%
Installations on Customer Premises	\$0	\$0	\$0	\$0	\$49,549	NM
Leased Property on Customer Premises	\$296,547	\$296,547	\$296,547	\$296,547	\$296,547	0.0%
Street Lighting and Signal Systems	\$22,433,104	\$22,005,028	\$24,255,975	\$31,341,757	\$31,254,667	8.6%
Asset Retirement Costs for Distribution Plant	\$262,245	\$97,149	\$97,149	\$97,149	\$15,613	-50.6%
Total Distribution Plant	\$1,385,176,856	\$1,426,422,488	\$1,508,734,088	\$1,587,605,035	\$1,606,825,130	3.8%
Total Plant In Service	\$1,718,734,308	\$1,757,221,287	\$1,846,011,282	\$1,923,402,122	\$1,946,693,289	3.2%
<u>Total Materials and Supplies</u>						
Assigned - Operations and Maintenance						
Transmission Plant (estimated)	\$802,314	\$672,484	\$549,318	\$496,064	\$0	NM
Distribution Plant (estimated)	\$3,391,696	\$2,923,688	\$2,426,403	\$2,252,214	\$0	NM
<u>Operating Revenues</u>						
<u>Sales of Electricity</u>						
Residential Sales	\$537,754,616	\$593,193,739	\$682,872,414	\$679,101,765	\$529,174,249	-0.4%
Commercial Sales	\$305,383,408	\$335,033,532	\$372,716,822	\$208,805,899	\$158,530,193	-15.1%
Industrial Sales	\$395,999,897	\$404,309,660	\$476,930,655	\$134,431,529	\$85,899,075	-31.8%
Public Street and Highway Lighting Sales	\$8,536,071	\$9,103,038	\$9,233,672	\$7,276,114	\$7,139,006	-4.4%
Total Sales to Ultimate Customers	\$1,247,673,992	\$1,341,639,969	\$1,541,753,563	\$1,029,615,307	\$780,742,523	-11.1%
Sales for Resale	\$1,739,463	\$1,742,609	\$1,806,557	\$40,950,050	\$34,055,399	110.4%
Total Sales of Electricity	\$1,249,413,455	\$1,343,382,578	\$1,543,560,120	\$1,070,565,357	\$814,797,922	-10.1%
Provision for Rate Refunds	(\$54,667)	\$0	\$0	\$0	\$0	NM
Total Revenues Net Provisions	\$1,249,468,122	\$1,343,382,578	\$1,543,560,120	\$1,070,565,357	\$814,797,922	-10.1%
<u>Megawatt Hours Sold</u>						
<u>Sales of Electricity</u>						
Residential Sales	7,209,113	7,089,630	7,407,912	7,348,700	7,091,985	-0.4%
Commercial Sales	4,943,368	4,920,435	4,955,723	4,889,110	4,848,911	-0.5%
Industrial Sales	8,149,161	7,142,172	7,627,826	7,817,714	7,684,495	-1.5%
Public Street and Highway Lighting Sales	52,021	46,989	48,920	48,567	48,580	-1.7%
Total Sales to Ultimate Customers	20,353,663	19,199,226	20,040,381	20,104,091	19,673,971	-0.8%
Sales for Resale	-	-	-	-	-	0.0%
Total Sales of Electricity	20,353,663	19,199,226	20,040,381	20,104,091	19,673,971	-0.8%
<u>Average Number of Customers Per Month</u>						
<u>Sales of Electricity</u>						
Residential Sales	617,772	618,849	619,584	620,151	619,117	0.1%
Commercial Sales	81,690	82,165	82,551	83,042	83,808	0.6%
Industrial Sales	13,383	13,395	13,415	13,521	13,466	0.2%
Public Street and Highway Lighting Sales	556	557	558	555	564	0.4%
Total Sales to Ultimate Customers	713,401	714,966	716,108	717,269	716,955	0.1%
Sales for Resale	-	-	-	-	-	0.0%
Total Sales of Electricity	713,401	714,966	716,108	717,269	716,955	0.1%

NM - Not Meaningful

Source: Pa PUC Annual Reports

West Penn Power Company
Financial and Operating Data and Statistics

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	2008	2009	2010	2011	2012	Compound Growth
<u>Operation and Maintenance Expenses</u>						
<u>Transmission</u>						
Total Operation	\$47,353,901	\$44,618,339	\$50,766,265	\$25,084,775	\$25,603,905	-14.2%
Maintenance Supervision and Engineering	\$529,169	\$380,478	\$404,342	\$466,976	\$548,359	0.9%
Maintenance of Structures	\$196,041	\$174,537	\$209,623	\$171,712	\$68,925	-23.0%
Maintenance of Station Equipment	\$1,615,368	\$1,494,614	\$1,607,807	\$1,518,603	\$708,225	-18.6%
Maintenance of Overhead Lines	\$1,974,870	\$3,782,576	\$3,094,062	\$3,668,971	\$3,897,733	18.5%
Maintenance of Underground Lines	\$5,732	\$1,167	\$0	\$0	\$575	-43.7%
Maintenance of Misc. Transmission Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Total Maintenance	\$4,321,180	\$5,833,372	\$5,315,834	\$5,826,262	\$5,223,817	4.9%
Total Transmission O&M Expenses	\$51,675,081	\$50,451,711	\$56,082,099	\$30,911,037	\$30,827,722	-12.1%
<u>Distribution</u>						
Total Operation	\$11,498,780	\$10,558,418	\$11,968,555	\$10,897,593	\$14,397,498	5.8%
Maintenance Supervision/Engineering	\$2,707,872	\$1,787,032	\$2,002,301	\$2,217,962	\$785,209	-26.6%
Maintenance of Structures	\$0	\$0	\$0	\$0	\$0	0.0%
Maintenance of Station Equipment	\$3,348,706	\$1,943,811	\$2,323,055	\$2,823,735	\$2,757,259	-4.7%
Maintenance of Overhead Lines	\$23,520,349	\$22,372,311	\$34,316,316	\$20,068,228	(\$2,687,748)	NM
Maintenance of Underground Lines	\$3,133,192	\$2,634,600	\$4,171,265	\$834,268	\$547,138	-35.4%
Maintenance of Line Transformers	\$503,889	\$429,625	\$403,068	\$155,159	\$48,027	-44.4%
Maintenance of Street Lighting/Signal Systems	\$316,794	\$213,127	\$195,848	\$244,781	\$609,915	17.8%
Maintenance of Meters	\$525,419	\$816,447	\$1,126,342	\$1,049,200	\$1,855,448	37.1%
Maintenance of Misc. Distribution Plant	\$0	\$0	\$319,846	\$294,422	\$538,232	NM
Total Maintenance	\$34,056,221	\$30,196,953	\$44,858,041	\$27,687,755	\$4,453,480	-39.9%
Total Distribution O&M Expenses	\$45,555,001	\$40,755,371	\$56,826,596	\$38,585,348	\$18,850,978	-19.8%
Total Transmission and Distribution Expenses	\$97,230,082	\$91,207,082	\$112,908,695	\$69,496,385	\$49,678,700	-15.5%
<u>Customer Service and Info. Expenses</u>						
Supervision	\$0	\$0	\$0	\$0	\$400,201	NM
Customer Assistance Expenses	\$3,884,790	\$8,307,120	\$10,662,292	\$0	\$24,856,133	59.0%
Information and Instructional Expenses	\$40,009	\$1,500,293	\$2,245,066	\$1,618,612	(\$72,365)	NM
Misc Customer Service and Info. Expenses	\$359,563	\$210,749	\$171,845	\$29,412,561	\$528,091	10.1%
Total Customer Service and Info. Expenses	\$4,284,362	\$10,018,162	\$13,079,203	\$31,031,173	\$25,712,060	56.5%

NM - Not Meaningful

Source: Pa PUC Annual Reports

**West Penn Power Company
Balance Sheet**

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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>UTILITY PLANT</u>						
Utility Plant	\$1,898,045,011	\$1,936,019,111	\$2,026,656,982	\$2,075,243,386	\$2,073,992,543	2.2%
Construction Work in Progress	\$141,897,873	\$173,929,972	\$188,521,574	\$207,201,474	\$339,806,364	24.4%
TOTAL UTILITY PLANT	\$2,039,942,884	\$2,109,949,083	\$2,215,178,556	\$2,282,444,860	\$2,413,798,907	4.3%
Accum. Depreciation and Amortization	(\$831,686,194)	(\$876,472,337)	(\$918,342,189)	(\$936,474,010)	(\$944,468,238)	3.2%
NET UTILITY PLANT	\$1,208,256,690	\$1,233,476,746	\$1,296,836,367	\$1,345,970,850	\$1,469,330,669	5.0%
<u>OTHER PROPERTY AND INVESTMENTS</u>						
Nonutility Property	\$7,137,669	\$7,151,158	\$8,025,488	\$8,026,437	\$12,426,151	14.9%
Accum. Depreciation and Amortization	(\$177,236)	(\$214,470)	(\$230,727)	(\$249,104)	(\$268,922)	11.0%
Investments in Associated Companies	\$0	\$0	\$0	\$0	\$0	0.0%
Investment in Subsidiary Companies	\$683,663,897	\$717,026,521	\$9,826,427	\$9,410,815	\$9,210,554	-65.9%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Other Investments	\$10,079	\$10,258	\$2,681	\$2,602	\$2,691	-28.1%
Special Funds	\$0	\$0	\$0	\$0	\$0	0.0%
TOTALS	\$690,634,409	\$723,973,467	\$17,623,869	\$17,190,750	\$21,370,474	-58.1%
<u>CURRENT AND ACCRUED ASSETS</u>						
Cash	\$13,173,753	\$923,240	\$204,170	\$1,123,550	\$0	-100.0%
Special Deposits	\$0	\$9	\$2,631,209	\$416,876	\$0	0.0%
Working Fund	\$0	\$0	\$0	\$0	\$0	0.0%
Temporary Cash Investments	\$60,865,725	\$44,201,063	\$15,023,333	\$11,986,038	\$0	-100.0%
Notes Receivable	\$0	\$0	\$0	\$0	\$0	0.0%
Customer Accounts Receivable	\$76,377,470	\$81,374,390	\$93,461,256	\$77,026,868	\$70,360,118	-2.0%
Other Accounts Receivable	\$9,068,243	\$6,350,137	\$8,704,677	\$5,316,595	\$104,816,051	84.4%
Accum. for Uncollectible Accounts	(\$7,199,120)	(\$7,154,798)	(\$8,173,573)	(\$1,513,031)	(\$3,517,479)	-16.4%
Notes Receivable from Assoc. Companies	\$3,204,549	\$40,528,706	\$0	\$0	\$48,935,257	97.7%
Accts Receivable from Assoc. Companies	\$4,301,615	\$5,718,046	\$2,708,295	\$1,705,895	\$7,800,980	16.0%
Fuel Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Fuel Stock Expenses Undistributed	\$0	\$0	\$0	\$0	\$0	0.0%
Residuals and Extracted Products	\$0	\$0	\$0	\$0	\$0	0.0%
Plant Materials and Operating Supplies	\$23,553,407	\$20,787,124	\$19,851,376	\$19,326,851	\$0	-100.0%
Merchandise	\$0	\$0	\$0	\$0	\$0	0.0%
Other Materials and Supplies	\$0	\$0	\$0	\$0	\$0	0.0%
Nuclear Materials Held for Sales	\$0	\$0	\$0	\$0	\$0	0.0%
Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Noncurrent Portion of Allowances	\$0	\$0	\$0	\$0	\$0	0.0%
Stores Expense Undistributed	\$2,099,937	\$2,176,310	\$2,015,895	\$0	\$0	-100.0%
Gas Stored Underground-Current	\$0	\$0	\$0	\$0	\$0	0.0%
Liquefied Gas Stored and Held for Proc.	\$0	\$0	\$0	\$0	\$0	0.0%
Prepayments	\$1,836,578	\$2,826,446	\$2,334,014	\$2,166,723	\$2,518,943	8.2%
Advances for Gas	\$0	\$0	\$0	\$0	\$0	0.0%
Interest and Dividends Receivable	\$175,781	\$4,229	\$2,443	\$980	\$0	-100.0%
Rents Receivable	\$0	\$0	\$0	\$0	\$18,234	NM
Accrued Utility Revenues	\$62,523,070	\$67,682,639	\$70,074,211	\$47,821,458	\$43,124,053	0.0%
Miscellaneous Current and Accrued Assets	\$10,184,840	\$0	\$0	\$0	\$0	-100.0%
TOTALS	\$260,165,848	\$265,417,541	\$208,837,306	\$165,378,803	\$274,056,156	1.3%
<u>DEFERRED DEBITS</u>						
Unamortized Debt Expenses	\$3,357,195	\$2,915,981	\$3,928,886	\$623,897	\$676,099	-33.0%
Extraordinary Property Losses	\$0	\$0	\$0	\$0	\$0	0.0%
Unrecovered Plant and Regulatory Study	\$0	\$0	\$0	\$0	\$0	0.0%
Other Regulatory Assets	\$171,595,270	\$178,643,090	\$175,415,331	\$225,303,448	\$226,520,861	7.2%
Prelim. Survey and Investigation Charges	\$0	\$0	\$0	\$0	\$0	0.0%
Clearing Accounts	\$20,573	\$100,465	\$70,128	(\$160,323)	\$0	-100.0%
Temporary Facilities	\$351,433	\$67,085	(\$12,486)	(\$1,203)	\$0	-100.0%
Misc. Deferred Debits	\$14,441,037	\$14,879,898	\$13,306,008	\$5,599,326	\$321,122	-61.4%
Def. Losses from Disposition of Plant	\$0	\$0	\$0	\$0	\$11,143,204	0.0%
Unamortized Loss on Reacquired Debt	\$1,702,675	\$1,418,604	\$1,134,533	\$577,823	\$0	0.0%
Accum. Deferred Income Taxes	\$206,792,429	\$145,770,639	\$115,826,064	\$133,921,835	\$450,390	-78.4%
Unrecovered Purchased Gas Costs	\$0	\$0	\$0	\$0	\$201,416,001	NM
TOTALS	\$398,260,612	\$343,795,762	\$309,668,464	\$365,864,803	\$440,527,677	2.6%
TOTAL ASSETS AND OTHER DEBITS	\$2,557,317,559	\$2,566,663,516	\$1,832,966,006	\$1,894,405,206	\$2,205,284,976	-3.6%

NM - Not Meaningful

Source: Pa PUC Annual Reports

West Penn Power Company
Balance Sheet

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BALANCE SHEET	2008	2009	2010	2011	2012	Compound Growth
<u>PROPRIETARY CAPITAL</u>						
Common Stock Issued	\$65,841,979	\$65,841,979	\$65,841,979	\$65,841,979	\$66,003,092	0.1%
Preferred Stock Issued	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Subscribed	\$0	\$0	\$0	\$0	\$0	0.0%
Stock Liability for Conversion	\$0	\$0	\$0	\$0	\$0	0.0%
Premium on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Donations from Stockholders	\$0	\$0	\$0	\$0	\$0	0.0%
Gain on Required Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Other Paid-in Capital Stock	\$260,739,428	\$260,974,705	\$261,156,464	\$461,840,350	\$462,210,453	15.4%
Installments Received on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Discount on Capital Stock	\$0	\$0	\$0	\$0	\$0	0.0%
Capital Stock Expense	\$0	\$0	\$0	\$0	\$0	0.0%
Retained Earnings	(\$239,181,394)	(\$245,980,621)	\$244,181,711	\$6,060,856	\$45,739,638	NM
Unappropriated Undistributed Earnings	\$448,944,584	\$482,071,931	(\$668,317)	(\$13,941)	(\$14,203)	NM
Reacquired Capital Stock	(\$29,995)	\$114,254	\$117,947	\$58	\$7,466,724	0.0%
Other	\$0	\$0	\$0	\$0	\$0	0.0%
TOTALS	\$536,314,602	\$563,022,248	\$570,629,784	\$533,729,302	\$581,405,704	2.0%
<u>LONG-TERM DEBT</u>						
Bonds	\$420,000,000	\$420,000,000	\$420,000,000	\$420,000,000	\$520,000,000	5.5%
Reacquired Bonds	\$0	\$0	\$0	\$0	\$0	0.0%
Advances from Associated Companies	\$728,651,138	\$743,443,604	\$0	\$0	\$0	NM
Other Long-Term Debt	\$80,000,000	\$80,000,000	\$80,000,000	\$122,082,903	\$33,381,641	-19.6%
Unamortized Premium on Long-Term Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Unamortized Discount on Long-Term Debt	(\$1,213,149)	(\$1,049,616)	(\$886,083)	\$0	\$0	-100.0%
TOTALS	\$1,227,437,989	\$1,242,393,988	\$499,113,917	\$542,082,903	\$553,381,641	-18.1%
<u>OTHER NONCURRENT LIABILITIES</u>						
Obligations Under Capital Leases-Noncurrent	\$13,843,594	\$11,859,373	\$12,783,119	\$14,609,941	\$15,116,138	2.2%
Accum. Provision for Property Insurance	\$0	\$0	\$0	\$0	\$0	0.0%
Accum. Provision for Injuries and Damages	\$8,161,973	\$8,432,974	\$7,241,465	\$3,549,250	\$11,382,851	8.7%
Accum. Provision for Pensions and Benefits	\$1,592,256	\$1,511,150	\$1,624,142	\$1,646,278	\$117,983,733	193.4%
Accum. Misc. Operating Provisions	\$157,277,891	\$137,760,037	\$119,847,572	\$109,361,029	\$92,945	-84.4%
Accum. Provision for Rate Refunds	\$0	\$0	\$0	\$0	\$0	0.0%
Asset Retirement Obligations	\$11,085,604	\$11,856,440	\$12,674,631	\$12,927,586	\$13,901,480	5.8%
TOTALS	\$191,961,318	\$171,419,974	\$154,170,929	\$142,094,084	\$158,477,147	-4.7%
<u>CURRENT AND ACCRUED LIABILITIES</u>						
Notes Payable	\$0	\$0	\$0	\$0	\$0	0.0%
Accounts Payable	\$20,635,354	\$20,525,309	\$34,303,162	\$45,280,188	\$72,979,628	37.1%
Notes Payable to Associated Companies	\$0	\$0	\$0	\$20,003,075	\$0	0.0%
Account Payable to Associated Companies	\$21,928,146	\$42,312,040	\$48,287,706	\$41,974,185	\$66,735,137	32.1%
Customer Deposits	\$19,721,323	\$23,226,657	\$24,446,424	\$26,655,318	\$21,985,960	2.8%
Taxes Accrued	\$49,788,177	\$41,919,066	\$39,880,792	\$34,466,756	\$84,755,129	14.2%
Interest Accrued	\$11,672,868	\$14,058,929	\$9,497,356	\$12,903,001	\$5,294,702	-17.9%
Dividends Declared	\$0	\$0	\$0	\$0	\$0	0.0%
Matured Long-Term Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Matured Interests	\$0	\$0	\$0	\$0	\$0	0.0%
Tax Collections Payable	\$1,615,564	\$1,816,878	\$1,811,100	\$89,246	\$267,579	-36.2%
Misc. Current and Accrued Liabilities	\$8,248,661	\$10,078,524	\$8,404,007	\$1,423,595	\$124,649,311	97.2%
Obligations Under Capital Leases-Current	\$3,236,466	\$2,810,487	\$3,793,068	\$3,970,256	\$4,317,641	7.5%
TOTALS	\$136,846,559	\$156,747,890	\$170,423,615	\$186,765,620	\$380,985,087	29.2%
<u>DEFERRED CREDITS</u>						
Customer Advances for Construction	\$3,740,191	\$3,329,878	\$2,970,622	\$2,839,704	\$2,036,386	-14.1%
Accum. Deferred Investments Tax Credits	\$13,314,561	\$12,366,561	\$11,418,560	\$10,470,561	\$9,522,561	-8.0%
Def. Gains from Disposition of Utility Plant	\$0	\$0	\$0	\$0	\$0	0.0%
Other Deferred Credits	\$7,171,266	\$3,902,473	\$997,407	\$21,304,602	\$20,478,381	30.0%
Other Regulatory Liabilities	\$10,313,807	\$9,572,206	\$25,904,311	\$28,023,654	\$23,705,002	23.1%
Unamortized Gain on Reacquired Debt	\$0	\$0	\$0	\$0	\$0	0.0%
Accum. Deferred Income Taxes	\$430,217,209	\$403,908,298	\$397,336,861	\$427,094,776	\$475,293,067	2.5%
TOTALS	\$464,757,034	\$433,079,416	\$438,627,761	\$489,733,297	\$531,035,397	3.4%
TOTAL LIABILITIES AND OTHER CREDITS	\$2,557,317,502	\$2,566,663,516	\$1,832,966,006	\$1,894,405,206	\$2,205,284,976	-3.6%

NM - Not Meaningful

Source: Pa PUC Annual Reports

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Total Transmission Plant + Total Distribution Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$5,121,291,901	\$5,351,546,790	\$5,544,546,339	\$5,907,541,609	\$6,140,260,639	3.7%
Duquesne Light Company	\$2,387,303,282	\$2,463,203,501	\$2,598,845,818	\$2,796,216,987	\$2,973,741,364	4.5%
PPL Electric Utilities Corporation	\$5,177,571,776	\$5,379,094,065	\$5,678,598,537	\$6,019,911,404	\$6,501,887,796	4.7%
Panel Average	\$4,228,722,320	\$4,397,948,119	\$4,607,330,231	\$4,907,890,000	\$5,205,296,600	4.2%
Pennsylvania Power Company	\$427,193,225	\$451,453,166	\$471,222,976	\$492,588,224	\$506,747,175	3.5%
Metropolitan Edison	\$2,162,683,163	\$2,257,539,971	\$2,247,212,827	\$2,455,297,054	\$2,381,395,374	1.9%
West Penn Power	\$1,898,045,011	\$1,950,688,969	\$2,044,233,168	\$2,075,243,386	\$2,073,992,543	1.8%
Pennsylvania Electric Company	\$2,109,609,422	\$2,214,998,523	\$2,315,358,557	\$2,802,483,279	\$2,713,691,194	5.2%

Megawatt Hours Sold To Ultimate Consumers	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	39,459,943	38,114,056	39,737,244	46,882,859	37,500,052	-1.0%
Duquesne Light Company	13,767,180	13,163,573	14,089,963	14,027,155	14,202,466	0.6%
PPL Electric Utilities Corporation	38,006,123	36,681,588	36,998,015	36,941,727	36,015,643	-1.1%
Panel Average	30,411,082	29,319,739	30,275,074	32,617,247	29,239,387	-0.8%
Pennsylvania Power Company	4,691,592	4,236,148	4,502,094	4,585,851	4,463,786	-1.0%
Metropolitan Edison	14,239,798	13,488,679	13,995,525	13,969,632	13,559,359	-1.0%
West Penn Power	20,353,663	19,199,226	20,040,381	20,104,091	19,673,971	-0.7%
Pennsylvania Electric Company	14,378,604	13,574,794	14,115,793	14,133,623	13,864,963	-0.7%

Average Number Of Ultimate Consumers Per Month	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	1,567,250	1,564,433	1,566,872	1,573,976	1,578,199	0.1%
Duquesne Light Company	586,976	586,835	587,094	587,610	588,676	0.1%
PPL Electric Utilities Corporation	1,392,441	1,397,730	1,401,657	1,403,889	1,407,031	0.2%
Panel Average	1,182,222	1,182,999	1,185,208	1,188,492	1,191,302	0.2%
Pennsylvania Power Company	159,346	159,558	159,886	160,250	160,725	0.2%
Metropolitan Edison	547,557	549,818	551,776	552,631	553,405	0.2%
West Penn Power	713,401	714,966	716,108	717,269	716,955	0.1%
Pennsylvania Electric Company	589,017	589,201	589,852	589,651	589,505	0.0%

Total T&D Operation & Maintenance Expenses Per Total Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.0938	\$0.0850	\$0.0889	\$0.0641	\$0.0609	-8.3%
Duquesne Light Company	\$0.0161	\$0.0140	\$0.0179	\$0.0153	\$0.0148	-1.7%
PPL Electric Utilities Corporation	\$0.2857	\$0.2537	\$0.2022	\$0.1856	\$0.1740	-9.4%
Panel Average	\$0.1319	\$0.1176	\$0.1030	\$0.0883	\$0.0832	-8.8%
Pennsylvania Power Company	\$0.8400	\$0.4115	\$0.3977	\$0.6222	\$0.9770	3.1%
Metropolitan Edison	\$0.1695	\$0.0835	\$0.1371	\$0.0242	\$0.0269	-30.8%
West Penn Power	\$0.0512	\$0.0468	\$0.0552	\$0.0335	\$0.0240	-14.1%
Pennsylvania Electric Company	\$0.0849	\$0.0600	\$0.0737	\$0.0165	\$0.0249	-21.8%

Total T&D Operation & Maintenance Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$12.17	\$11.93	\$12.40	\$8.08	\$9.97	-3.9%
Duquesne Light Company	\$2.79	\$2.62	\$3.29	\$3.05	\$3.10	2.1%
PPL Electric Utilities Corporation	\$8.65	\$8.17	\$6.88	\$6.77	\$7.43	-3.0%
Panel Average	\$7.87	\$7.58	\$7.53	\$5.97	\$6.83	-2.8%
Pennsylvania Power Company	\$3.82	\$2.07	\$1.89	\$2.95	\$4.83	4.8%
Metropolitan Edison	\$25.74	\$13.97	\$22.01	\$4.25	\$4.72	-28.8%
West Penn Power	\$4.78	\$4.75	\$5.63	\$3.46	\$2.53	-12.0%
Pennsylvania Electric Company	\$12.46	\$9.79	\$12.09	\$3.27	\$4.87	-17.1%

Source: Pa PUC Annual Reports

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Total T&D Operation & Maintenance Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$306.35	\$290.61	\$314.45	\$240.67	\$236.95	-5.0%
Duquesne Light Company	\$65.64	\$58.93	\$79.13	\$72.87	\$74.72	2.6%
PPL Electric Utilities Corporation	\$235.98	\$214.54	\$181.72	\$178.11	\$190.16	-4.2%
Panel Average	\$202.66	\$188.03	\$191.77	\$163.88	\$167.28	-3.8%
Pennsylvania Power Company	\$112.43	\$54.96	\$53.21	\$84.34	\$134.08	3.6%
Metropolitan Edison	\$669.51	\$342.76	\$558.20	\$107.51	\$115.72	-29.6%
West Penn Power	\$136.29	\$127.57	\$157.67	\$96.89	\$69.29	-12.7%
Pennsylvania Electric Company	\$304.19	\$225.52	\$289.40	\$78.42	\$114.57	-17.7%
Transmission Operation Expenses Per Transmission Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.2902	\$0.2502	\$0.2474	\$0.1081	\$0.0959	-19.9%
Duquesne Light Company	\$0.0163	\$0.0053	\$0.0071	\$0.0077	\$0.0077	-13.9%
PPL Electric Utilities Corporation	\$0.1448	\$0.1335	\$0.0691	\$0.0529	\$0.0483	-19.7%
Panel Average	\$0.1504	\$0.1297	\$0.1079	\$0.0562	\$0.0506	-19.6%
Pennsylvania Power Company	\$0.0040	\$0.0083	\$0.0136	\$0.2523	\$0.4329	155.2%
Metropolitan Edison	\$1.0353	\$0.4718	\$0.8157	\$0.0177	\$0.0175	-55.8%
West Penn Power	\$0.1420	\$0.1349	\$0.1505	\$0.0747	\$0.0753	-11.9%
Pennsylvania Electric Company	\$0.3454	\$0.2384	\$0.3489	\$0.0089	\$0.0137	-47.6%
Transmission Operation Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$7.25	\$6.76	\$6.56	\$2.73	\$3.18	-15.2%
Duquesne Light Company	\$0.50	\$0.18	\$0.23	\$0.29	\$0.33	-8.0%
PPL Electric Utilities Corporation	\$4.38	\$4.30	\$2.35	\$1.93	\$2.06	-14.0%
Panel Average	\$4.04	\$3.75	\$3.05	\$1.65	\$1.86	-14.4%
Pennsylvania Power Company	\$0.02	\$0.04	\$0.06	\$1.19	\$2.14	154.6%
Metropolitan Edison	\$22.21	\$11.16	\$19.00	\$0.45	\$0.44	-54.4%
West Penn Power	\$2.33	\$2.32	\$2.53	\$1.25	\$1.30	-11.0%
Pennsylvania Electric Company	\$8.20	\$6.34	\$9.36	\$0.28	\$0.40	-45.3%
Transmission Operation Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$182.59	\$164.58	\$166.49	\$81.35	\$75.61	-16.2%
Duquesne Light Company	\$11.76	\$3.96	\$5.51	\$7.04	\$7.92	-7.6%
PPL Electric Utilities Corporation	\$119.57	\$112.84	\$62.10	\$50.80	\$52.80	-15.1%
Panel Average	\$104.64	\$93.79	\$78.03	\$46.40	\$45.44	-15.4%
Pennsylvania Power Company	\$0.54	\$1.10	\$1.82	\$34.20	\$59.41	156.0%
Metropolitan Edison	\$577.59	\$273.86	\$482.01	\$11.31	\$10.90	-54.8%
West Penn Power	\$66.38	\$62.41	\$70.89	\$34.97	\$35.71	-11.7%
Pennsylvania Electric Company	\$200.25	\$146.10	\$223.94	\$6.67	\$9.43	-45.7%
Transmission Maintenance Expenses Per Transmission Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.0259	\$0.0254	\$0.0262	\$0.0240	\$0.0173	-7.8%
Duquesne Light Company	\$0.0076	\$0.0094	\$0.0079	\$0.0097	\$0.0073	-0.8%
PPL Electric Utilities Corporation	\$0.0130	\$0.0135	\$0.0201	\$0.0196	\$0.0234	12.5%
Panel Average	\$0.0155	\$0.0161	\$0.0181	\$0.0178	\$0.0160	0.6%
Pennsylvania Power Company	\$0.0101	\$0.0094	\$0.0065	\$0.0055	\$0.0034	-19.6%
Metropolitan Edison	\$0.0195	\$0.0141	\$0.0136	\$0.0132	\$0.0250	5.1%
West Penn Power	\$0.0130	\$0.0176	\$0.0158	\$0.0174	\$0.0154	3.4%
Pennsylvania Electric Company	\$0.0264	\$0.0153	\$0.0134	\$0.0143	\$0.0249	-1.2%

Source: Pa PUC Annual Reports

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Transmission Maintenance Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.65	\$0.69	\$0.70	\$0.61	\$0.57	-2.6%
Duquesne Light Company	\$0.23	\$0.31	\$0.26	\$0.37	\$0.31	6.2%
PPL Electric Utilities Corporation	\$0.39	\$0.44	\$0.68	\$0.72	\$1.00	20.7%
Panel Average	\$0.42	\$0.48	\$0.55	\$0.57	\$0.63	8.4%
Pennsylvania Power Company	\$0.05	\$0.05	\$0.03	\$0.03	\$0.02	-16.7%
Metropolitan Edison	\$0.42	\$0.33	\$0.32	\$0.33	\$0.64	8.8%
West Penn Power	\$0.21	\$0.30	\$0.27	\$0.29	\$0.27	5.2%
Pennsylvania Electric Company	\$0.63	\$0.41	\$0.36	\$0.45	\$0.73	3.0%

Transmission Maintenance Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$16.26	\$16.70	\$17.67	\$18.07	\$13.65	-3.4%
Duquesne Light Company	\$5.46	\$7.03	\$6.19	\$8.82	\$7.53	6.6%
PPL Electric Utilities Corporation	\$10.73	\$11.45	\$18.04	\$18.83	\$25.57	19.0%
Panel Average	\$10.82	\$11.73	\$13.97	\$15.24	\$15.58	7.6%
Pennsylvania Power Company	\$1.36	\$1.25	\$0.87	\$0.74	\$0.47	-19.1%
Metropolitan Edison	\$10.88	\$8.20	\$8.02	\$8.47	\$15.59	7.5%
West Penn Power	\$6.06	\$8.16	\$7.42	\$8.12	\$7.29	3.8%
Pennsylvania Electric Company	\$15.30	\$9.38	\$8.60	\$10.69	\$17.06	2.2%

Distribution Operation Expenses Per Distribution Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.0111	\$0.0116	\$0.0124	\$0.0110	\$0.0118	1.2%
Duquesne Light Company	\$0.0074	\$0.0056	\$0.0068	\$0.0066	\$0.0060	-4.1%
PPL Electric Utilities Corporation	\$0.0220	\$0.0192	\$0.0196	\$0.0212	\$0.0193	-2.6%
Panel Average	\$0.0135	\$0.0121	\$0.0129	\$0.0129	\$0.0124	-1.7%
Pennsylvania Power Company	\$0.0055	\$0.0048	\$0.0044	\$0.0034	\$0.0034	-9.2%
Metropolitan Edison	\$0.0091	\$0.0060	\$0.0063	\$0.0049	\$0.0047	-12.4%
West Penn Power	\$0.0083	\$0.0074	\$0.0079	\$0.0069	\$0.0090	1.6%
Pennsylvania Electric Company	\$0.0095	\$0.0078	\$0.0065	\$0.0050	\$0.0051	-11.7%

Distribution Operation Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$1.16	\$1.32	\$1.40	\$1.11	\$1.55	6.0%
Duquesne Light Company	\$0.93	\$0.75	\$0.91	\$0.94	\$0.88	-1.1%
PPL Electric Utilities Corporation	\$2.05	\$1.91	\$2.03	\$2.33	\$2.28	2.1%
Panel Average	\$1.38	\$1.33	\$1.45	\$1.46	\$1.57	2.6%
Pennsylvania Power Company	\$0.45	\$0.46	\$0.41	\$0.33	\$0.36	-4.4%
Metropolitan Edison	\$0.93	\$0.68	\$0.72	\$0.64	\$0.60	-8.4%
West Penn Power	\$0.56	\$0.55	\$0.60	\$0.54	\$0.73	5.4%
Pennsylvania Electric Company	\$1.17	\$1.06	\$0.89	\$0.77	\$0.77	-8.0%

Distribution Operation Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$29.31	\$32.09	\$35.45	\$32.97	\$36.73	4.6%
Duquesne Light Company	\$21.75	\$16.92	\$21.85	\$22.43	\$21.28	-0.4%
PPL Electric Utilities Corporation	\$56.00	\$50.24	\$53.51	\$61.18	\$58.30	0.8%
Panel Average	\$35.69	\$33.08	\$36.94	\$38.86	\$38.77	1.7%
Pennsylvania Power Company	\$13.16	\$12.26	\$11.62	\$9.57	\$9.88	-5.6%
Metropolitan Edison	\$24.09	\$16.75	\$18.30	\$16.08	\$14.71	-9.4%
West Penn Power	\$16.12	\$14.77	\$16.71	\$15.19	\$20.08	4.5%
Pennsylvania Electric Company	\$28.62	\$24.39	\$21.41	\$18.38	\$18.13	-8.7%

Source: Pa PUC Annual Reports

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Distribution Maintenance Expenses Per Distribution Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.0296	\$0.0280	\$0.0331	\$0.0361	\$0.0358	3.9%
Duquesne Light Company	\$0.0091	\$0.0102	\$0.0142	\$0.0102	\$0.0107	3.3%
PPL Electric Utilities Corporation	\$0.0196	\$0.0153	\$0.0176	\$0.0164	\$0.0178	-1.9%
Panel Average	\$0.0194	\$0.0178	\$0.0216	\$0.0209	\$0.0214	2.0%
Pennsylvania Power Company	\$0.0406	\$0.0159	\$0.0146	\$0.0142	\$0.0223	-11.3%
Metropolitan Edison	\$0.0214	\$0.0157	\$0.0171	\$0.0220	\$0.0237	2.1%
West Penn Power	\$0.0246	\$0.0212	\$0.0297	\$0.0174	\$0.0028	-35.2%
Pennsylvania Electric Company	\$0.0200	\$0.0145	\$0.0108	\$0.0117	\$0.0196	-0.4%

Distribution Maintenance Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$3.11	\$3.17	\$3.74	\$3.64	\$4.67	8.5%
Duquesne Light Company	\$1.14	\$1.38	\$1.90	\$1.45	\$1.57	6.6%
PPL Electric Utilities Corporation	\$1.82	\$1.52	\$1.82	\$1.80	\$2.09	2.8%
Panel Average	\$2.02	\$2.02	\$2.49	\$2.30	\$2.78	6.6%
Pennsylvania Power Company	\$3.31	\$1.52	\$1.38	\$1.39	\$2.32	-6.9%
Metropolitan Edison	\$2.19	\$1.79	\$1.97	\$2.83	\$3.04	6.8%
West Penn Power	\$1.67	\$1.57	\$2.24	\$1.38	\$0.23	-32.7%
Pennsylvania Electric Company	\$2.46	\$1.98	\$1.48	\$1.78	\$2.97	3.8%

Distribution Maintenance Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$78.19	\$77.24	\$94.85	\$108.28	\$110.96	7.3%
Duquesne Light Company	\$26.66	\$31.02	\$45.57	\$34.58	\$37.99	7.3%
PPL Electric Utilities Corporation	\$49.69	\$40.01	\$48.06	\$47.31	\$53.49	1.5%
Panel Average	\$51.51	\$49.42	\$62.83	\$63.39	\$67.48	5.5%
Pennsylvania Power Company	\$97.38	\$40.34	\$38.90	\$39.83	\$64.33	-8.0%
Metropolitan Edison	\$56.96	\$43.95	\$49.86	\$71.65	\$74.52	5.5%
West Penn Power	\$47.74	\$42.24	\$62.64	\$38.60	\$6.21	-33.5%
Pennsylvania Electric Company	\$60.02	\$45.65	\$35.45	\$42.69	\$69.95	3.1%

Maintenance of Line Transformer per Line Transformer Plant In Service	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.0037	\$0.0045	\$0.0039	\$0.0028	\$0.0026	-6.7%
Duquesne Light Company	\$0.0001	\$0.0002	\$0.0003	\$0.0001	\$0.0001	-4.9%
PPL Electric Utilities Corporation	\$0.0043	\$0.0045	\$0.0063	\$0.0033	\$0.0048	2.2%
Panel Average	\$0.0027	\$0.0031	\$0.0035	\$0.0021	\$0.0025	-1.5%
Pennsylvania Power Company	\$0.0001	\$0.0001	\$0.0000	\$0.0000	\$0.0000	-61.7%
Metropolitan Edison	\$0.0001	\$0.0000	\$0.0000	\$0.0000	\$0.0000	-45.5%
West Penn Power	\$0.0018	\$0.0015	\$0.0013	\$0.0005	\$0.0001	-39.3%
Pennsylvania Electric Company	\$0.0001	\$0.0000	\$0.0000	\$0.0002	\$0.0000	-59.7%

Customer Assistance Expenses Per Megawatt Hours Sold	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$0.23	\$0.23	\$1.49	\$1.30	\$1.82	51.2%
Duquesne Light Company	\$0.18	\$0.20	\$1.94	\$1.64	\$1.65	55.8%
PPL Electric Utilities Corporation	\$0.35	\$0.58	\$2.07	\$2.90	\$2.87	52.3%
Panel Average	\$0.25	\$0.34	\$1.83	\$1.95	\$2.11	53.2%
Pennsylvania Power Company	\$1.21	\$2.35	\$2.73	\$3.46	\$3.63	24.6%
Metropolitan Edison	\$1.14	\$1.63	\$2.21	\$3.30	\$3.38	24.3%
West Penn Power	\$0.19	\$0.43	\$0.53	\$0.00	\$1.26	46.0%
Pennsylvania Electric Company	\$1.53	\$2.03	\$2.42	\$3.34	\$3.39	17.2%

Source: Pa PUC Annual Reports

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Customer Assistance Expenses Per Customer	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	\$5.91	\$5.70	\$37.87	\$38.79	\$43.20	48.9%
Duquesne Light Company	\$4.29	\$4.44	\$46.60	\$39.04	\$39.91	56.2%
PPL Electric Utilities Corporation	\$9.64	\$15.19	\$54.51	\$76.19	\$73.36	50.1%
Panel Average	\$6.61	\$8.44	\$46.33	\$51.34	\$52.16	51.2%
Pennsylvania Power Company	\$35.64	\$62.31	\$76.95	\$98.89	\$100.68	23.1%
Metropolitan Edison	\$29.56	\$40.10	\$55.97	\$83.30	\$82.94	22.9%
West Penn Power	\$5.45	\$11.62	\$14.89	\$0.00	\$34.67	44.8%
Pennsylvania Electric Company	\$37.38	\$46.85	\$57.82	\$79.97	\$79.83	16.4%

Average Collection Period (Days)	2008	2009	2010	2011	2012	Compound Growth
PECO Energy Company	24.39	16.13	35.15	38.31	43.91	12.5%
Duquesne Light Company	56.30	57.74	59.51	58.79	63.19	2.3%
PPL Electric Utilities Corporation	25.68	27.23	44.30	55.43	59.74	18.4%
Panel Average	35.46	33.70	46.32	50.84	55.61	9.4%
Pennsylvania Power Company	16.19	9.01	27.56	25.12	38.30	18.8%
Metropolitan Edison	14.81	16.95	12.14	28.63	34.18	18.2%
West Penn Power	22.34	22.14	22.13	27.31	32.89	8.0%
Pennsylvania Electric Company	13.84	16.32	12.39	29.51	38.33	22.6%

