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February 2, 2017

VIA e-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17105-3265

Re: Petitions of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of a Distribution System Improvement Charge, Docket Nos. P-2015-2508942, *et al.*
Office of Consumer Advocate v. Metropolitan Edison Company, *et al.*, Docket Nos. C-2016-2531040, *et al.*

Dear Secretary Chiavetta:

Enclosed for filing is the **Joint Petition for Settlement of Pending Issues** in the above-referenced matters. A copy has been served on Administrative Law Judge Joel H. Cheskis and the parties / intervenors of record in accordance with the attached Certificate of Service.

Very truly yours,

Anthony C. DeCusatis

Anthony C. DeCusatis

Enclosures

c: Per Certificate of Service (w/encls.)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITIONS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY FOR APPROVAL OF A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE	:	**Docket Nos. P-2015-2508942, *et al.***
OFFICE OF CONSUMER ADVOCATE	:	**Docket Nos. C-2016-2531040, *et al.***
v.	:	
METROPOLITAN EDISON COMPANY, *ET AL.*	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Joint Petition for Settlement of Pending Issues** on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

VIA ELECTRONIC AND/OR FIRST CLASS MAIL

The Honorable Joel H. Cheskis
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Attorneys for Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company

Dated: February 2, 2017

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508942**
Office of Consumer Advocate v. Metropolitan Edison Company	: : :	**Docket No. C-2016-2531040**
Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508936**
Office of Consumer Advocate v. Pennsylvania Electric Company	: : :	**Docket No. C-2016-2531060**
Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508931**
Office of Consumer Advocate v. Pennsylvania Power Company	: : :	**Docket No. C-2016-2531054**
Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508948**
Office of Consumer Advocate v. West Penn Power Company	: : :	**Docket No. C-2016-2531019**

JOINT PETITION FOR SETTLEMENT OF PENDING ISSUES

February 2, 2017

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EXHIBITS AND STATEMENTS IN SUPPORT

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITIONS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY FOR APPROVAL OF A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE	:	**DOCKET NOS.**	**P-2015-2508942** **P-2015-2508936** **P-2015-2508931** **P-2015-2508948**
OFFICE OF CONSUMER ADVOCATE **v.** **METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY**	:	**DOCKET NOS.**	**C-2016-2531040** **C-2016-2531060** **C-2016-2531054** **C-2015-2531019**

JOINT PETITION FOR SETTLEMENT OF PENDING ISSUES

TO THE HONORABLE JOEL H. CHESKIS, ADMINISTRATIVE LAW JUDGE:

Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (individually, a "Company" and, collectively, the "Companies"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Met-Ed Industrial Energy Users Group ("MEIUG"), the Penelec Industrial Customer Alliance ("PICA"), the Penn Power Users Group ("PPUG") and the West Penn Power Industrial Intervenors ("WPPII") (collectively, the "Joint Petitioners"), by their respective counsel, submit this Joint Petition for Settlement of Pending Issues ("Settlement") in the above-captioned proceeding and request that the Administrative Law Judge approve the Settlement without modification.[1] In support of this Settlement, the Joint Petitioners state as follows:

I. BACKGROUND

1. On February 16, 2016, the Companies filed with the Pennsylvania Public Utility Commission (the "Commission") the above-captioned Petitions requesting approval to establish and implement a Distribution System Improvement Charge ("DSIC") Rider to their respective electric tariffs to become effective as of July 1, 2016 (individually, a "Petition" and, collectively, the "Petitions").[2]

2. The Companies provided customers bill-insert notices of the filing of their respective Petitions and served copies of their Petitions on the parties to their prior base rate cases.[3]

3. Following filing and service of the Petitions, parties initiated their participation in one or more of the Companies' cases, as follows:

- On February 26, 2016, the OCA filed Answers to the Companies' Petitions as well as Complaints against those Petitions;
- On March 7, 2016, Citizens for Pennsylvania's Future ("PennFuture") and the Environmental Defense Fund ("EDF") jointly filed Petitions to Intervene in each Company's case;

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1 AK Steel Corporation ("AK Steel") and The Pennsylvania State University ("PSU") have indicated that they do not oppose the Settlement.

2 Met-Ed Tariff Electric Pa. P.U.C. No. 52; Penelec Tariff Electric Pa. P.U.C. No. 81; Penn Power Tariff Electric Pa. P.U.C. No. 36 and West Penn Tariff Electric Pa. P.U.C. No. 40.

3 The Commission's Bureau of Investigation and Enforcement did not file a notice of appearance and did not participate in any Company's case.

- Also on March 7, 2016, MEIUG, PICA, PPUG and WPPII each filed a Petition to Intervene and Answer with respect to the Petition of the Company that serves their respective members;
- On March 9, 2016, the OSBA filed a Notice of Appearance and Intervention in each of the Companies' cases as well as Answers to each of the Petitions;
- Also on March 9, 2016, PSU filed a Petition to Intervene in West Penn's case;
- On April 1, 2016, AK Steel filed a Petition to Intervene in West Penn's case[4];
- On April 4, 2016, a Complaint was filed by E. McCauley, an individual customer, with respect to Penelec's Petition; and
- On April 18, 2016, a Complaint was filed by Michelle Perry, an individual customer, with respect to Penelec's Petition.

3. In response to the filings summarized above, the Companies filed: (1) Answers denying the material averments of the OCA's Complaints; (2) Answers to the Petitions to Intervene and Replies to the New Matter set forth in the Answers of MEIUG, PICA, PPUG and WPPII; (3) Answers in opposition to EDF/PennFuture's Petition to Intervene; (4) Replies to the New Matter set forth in the joint Answers of EDF/PennFuture; (5) an Answer to the Petition to Intervene of PSU; and (6) Answers denying the material averments of the Complaints filed by Ms. McCauley and Ms. Perry.

4. On March 29, 2016, EDF/PennFuture served Interrogatories upon each of the Companies. On April 8, 2016, the Companies served Objections to the EDF/PennFuture

[4] AK Steel stated it was not taking issue with any provision of West Penn's filing.

Interrogatories. On April 19, 2016, EDF/Penn Future filed and served Motions to Dismiss the Companies' Objections and Compel Answers. On April 25, 2016, the Companies filed and served Answers to the EDF/PennFuture Motion.

5. On April 18 and May 16, 2016, the OSBA served its Interrogatory Sets I and II, respectively, on each of the Companies, to which the Companies served answers on April 28 and May 19, 2016, respectively.

6. On June 9, 2016, the Commission entered four Opinions and Orders in which it concluded for each Company as follows[5]:

> Upon review, the Commission finds that the Petition of [the Company] for a Distribution System Improvement Charge complies with the requirements of Act 11 and our Final Implementation Order. Moreover, the Commission has reviewed the filing and does not find it to be inconsistent with the applicable law or Commission policy. Subject to recoupment and/or refund pending final resolution of the matters referred herein to the OALJ, [the Company] may elect to implement a DSIC mechanism consistent with this Order on ten days' notice.

7. On June 20, 2016, each of the Companies filed a tariff supplement adding its DSIC Rider to its tariff. On July 13, 2016, the Commission's Secretary issued a single letter informing all the Companies that their respective DSIC Riders complied with the terms of the DSIC Orders.

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[5] *Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508942 and *Office of Consumer Advocate v. Metropolitan Edison Company,* Docket No. C-2016-2531040 (June 9, 2016) ("Met-Ed DSIC Order"); *Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508936 and *Office of Consumer Advocate v. Pennsylvania Electric Company*, Docket No. C-2016-2531060 (June 9, 2016) ("Penelec DSIC Order"); *Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508931 and *Office of Consumer Advocate v. Pennsylvania Power Company*, Docket No. C-2016-2531054 (June 9, 2016) ("Penn Power DSIC Order"); *Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508948 and *Office of Consumer Advocate v. West Penn Power Company*, Docket No. C-2016-2531019 (June 9, 2016) ("West Penn DSIC Order") ("DSIC Orders").

8. In Ordering Paragraph No. 4 of each of the DSIC Orders, the Commission identified issues that it was referring to the Office of Administrative Law Judge ("OALJ") for the parties to address in on-the-record proceedings and evidentiary hearings, as needed, as follows:

a. Whether certain customers taking service at transmission voltage rates should be included under the DSIC;[6]

b. Whether other customers should also be exempt from the DSIC;

c. If revenues associated with the riders in [the Company's] tariff are properly included as distribution revenues;

d. The Petition for Intervention of [MEIUG] [PICA] [PPUG] [WPPII];

e. The Joint Petition for Intervention of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund; and

f. The Joint Motion to Compel of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund and the Commission waives the fifteen (15) day timeframe restriction set forth in 52 Pa. Code § 5.342.

9. On July 25, 2016, EDF/PennFuture filed a joint Notice of Withdrawal from each of the Companies' proceedings.

10. This matter was assigned to Administrative Law Judge Joel H. Cheskis (the "ALJ") and, on July 28, 2016, the Commission issued Hearing Notices establishing consecutive Initial Prehearing Conferences for all four of the Companies' cases for Wednesday, August 10, 2016, beginning at 10:00 a.m. On July 21, 2016, the ALJ issued Prehearing Conference Orders for all four Companies. Paragraph No. 10 of the Prehearing Conference Orders provided as follows:

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6 Ordering Paragraph No. 4.a. of the Penn Power DSIC Order and the West Penn DSIC Order reads as follows: "Whether certain customers should or should not be included under the distribution system improvement charge."

> That any party wishing to remain on the service list for this case must appear at the Initial Prehearing Conference or take an affirmative step indicating their desire to remain on the service list no later than August 10, 2016. **Any party on the Commission's current service list who has not taken such actions will be removed from the service list.** (Emphasis in original.)

11. Pursuant to the Prehearing Conference Orders, Prehearing Memoranda were filed by the Companies, the OCA, the OSBA, MEIUG, PICA, PPUG, WPPII and PSU. The Prehearing Conferences were convened as scheduled at which appearances were entered by counsel on behalf of the parties that filed Prehearing Memoranda. Counsel for AK Steel informed the ALJ that, while he was unable to attend the Prehearing Conference for West Penn, he wished to remain on the active party service list on behalf of AK Steel. Pursuant to Paragraph No. 10 of the Prehearing Conference Orders regarding participation in the Companies' cases, the service list of active parties was limited to the foregoing parties.

12. In each of their respective Prehearing Memoranda, the Companies proposed consolidating the four proceedings in order to promote administrative efficiency and avoid delays and duplicative efforts that would cause the unnecessary expenditure of time and resources by the Commission, the ALJ and the parties. The proposed consolidation was discussed off the record with counsel for all the parties represented at the Prehearing Conferences, and no party objected to the consolidation. Therefore, one Prehearing Conference was held for all four proceedings, and a Consolidation Order dated August 11, 2016 was issued by the ALJ to formally consolidate the Petition and Complaint cases.

13. The Companies proposed that, in lieu of establishing a litigation schedule, the parties would: (1) schedule two or more settlement and/or technical conferences to be held between August 15 and September 15, 2016, (2) report back to the ALJ on the status of the

negotiations by September 19, 2016; and (3) if the consolidated proceedings were not the subject of a settlement, a second prehearing conference would be held between September 28 and October 20, 2016 to determine whether the submission of testimony and scheduling of an evidentiary hearing may be required. No party objected to the Companies' proposal, which was adopted by the ALJ.

14. By Scheduling Order dated August 12, 2016, the ALJ memorialized the parties' agreement on the process for attempting to reach a settlement, reporting on settlement status and holding a second Prehearing Conference, if needed. The Scheduling Order also adopted the OCA's proposed modifications to the Commission's discovery rules, addressed the possibility that a Protective Order might be requested in the future, and established rules for service of documents on the parties and the ALJ.

15. On September 19, 2016, a Status Report on Settlement Discussions was filed and served, which reported that productive discussions were in process and the Companies anticipated that substantial progress would be made in negotiations that would continue in a meeting to be held the following week.

16. On September 27, 2016, a settlement conference was held in Harrisburg. Also on September 27, 2016, the Companies, on behalf of the parties that attended the meeting, provided an interim status report, via e-mail, to the ALJ, explaining that they had materially narrowed the issues; had developed several paths forward that they were actively pursuing on remaining sub-issues; and, therefore, did not see the need to schedule a second prehearing conference at that time.

17. On October 20, 2016, a Second Formal Status Report On Settlement Discussions was filed and served on behalf of the active parties, which reported that they were reviewing a

summary of settlement terms; that active, on-going communications were taking place; that a meeting or conference call would be scheduled to continue to work through the remaining issues; and, therefore, the parties did not see the need to schedule a second prehearing conference.

18. On November 7, 2016, the Third Status Report On Settlement Discussions was filed and served, which reported that a comprehensive settlement in principle has been reached with respect to the issues assigned to the OALJ by the Commission's June 9, 2016 DSIC Orders[7] and that the settling parties[8] would submit a Joint Petition for Settlement and Supporting Statements to memorialize their agreement. Accordingly, this Joint Petition is being submitted, which sets forth the terms of the Settlement below.

II. TERMS AND CONDITIONS OF SETTLEMENT

19. The Joint Petitioners have agreed to the following Settlement terms and conditions which are reflected, as appropriate, in the proposed Tariff Supplements (Exhibits 1-4) attached to this Joint Petition:

20. Projected Quarterly Revenues for Distribution Service will exclude the following Riders in calculating the DSIC percentage:

a. Default Service Support Rider (for all Companies);

b. NUG [Non-Utility Generation] Rider (for Met-Ed and Penelec, which are the only Companies with NUG Riders); and

c. Solar Photovoltaic Rider (for Met-Ed, Penelec, and Penn Power, which are the only Companies with Solar Photovoltaic Riders).

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7 The Settlement does not extend to, or resolve, any additional issues that the Commission may assign to the docket numbers for this proceeding. *See* Section IV, *infra*.

8 As previously noted, PSU and AK Steel are not Joint Petitioners but do not oppose the Settlement.

21. With respect to Penelec Rate Schedules GP and LP, the Company clarifies, confirms and agrees that, consistent with current practice, only those customers served at voltages over 46 kV are excluded from the application of the DSIC.

22. Any customers taking service under the second paragraph of the Availability/Applicability section of Penelec's Partial Service Rider (which applies to customers taking service at a voltage level that is less than 115 kV but are served directly from a source with voltage of 115 kV or greater through a single transformation) are excluded from the DSIC because such customers pay an investment charge for the facilities connecting the 115 kV or higher source and their location and are deemed to be Transmission-level customers.

23. With respect to Penn Power Rate Schedules GT and GSDS, the Company clarifies, confirms and agrees that, consistent with current practice, only those customers served at voltages over 69 kV are excluded from the application of the DSIC.

24. With respect to West Penn Power, if DSIC revenues billed to one or more Rate 40 customers receiving service by a single transformation from a transmission line operating at 100 kV or greater through a substation located on the customer's premises or within 2500 feet of the customer's premises exceed $750 per month, WPPII may file a Notice to reopen the issue of the application of the DSIC to Rate 40 customers that meet the previously-described criteria and, upon filing of such a Notice, (1) discussions among the parties to resolve this issue shall be reconvened promptly; and (2) if an impasse is reached and the issue cannot be resolved by negotiations among the parties, WPPII may reinstate the portion of its challenge to the Petition relating to this issue. Any refunds, recoupment and/or reallocation of customer payment responsibility for the DSIC that result from a Commission decision entered at the conclusion of the process described above shall be effective only for charges under the DSIC billed from and

after the date of the first quarterly update of the DSIC after such Order is entered unless the parties expressly agree otherwise.

25. The DSIC Rider for Met-Ed will be revised to provide that the DSIC will not apply to customers on Rate TP served at Transmission Voltage. If DSIC revenues billed to one or more Rate TP customers receiving service voltages other than Transmission Voltage exceed $750 per month, MEIUG may file a Notice to reopen the issue of the application of the DSIC to such customers and, upon filing of such a Notice, (1) discussions among the parties to resolve this issue shall be reconvened promptly; and (2) if an impasse is reached and the issue cannot be resolved by negotiations among the parties, MEIUG may reinstate the portion of its challenge to the Petition relating to this issue. Any refunds, recoupment and/or reallocation of customer payment responsibility for the DSIC that result from a Commission decision entered at the conclusion of the process described above shall be effective only for charges under the DSIC billed from and after the date of the first quarterly update of the DSIC after such Order is entered unless the parties expressly agree otherwise.

26. Modifications to the existing DSIC charge will begin to apply when the Companies become eligible to begin to charge the DSIC after the DSIC is reduced to zero at the conclusion of their pending base rate cases at Docket Nos. R-2016-2537349 (Met-Ed), R-2016-2537342 (Penelec), R-2016-2537355 (Penn Power) and R-2016-2537359 (West Penn).[9]

27. Within 90 days of the Commission's entering an Order approving this Settlement, the Companies will meet with representatives of MEIUG, PICA, PPUG and WPPII to develop a

[9] Joint Petitions for Partial Settlements of the Companies base rate cases were filed on October 14, 2016. On November 21, 2016, the presiding Administrative Law Judge issued a Recommended Decision recommending adoption and approval of the settlements. If approved by the Commission, the settlement rates reflected in the Joint Petitions would become effective on January 27, 2017. The Companies' base rate cases were developed on the basis of a fully projected future test year ending December 31, 2017.

process to provide, for each year of the remaining term of their current Long-Term Infrastructure Improvement Plans ("LTIIPs"), annual, and annually updated, estimates of the impact of the DSIC on the members of those groups.

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST

28. The Companies, the OCA, the OSBA, and MEIUG/PICA/PPUG/WPPII have prepared, and attached to this Joint Petition, Statements in Support identified as Statements A through D, respectively, setting forth in greater detail the bases on which they believe the Settlement is in the public interest. The Statements in Support will explain why each Joint Petitioner believes that the Settlement is reasonable and supported by substantial evidence.

29. The Joint Petitioners submit that the Settlement is in the public interest for the following additional reasons:

- ***Substantial Litigation And Associated Costs Will Be Avoided***. The Settlement amicably and expeditiously resolves a number of important and contentious issues assigned to the OALJ by the June 9, 2016 DSIC Orders. The administrative burden and costs to litigate these matters to conclusion would be substantial.
- ***The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements***. The Joint Petitioners arrived at the Settlement terms after conducting discovery and engaging in in-depth discussions. The Settlement terms and conditions constitute a carefully crafted package representing reasonable negotiated compromises on the issues addressed herein. Thus, the Settlement is consistent with the Commission's rules and

practices encouraging negotiated settlements (see 52 Pa. Code §§ 5.231 and 69.391), and is supported by substantial record evidence.

IV. ADDITIONAL TERMS AND CONDITIONS

30. The Settlement encompasses and resolves only those issues that were assigned to the OALJ by the DSIC Orders entered on June 9, 2016 for this consolidated proceeding (the "DSIC Docket Numbers"). The Joint Petitioners acknowledge and agree that the Settlement does not extend to, or resolve, additional issues the Commission may assign to the OALJ at the DSIC Docket Numbers. Additionally, the Joint Petitioners agree, and hereby request, that the DSIC Docket Numbers not be marked closed until the latter of: (1) the entry of a Final Order approving the Settlement; (2) the entry of a Final Order or Final Orders in the Companies' base rate cases at Docket Nos. R-2016-2537349 (Met-Ed), R-2016-2537342 (Penelec), R-2016-2537355 (Penn Power) and R-2016-2537359 (West Penn) conclusively determining that no additional DSIC-related issues are to be assigned to the DSIC Docket Numbers; or (3) if additional DSIC-related issues are assigned to the DSIC Docket Numbers, the entry of a final, nonappealable order that decides and resolves such issues. It is also acknowledged and understood that, if additional DSIC-related issues are assigned to the DSIC Docket Numbers, the Settlement shall not restrict, compromise or otherwise affect the Joint Petitioners' rights to litigate such issues by, *inter alia*, conducting discovery, submitting testimony, participating in evidentiary hearings, filing main and rely briefs, and filing exceptions and rely exceptions, all in accordance with the schedule and procedures that may be established by the presiding Administrative Law Judge and the Commission.

31. The Commission's approval of the Settlement shall not be construed as approval of any party's position on any issue, except to the extent required to effectuate the terms and

agreements of the Settlement. Accordingly, this Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

32. It is understood and agreed among the Joint Petitioners that the Settlement is the result of compromise and does not necessarily represent the position(s) that would be advanced by any party in this or any other proceeding, if it were fully litigated.

33. This Settlement is being presented only in the context of this proceeding in an effort to resolve the issues encompassed by the Settlement in a manner that is fair and reasonable. This Settlement is presented without prejudice to any position which any of the parties may have advanced and without prejudice to the position any of the parties may advance in the future on the merits of the issues in future proceedings, except to the extent necessary to effectuate the terms and conditions of this Settlement.

34. This Settlement is conditioned upon the Commission's approval of the terms and conditions contained herein without modification. If the Commission should disapprove the Settlement or modify the terms and conditions herein, this Settlement may be withdrawn upon written notice to the Commission and all active parties within five business days following entry of the Commission's Order by any of the Joint Petitioners and, in such event, shall be of no force and effect. In the event that the Commission disapproves the Settlement or the Company or any other Joint Petitioner elects to withdraw as provided above, the Joint Petitioners reserve their respective rights to fully litigate this case, including but not limited to presentation of witnesses, cross-examination and legal argument through submission of Briefs, Exceptions and Replies to Exceptions.

35. If the ALJ, in his Recommended Decision, recommends that the Settlement be adopted as herein proposed without modification, the Joint Petitioners agree to waive the filing

of Exceptions. However, the Joint Petitioners do not waive their rights to file Exceptions with respect to any modifications to the terms and conditions of this Settlement, or any additional matters proposed by the ALJ in his Recommended Decision. The Joint Petitioners also reserve the right to file Replies to any Exceptions that may be filed.

WHEREFORE, the Joint Petitioners, by their respective counsel, respectfully request that the Administrative Law Judges enter a Recommended Decision and the Commission enter an Order approving the Settlement as set forth herein, including all terms and conditions thereof and authorize the Companies to file tariff supplements in the form attached hereto as Exhibits 1-4 to reflect changes necessitated by the Settlement. Additionally, the Joint Petitioners request that the consolidated Docket Numbers, P-2015-2508942, C-2016-2531040, P-2015-2508936, C-2016-2531060, P-2015-2508931, C-2016-2531054, P-2015-2508948 and C-2016-2531019, not be marked closed except upon the conditions expressly set forth in Paragraph No. 30, *supra*.

Respectfully submitted,

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Dated: February 2, 2017

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DB1/ 89743258.7

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DB1/ 89743258.6

EXHIBIT 1

Metropolitan Edison Company
Tariff Supplement

METROPOLITAN EDISON COMPANY

READING, PENNSYLVANIA

Electric Service Tariff

Effective in

**The Territory as Defined on
Page Nos. 8 - 10 of this Tariff**

Issued: January XX, 2017 **Effective: XX**

**By: Steven E. Strah, President
Reading, Pennsylvania**

NOTICE

Supplement No. XX makes changes to Rider R.
See XX Revised Page No. 2.

LIST OF MODIFICATIONS

Riders

Rider R – Distribution System Improvement Charge (DSIC) – The DSIC Rider has been changed (See XX Revised Page 175, 176, 177, 178 and XX Page 179).

RIDERS

RIDER R
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

In addition to the net charges provided for in this Tariff, a charge of X.XX% will apply consistent with the Commission Order dated XX at Docket No. P-2015-2508942, approving the Distribution System Improvement Charge ("DSIC"). This charge will be effective during the period XX to XX.

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

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

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

   - Poles and towers (account 364);

   - Overhead conductors (account 365) and underground conduit and conductors (accounts 366 and 367);

   - Line transformers (account 368) and substation equipment (account 362);

   - Any fixture or device related to eligible property listed above, including insulators, circuit breakers, fuses, reclosers, grounding wires, crossarms and brackets, relays, capacitors, converters and condensers;

   - Unreimbursed costs related to highway relocation projects where an electric distribution company must relocate its facilities; and

   - Other related capitalized costs.

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

Rider R (Continued)

2. Computation of the DSIC

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

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

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

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

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

Rider R (Continued)

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

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

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

Where:

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

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

RIDERS

Rider R (Continued)

3. Quarterly Updates:

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

4. Customer Safeguards

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

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

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

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

E. Customer classes: Effective July 1, 2016, the DSIC shall be applied equally to all customer classes except Rate Schedule TP Customers served at Transmission Voltage.

RIDERS

Rider R (Continued)

F. Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Utility would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs.

G. Residual E-Factor Recovery Upon Reset to Zero: The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any over collection to Customers and is entitled to recover any under collections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

EXHIBIT 2

Pennsylvania Electric Company
Tariff Supplement

PENNSYLVANIA ELECTRIC COMPANY

READING, PENNSYLVANIA

Electric Service Tariff

Effective in

**The Territory as Defined on
Page Nos. 8 - 15 of this Tariff**

Issued: January XX, 2017 **Effective: XX, XX**

**By: Steven E. Strah, President
Reading, Pennsylvania**

NOTICE

Supplement No. XX makes changes to Rider R.
See XX Revised Page No. 2.

LIST OF MODIFICATIONS

Riders

Rider R – Distribution System Improvement Charge (DSIC) - Rider has been changed (See XX Revised Page 182, 183, 184, 185 and XX Page 186).

RIDERS

RIDER R
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

In addition to the net charges provided for in this Tariff, a charge of X.XX% will apply consistent with the Commission Order dated June 9, 2016 at Docket No. P-2015-2508936, approving the Distribution System Improvement Charge ("DSIC"). This charge will be effective during the period XX through XX.

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

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

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

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

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

RIDERS

Rider R (Continued)

2. Computation of the DSIC

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

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

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

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

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

Rider R (Continued)

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

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

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

Where:

DSI	=	Original cost of eligible distribution system improvement projects net of accrued depreciation.
PTRR	=	Pre-tax return rate applicable to DSIC-eligible property.
Dep	=	Depreciation expense related to DSIC-eligible property.
e	=	Amount calculated (+/-) under the annual reconciliation feature or Commission audit, as described below.
PQR	=	Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers, excluding customers served under Company's Rate Schedule GP and LP over 46,000 volts; and any Customer taking service under Paragraph 2 of Rider L – Partial Service Rider, plus revenue from any customers which will be acquired by the beginning of the applicable service period.
T	=	Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

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

Rider R (Continued)

3. Quarterly Updates:

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

4. Customer Safeguards:

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

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

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

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

   E. Customer classes: Effective July 1, 2016, the DSIC shall be applied equally to all customer classes except Rate Schedule GP over 46,000 volts and LP over 46,000 volts; and any Customer taking service under Paragraph 2 of Rider L – Partial Service Rider.

Rider R (Continued)

F. Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Utility would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs.

G. Residual E-Factor Recovery Upon Reset to Zero: The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any over collection to Customers and is entitled to recover any under collections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

EXHIBIT 3

Pennsylvania Power Company
Tariff Supplement

PENNSYLVANIA POWER COMPANY

READING, PENNSYLVANIA

Electric Service Tariff

Effective in

The Territory as Defined on
Page Nos. 8 - 9 of this Tariff

Issued: **January XX, 2017** **Effective: XX, XX**

By: **Steven E. Strah, President**
Reading, Pennsylvania

NOTICE

Supplement 23 makes changes to Rider O.
See XX Revised Page 2

LIST OF MODIFICATIONS

Riders

Rider O – Distribution System Improvement Charge (DSIC) – The DSIC language has been changed (See First Revised Page 160, 161, 162, 163 and Original Page 164).

RIDER O
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

In addition to the net charges provided for in this Tariff, a charge of X.XX% will apply consistent with the Commission Order dated June 9, 2016 at Docket No. P-2015-2508931, approving the Distribution System Improvement Charge ("DSIC"). This charge will be effective during the period XX through XX.

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

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

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

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

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

Rider O (Continued)

2. Computation of the DSIC

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

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

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

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

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

Rider O (Continued)

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

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

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

Where:

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

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

Rider O (Continued)

3. Quarterly Updates:

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

4. Customer Safeguards

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

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

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

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

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

Rider O (Continued)

F. Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Utility would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs.

G. Residual E-Factor Recovery Upon Reset to Zero: The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any over collection to Customers and is entitled to recover any under collections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

EXHIBIT 4

West Penn Power Company
Tariff Supplement

DSIC Settlement Petition
Exhibit 4

WEST PENN POWER COMPANY

READING, PENNSYLVANIA

Electric Service Tariff

Effective in

The Territory as Defined on
Page Nos. 7 - 14 of this Tariff

Issued: January XX, 2017 **Effective: XX, XX**

By: Steven E. Strah, President
Reading, Pennsylvania

NOTICE

Supplement No. 22 makes changes to Rider N.
See XX Revised Page 2.

LIST OF MODIFICATIONS

Riders

Rider N – Distribution System Improvement Charge (DSIC) – The DSIC language has been changed (See First Revised Page 205, 206, 207, 208 and Original Page 209).

RIDERS
RIDER N
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE

In addition to the net charges provided for in this Tariff, a charge of X.XX**%** will apply consistent with the Commission Order dated June 9, 2016 at Docket No. P-2015-2508931, approving the Distribution System Improvement Charge ("DSIC"). This charge will be effective during the period XX through XX.

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

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

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

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

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

RIDERS

Rider N (Continued)

2. Computation of the DSIC

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

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

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

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

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

Rider N (Continued)

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

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

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

Where:

DSI	=	Original cost of eligible distribution system improvement projects net of accrued depreciation.
PTRR	=	Pre-tax return rate applicable to DSIC-eligible property.
Dep	=	Depreciation expense related to DSIC-eligible property.
e	=	Amount calculated (+/-) under the annual reconciliation feature or Commission audit, as described below.
PQR	=	Projected quarterly revenues for distribution service (including all applicable clauses and riders) from existing customers, excluding customers served under the Company's Rate Schedule 40 over 100,000 volts and Rate Schedule 44 and 46, plus revenue from any customers which will be acquired by the beginning of the applicable service period.
T	=	Pennsylvania gross receipts tax rate in effect during the billing month, expressed in decimal form.

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

Rider N (Continued)

3. Quarterly Updates:

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

4. Customer Safeguards

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

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

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

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

   E. Customer classes: Effective July 1, 2016, the DSIC shall be applied equally to all customer classes except Rate Schedule 40 equal to or greater than 100,000 volts, and Rate Schedules 44 and 46.

RIDERS

Rider N (Continued)

F. Earning Reports: The DSIC will also be reset at zero if, in any quarter, data filed with the Commission in the Company's then most recent Annual or Quarterly Earnings reports show that the Utility would earn a rate of return that would exceed the allowable rate of return used to calculate its fixed costs under the DSIC as described in the pre-tax return section. The Company shall file a tariff supplement implementing the reset to zero due to overearning on one-day's notice and such supplement shall be filed simultaneously with the filing of the most recent Annual or Quarterly Earnings reports indicating that the Company has earned a rate of return that would exceed the allowable rate of return used to calculate its fixed costs.

G. Residual E-Factor Recovery Upon Reset to Zero: The Company shall file with the Commission interim rate revisions to resolve the residual over/under collection or E-factor amount after the DSIC rate has been reset to zero. The Company can collect or credit the residual over/under collection balance when the DSIC rate is reset to zero. The Company shall refund any over collection to Customers and is entitled to recover any under collections as set forth in Section 4.B. Once the Company determines the specific amount of the residual over or under collection amount after the DSIC rate is reset to zero, the Company shall file a tariff supplement with supporting data to address that residual amount. The tariff supplement shall be served upon the Commission's Bureau of Investigation and Enforcement, the Bureau of Audits, the Office of Consumer Advocate and the Office of Small Business Advocate at least ten (10) days prior to the effective date of the supplement.

STATEMENT IN SUPPORT
OF
METROPOLITAN EDISON COMPANY
PENNSYLVANIA ELECTRIC COMPANY
PENNSYLVANIA POWER COMPANY
WEST PENN POWER COMPANY

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508942**
Office of Consumer Advocate v. Metropolitan Edison Company	: : :	**Docket No. C-2016-2531040**
Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508936**
Office of Consumer Advocate v. Pennsylvania Electric Company	: : :	**Docket No. C-2016-2531060**
Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508931**
Office of Consumer Advocate v. Pennsylvania Power Company	: : :	**Docket No. C-2016-2531054**
Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508948**
Office of Consumer Advocate v. West Penn Power Company	: : :	**Docket No. C-2016-2531019**

STATEMENT OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT

February 2, 2017

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITIONS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY FOR APPROVAL OF A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE	:	**DOCKET NOS.**	**P-2015-2508942** **P-2015-2508936** **P-2015-2508931** **P-2015-2508948**
OFFICE OF CONSUMER ADVOCATE **v.** **METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY**	:	**DOCKET NOS.**	**C-2016-2531040** **C-2016-2531060** **C-2016-2531054** **C-2015-2531019**

STATEMENT OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT

TO THE HONORABLE JOEL H. CHESKIS, ADMINISTRATIVE LAW JUDGE:

I. INTRODUCTION

Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (individually, a "Company" and, collectively, the "Companies") submit this Statement in Support with respect to the Joint Petition for Settlement ("Joint Petition") entered into by and among the following:

- Office of Consumer Advocate ("OCA");
- Office of Small Business Advocate ("OSBA");
- Met-Ed Industrial Energy Users Group ("MEIUG");
- Penelec Industrial Customer Alliance ("PICA");
- Penn Power Users Group ("PPUG"); and
- West Penn Power Industrial Intervenors ("WPPII").

(All of the above, collectively, with the Companies, the "Joint Petitioners".)

If the settlement set forth in the Joint Petition (the "Settlement") is approved, it will resolve in a reasonable fashion the three narrow issues that the Pennsylvania Utility Commission ("PUC" or the "Commission") assigned to the Office of Administrative Law Judge ("OALJ") in its Opinions and Orders entered on June 9, 2016 at the above-referenced dockets.[1]

In the DSIC Orders, the Commission found and determined as follows:

> Upon review, the Commission finds that the Petition of [the Company] for a Distribution System Improvement Charge complies with the requirements of Act 11 and our Final Implementation Order. Moreover, the Commission has reviewed the filing and does not find it to be inconsistent with the applicable law or Commission policy. Subject to recoupment and/or refund pending final resolution of the matters referred herein to the OALJ, [the Company] may elect to implement a DSIC mechanism consistent with this Order on ten days' notice.

On June 20, 2016, each of the Companies filed a tariff supplement adding its approved DSIC Rider to its tariff. On July 13, 2016, the Commission's Secretary issued a single letter informing all the Companies that their respective DSIC Riders complied with the terms of the DSIC Orders.

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[1] *Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508942 (June 9, 2016) ("Met-Ed DSIC Order"); *Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508936 (June 9, 2016) ("Penelec DSIC Order"); *Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508931 (June 9, 2016) ("Penn Power DSIC Order"); *Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge*, Docket No. P-2015-2508948 (June 9, 2016) ("West Penn DSIC Order") ("DSIC Orders").

In Ordering Paragraph No. 4 of each of the DSIC Orders, the Commission identified issues that it was referring to the OALJ for the parties to address in on-the-record proceedings and evidentiary hearings, as needed, as follows:

> a. Whether certain customers taking service at transmission voltage rates should be included under the DSIC;
>
> b. Whether other customers should also be exempt from the DSIC;
>
> c. If revenues associated with the riders in [the Company's] tariff are properly included as distribution revenues;
>
> d. The Petition for Intervention of [MEIUG] [PICA] [PPUG] [WPPII];
>
> e. The Joint Petition for Intervention of the [Citizens] for Pennsylvania's Future and the Environmental Defense Fund; and
>
> f. The Joint Motion to Compel of the [Citizens] for Pennsylvania's Future and the Environmental Defense Fund and the Commission waives the fifteen (15) day timeframe restriction set forth in 52 Pa. Code § 5.342.[2]

This matter was assigned to Administrative Law Judge Joel H. Cheskis (the "ALJ") and, on July 28, 2016, the Commission issued Hearing Notices establishing consecutive Initial Prehearing Conferences for all four of the Companies' cases for Wednesday, August 10, 2016, beginning at 10:00 a.m. On July 21, 2016, the ALJ issued Prehearing Conference Orders for all four Companies. The four proceedings were consolidated, and one Prehearing Conference was held. A detailed procedural history of the consolidated proceedings is provided in the Joint Petition. As also explained in the Joint Petition, the Joint Petitioners have reached the Settlement, which is unopposed and provides a reasonable resolution of the three issues identified in the DSIC Orders.

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2 On July 25, 2016, Citizens for Pennsylvania's Future and the Environmental Defense Fund filed a joint Notice of Withdrawal from each of the Companies' proceedings.

II. SUMMARY OF SETTLEMENT TERMS AND WHY THEY ARE REASONABLE AND IN THE PUBLIC INTEREST

A. Projected Quarterly Revenues for Distribution Service (Joint Petition ¶ 20)

Section 1358(a)(1) of the Public Utility Code, 66 Pa.C.S. § 1358(a)(1), provides that the DSIC "may not exceed 5% of the amount billed to customers under the . . . distribution rates of the electric company . . ." In *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Final Order entered August 12, 2012) ("*Final Implementation Order*"), the Commission set forth a Model Tariff that utilities seeking to implement a DSIC were directed to adopt. The Model Tariff provides that "PQR = Projected quarterly revenues for distribution service (including all applicable clauses and riders) . . ." The Commission provided further direction on what constitutes "applicable clauses and riders" in *Petition of PPL Electric Utilities Corporation for Approval of a Distribution System Improvement Charge*, Docket No. P-2012-2325034 (April 9, 2015), pp. 47-63 ("*PPL DSIC Order*") and in its Order on reconsideration of the *PPL DSIC Order* entered on October 1, 2015..

MEIUG, PICA, PPUG, WPPII (collectively, the "Industrial Intervenors") and the OSBA raised issues concerning which clauses and riders in the Companies' tariffs should be included in their PQRs and used to determine the 5% "cap" under Section 1358(a). This issue was explored further through two sets of interrogatories propounded by the OSBA to develop information about the clauses and riders in the Companies' tariffs. As explained in the response to OSBA Interrogatory (Set I) No. 1, the Companies proposed that revenues included in the PQR and used to determine the 5% cap would include the following:

Met-Ed	Penelec	Penn Power	West Penn
Universal Service Cost Rider	Universal Service Cost Rider	Universal Service Cost Rider	Universal Service Cost Rider

Phase II Energy Efficiency and Conservation Charge Rider	Phase II Energy Efficiency and Conservation Charge Rider	Phase II Energy Efficiency and Conservation Charge Rider	Phase II Energy Efficiency and Conservation Charge Rider
Smart Meter Technology Charge	Smart Meter Technology Charge	Smart Meter Technology Charge	Smart Meter Technology Charge
Default Service Support Charge	Default Service Support Charge	Default Service Support Charge	Default Service Support Charge
Solar Photovoltaic Requirements Charge	Solar Photovoltaic Requirements Charge	Solar Photovoltaic Requirements Charge	
Non-Utility Generation ("NUG") Charge	Non-Utility Generation Charge		

Pursuant to Paragraph No. 20 of the Joint Petition, the settling parties have agreed that distribution revenues for purposes of the PQR used in calculating DSIC charges billed after the effective date of new base rates (*see* Section B., Joint Petition ¶ 26, *infra*) and to determine the 5% cap after that date will not include: (1) as to all Companies, revenues billed under the Default Service Support Charge; (2) as to Met-Ed, Penelec and Penn Power, revenues billed under the Solar Photovoltaic Requirements Charge; and (3) as to Met-Ed and Penelec, revenues billed under the NUG Charge.

As to the Default Service Support Charge, the Companies believe that there are portions of the revenues billed under that Rider that are distribution-related, although they represent only a small portion of the total revenues collected thereunder. For that reason and because, in the Companies' judgment, implementing the administrative changes necessary to separate the distribution revenues for DSIC billing purposes would not be cost-justified, the Companies have agreed to exclude all of the Default Service Support Charge revenue from their PQRs and in calculating their 5% DSIC caps.

The Solar Photovoltaic Requirements Charge recovers the cost of acquiring Solar Alternative Energy Credits ("SAECs") for both default service and generation supplied by electric generation suppliers. As a consequence, the charge is imposed on a non-bypassable basis to all distribution customers, which is one of the factors the Commission identified in the *PPL DSIC Order* as weighing in favor of including amounts billed under a rider in distribution revenue. However, this charge arguably recovers SAECs that are associated with the provision of generation service. Therefore, in order to resolve this issue amicably, and given the small amount billed under this charge relative to their total distribution revenue, Met-Ed, Penelec and Penn Power have agreed to exclude revenues from their Solar Photovoltaic Requirements Charge from their PQRs and from the calculation of the 5% caps on the DSIC.

The NUG charge – or, more accurately, the NUG charge or credit – is billed by Met-Ed and Penelec to reflect the difference between: (1) the price they pay for electricity purchased under pre-restructuring NUG contracts entered into, with Commission approval, pursuant to the Public Utility Regulatory Policies Act, 16 U.S.C. §§ 2602 *et seq.*; and (2) the market price of such electricity sold into the PJM Interconnection L.L.C. ("PJM") energy and capacity markets. If the market price obtained for NUG energy and capacity exceeds the contract price, the differential is returned to all distribution customers through bill credits. If the market price obtained for NUG energy and capacity is less than the contact price, then the difference is recovered from all distribution customers through a charge. Although the NUG credits/charges are billed on a non-bypassable basis, Met-Ed and Penelec, for purposes of amicably resolving this issue, have agreed to exclude the revenue effect of the NUG Rider in calculating their PQRs and DSIC caps. In that regard, Met-Ed's last NUG contract will expire as of December 31, 2016, and Penelec's last NUG contract will expire as of May 15, 2020. Following the expiration of those NUG contracts, the NUG charge/credit for each of Met-Ed and Penelec will be zero.

B. Rate Schedules To Which The DSIC Applies (Joint Petition ¶¶ 21-25)

In the *Final Implementation Order* (p. 46), the Commission provided general guidance regarding the application of the DSIC to customers that receive electric service "at transmission voltage." Specifically, the Commission agreed with the Energy Association of Pennsylvania and others who submitted comments that "a DSIC surcharge should not be applied to such customers," while acknowledging that the difference between distribution and transmission voltage "varies by EDC." Accordingly, the Commission stated that it expected "each EDC proposing a DSIC to address this issue in its tariff." As the Commission recognized, deciding the categories of customers to whom the DSIC should not apply is based upon factors such as the voltage level of their service and the extent of their use of the distribution system. These are company-specific and fact-specific considerations, and some degree of judgment is needed to ascertain what is reasonable given the circumstances of a particular electric distribution company and the service characteristics of its customers. In short, this is not an area where bright lines can be drawn, and the Commission recognized that some flexibility is required to tailor appropriate outcomes for each company proposing a DSIC.

Based on the Commission's guidance, the Companies proposed that the DSIC would not apply to customers receiving service at what, for each Company, is considered to be transmission voltage. However, voltage level alone is not the test for separating distribution assets subject to the PUC's jurisdiction from transmission assets subject to the PJM's Open Access Transmission Tariff. As a consequence, the Companies considered the totality of the circumstances in deciding which rate schedules and customers should be excluded from their DSICs. In so doing, the Companies recognized that, while most transmission-level customers do not use distribution facilities, there are a small number of transmission-voltage customers that are served by a limited amount of plant that is recorded as distribution assets. However, as explained by Kevin M. Siedt, who submitted direct testimony on behalf of each of the Companies,[3] the Companies' Long-Term Infrastructure Improvement Plans ("LTIIPs") do not contain any infrastructure

[3] Met-Ed Statement No. 1, p. 6.; Penelec Statement No. 1, p. 6; Penn Power Statement No. 1, p. 6; West Penn Statement No. 1, p. 6.

improvement projects for distribution facilities operating at transmission-level voltages. Therefore, the Companies' calculations of their respective DSIC rates during the five-year term of their current LTIIPs will not include any costs related to infrastructure improvements for the small amount of distribution plant operating at transmission voltage that is used to serve that small subset of transmission-level customers. Using that approach, the Companies proposed in their respective DSIC filings the following:

Met-Ed	The DSIC will not apply to customers receiving service under Rate Schedule TP.
Penelec	The DSIC will not apply to customers receiving service under Rate Schedules GP and LP at voltages over 46,000 volts.
Penn Power	The DSIC will not apply to customers receiving service under Rate Schedules GSDS and GT at voltages over 69,000 volts.
West Penn	The DSIC will not apply to customers receiving service under Rate Schedule 40 at voltage levels of 100,000 volts or greater and Rate Schedules 44 and 46.

As evidenced by the issues assigned to the OALJ, the OCA questioned whether the DSIC should apply to some of the customers the Companies proposed to exclude from the DSIC, while the Industrial Intervenors questioned whether the exclusion should be expanded to cover other customers who, while served at distribution voltages, used very little of the Companies' distribution systems. Paragraph Nos. 21-25 of the Joint Petition provide the Joint Petitioners' resolution of such issues, as explained below.

Joint Petition ¶ 21. Paragraph No. 21 was included in the Joint Petition to clarify and confirm the terms of Penelec's DSIC Rider and Penelec's current practice that only customers served on Rate Schedules GP and LP at voltages over 46 kV (i.e., not all customers on those rate schedules) are excluded from the application of Penelec's DSIC. For Penelec, voltages above 46 kV are Transmission Voltage as defined in its Electric Service Tariff.

Joint Petition ¶ 22. Penelec has a Partial Service Rider under which customers with their own generation may obtain Back-Up and Maintenance service when their generation is not operating. In order to address specific conditions that exist on Penelec's system, its Partial Service Rider provides as follows:

> For any Customer taking backup and maintenance service from the Company as of January 1, 2015, the following applies: Customers who take service at a voltage level less than 115,000 volts but are served directly from an 115,000 volt or greater source through a single transformation shall be billed by the Company for backup and maintenance service at the transmission voltage charges plus a monthly fee equal to 1% of the net investment in such facilities owned by the Company at such lower volts that are dedicated to providing service to such Customer.

The foregoing language provides that a customer taking service through a single transformation from a source operating at 115 kV or higher voltage will be deemed to take service at transmission voltage because it is required to pay a separate charge for the facilities operating at lower-than-transmission voltage that are used to serve it. Because such customers pay a separate charge for all of the distribution-level investment used to service them – and, therefore, are otherwise billed as transmission level customers – the Joint Petitioners agreed that it would not be reasonable to also charge such customers the DSIC. In short, they are already paying for all of the facilities, and improvements to those facilities, that they use through the aforementioned monthly charge.

Joint Petition ¶ 23. Paragraph No. 23 was included in the Joint Petition to clarify and confirm the terms of Penn Power's existing DSIC Rider and Penn Power's current practice that only customers served on Rate Schedules GT and GDS at voltages over 69 kV (i.e., not all customers on those rate schedules) are excluded from the application of Penn Power's DSIC. For Penn Power, voltages above 69 kV are Transmission Voltage as defined in its Electric Service Tariff.

Joint Petition ¶ 24. As previously explained, West Penn proposed that its DSIC not apply to customers receiving service under Rate Schedule 40 at voltage levels at or above 100,000 volts and Rate Schedules 44 and 46. (For West Penn, voltage levels at or above 100 kV constitute Transmission Voltage under its Electric Service Tariff.) The Joint Petitioners were in agreement that the DSIC should not apply to Rate Schedules 44 and 46.

WPPII questioned whether some customers served on Rate 40 at less than 100 kV should also be excluded from the DSIC because they received power from a source operating at Transmission Voltage that was reduced to distribution voltage by a single transformation through a substation located on the customer's premises or within 2,500 feet of the customer's premises. WPPII contended that such customers use such a small part of West Penn's distribution system that they should be exempted from paying the DSIC.

West Penn analyzed the WPPII members that fit the criteria identified by WPPII and determined that the impact of the DSIC on such customers would be small.[4] WPPII was willing to forego its challenge but did not want to do so in a manner that would have preclusive effect on a possible future challenge to applying the DSIC to customers that meet the criteria identified above if, for some reason, the DSIC ceased to have only a negligible impact on its WPPII's members. To resolve this issue in a reasonable fashion and avoid the entry of an Order approving the Settlement that would prejudice WPPII's ability to revisit this issue in the future, the Joint Petitioners agreed to Paragraph No. 24 of the Joint Petition.

Paragraph No. 24 provides that WPPII cannot challenge the application of the DSIC to the category of customers it proposed to exclude from the DSIC unless and until the DSIC charge exceeds $750 per month for a customer that is part of the WPPII group. If that condition

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4 The Companies' DSIC charge will be reduced to zero on January 27, 2017, which will be the effective date of new base rates established in their pending base rate proceedings. In those proceedings, the Companies employed fully projected future test years ending December 31, 2017.

arises, WPPII can file a Notice to reopen the issue. The balance of Paragraph No. 24 describes the agreed-upon process to be followed if such a Notice is filed, which commits the settling parties to first attempt to resolve the issue amicably. Additionally, the settling parties agree that any refunds, recoupment and/or reallocation of customer payment responsibility for the DSIC that may result from a Commission decision entered at the conclusion of the process described above shall be effective only for charges under the DSIC billed from and after the date of the first quarterly update of the DSIC after such Order is entered unless the parties expressly agree otherwise.

Joint Petition ¶ 25. Paragraph No. 25 provides that the DSIC will not apply to customers served on Met-Ed Rate TP that receive service at Transmission Voltage. There are only a few customers on Rate TP that receive service at voltages below transmission level, which were "grandfathered" to that rate. MEIUG questioned whether the DSIC should apply to customers served on Rate TP at less than Transmission Voltage. Met-Ed's analysis indicated that, for the few customers in that category, the amount they would be billed under the DSIC would be *de minimis*. To resolve this issue in a reasonable fashion without a Commission Order approving the Settlement that precluded a future challenge by MEIUG, the Joint Petitioners agreed to terms for Met-Ed that mirror those agreed to for West Penn in Paragraph No. 24 of the Joint Petition, which were explained above.

Joint Petition ¶ 26. On April 28, 2016, each of the Companies filed a general base rate case with a suspension period ending January 27, 2017. Pursuant to Section 1358(b)(1) of the Public Utility Code, 66 Pa.C.S. § 1358(b)(1), the Companies' DSIC charges will be reset to zero on the effective date of new base rates (except to the extent necessary to reconcile prior period costs and revenues). Since the DSIC only became effective for the Companies as of July 1, 2016, the DSIC will have been in place for a limited time before being reset to zero. And, during that period, the DSIC charges will have been relatively small. Given the limited application and low rate of the existing DSIC, Paragraph No. 26 provides that modifications to the existing DSIC charge pursuant to the terms of the Settlement will not begin to apply until the Companies become eligible to charge the DSIC again after it is reduced to zero at the conclusion of their base rate cases[5] and, therefore, DSIC charges billed prior to that date will not be subject to refund, recoupment or rebilling. The effect of modifications pursuant to the Settlement will be small – indeed, so small that they could not justify the cost of calculating and implementing credits and charges to reflect the changes in certain customer classes' DSIC charges that might flow from such modifications.

Paragraph No. 27. The Companies agree to meet with the Industrial Intervenors to develop a process to provide, for each year of the remaining term of the current LTIIPs, annual estimates of the impact of the DSIC on the Industrial Interveners' members. This process will help the membership of the Industrial Intervenors with their planning and budgeting.

Paragraph No. 30. In the Companies' general base rate cases, an issue was raised by the OCA concerning the calculation of DSIC quarterly charges – specifically, whether accumulated deferred income taxes ("ADIT") should be deducted from the original cost of "eligible property" to calculate the "fixed costs" of such property recoverable under the DSIC (hereafter, the "ADIT/DSIC Issue"). Settlements were reached with respect to each of the Companies' base rate cases that resolved all issues except the ADIT/DSIC Issue, which was reserved for briefing. In addition to demonstrating that the OCA's position on the ADIT/DSIC Issue was wrong on the merits, the Companies' briefs explained why the ADIT/DSIC Issue was not appropriately addressed in a base rate proceeding.

[5] As previously noted, in those base rate cases, the Companies employed fully projected future test years ending December 31, 2017.

On November 21, 2016, Administrative Law Judge Mary D. Long, who presided in the Companies' consolidated base rate cases, issued her Recommended Decision approving the settlement, recommending that the ADIT/DSIC Issue be addressed outside of the Companies' base rate cases, and also suggesting to the Commission that it would be appropriate to assign the ADIT/DSIC Issue to this proceeding. The OCA filed Exceptions to Judge Long's Recommended Decision on December 1, 2016, and the Companies filed Reply Exceptions on December 8, 2016. (The Companies' Reply Exceptions also offered a third alternative, namely, consideration of the ADIT/DSIC Issue on a generic basis for all companies employing a DSIC.)

Because of the possibility that existed, at the time the Settlement was being negotiated, that the Commission might assign the ADIT/DSIC Issue to this case, the Joint Petitioners included the provisions of Paragraph No. 30. Paragraph No. 30 allows this Settlement to move forward as a comprehensive resolution of all issues assigned to this proceeding by the Commission's June 9, 2016 Order without foreclosing the possibility that these consolidated dockets would be assigned the ADIT/DSIC Issue and without compromising the settling parties' rights to litigate any such additionally assigned issue. On January 19, 2017, the Commission issued its Final Order in the Companies' base rate cases, in which it determined (Ordering Paragraph No. 3, at p. 42) that the reserved issue "is referred to the First Energy Companies' consolidated DSIC proceeding at Docket Nos. P-2015-2508942, P-2015-2508936, P-2015-2508931 and P-2015-2508948 for such proceedings as may be necessary and the issuance of a Recommended Decision." The Commission also transferred to this proceeding the relevant portions of the record in the Companies' base rate cases and the Companies' and OCA's brief to the Administrative Law Judge (Ordering Paragraph No. 5, at p. 42).

III. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

The resolution of the narrow issues referred to the ALJ and addressed by the Joint Petitioners was reached after careful consideration by the Joint Petitioners of the Commission's concerns, the relevant authorities and the additional clarifying information developed after the issuance of the June 9, 2016 Orders through formal and informal discovery, several settlement conferences and other exchanges among the parties. The Settlement is a reasonable resolution of the issues identified by the Commission and, therefore, is in the public interest. The Commission has held that, to approve a settlement, it must determine that the proposed terms and conditions, viewed in the context of the settlement as a whole, are in the public interest.[6] The Settlement clearly meets that standard for the reasons discussed in detail in Section II, *supra*. The Settlement is also in the public interest for the following additional reasons:

- ***Substantial Litigation And Associated Costs Will Be Avoided.*** The Settlement amicably and expeditiously resolves a number of important and contentious issues in a fair and reasonable fashion. The administrative burden and costs to litigate these matters to conclusion could be substantial.[7]
- ***The Settlement Is Consistent With Commission Policies Promoting Negotiated Settlements.*** The Settlement terms and conditions constitute a carefully considered package representing negotiated positions designed to

6 *See Pa. P.U.C. v. CS Water & Sewer Assoc.*, 74 Pa. P.U.C. 767, 771 (1991); *Pa. P.U.C. v. Philadelphia Elec. Co.*, 60 Pa. P.U.C. 1, 22 (1985).

7 *See Pa. P.U.C. v. PECO Energy Co.*, Docket No. R-2010-2161575 (Recommended Decision issued November 2, 2010), p. 12 (Settlements lessen the time and expense the parties must expend litigating a case and at the same time conserve administrative hearing resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. 52 Pa. Code § 69.401." The Recommended Decision was approved and adopted by the Commission in its Final Order entered December 21, 2010.

achieve an outcome that is lawful, reasonable and addresses fully the concerns expressed in the June 9, 2016 Order. Thus, the Settlement is consistent with the Commission's rules and practices encouraging negotiated settlements (*see* 52 Pa. Code §§ 5.231 and 69.391), and is supported by the record.

- The ***Settlement Is Unopposed And Reflects The Agreement Of Parties With An Array Of Stakeholder Interests.*** All of the parties to this proceeding either join in the Settlement or do not oppose it. The Settlement has have been achieved among parties representing a broad array of stakeholder interests, including residential, commercial and industrial customers. The fact that the Settlement was reached among parties displaying such an array of interests is, in itself, strong evidence that it is reasonable and in the public interest. The Settlement represents a careful balance of the interests of the parties, reflecting compromises on all sides, based on the parties' thorough and detailed consideration of the issues, the information developed through formal and informal discovery and substantive, arms-length negotiations.

IV. CONCLUSION

For all the foregoing reasons, the Settlement set forth in the Joint Petition should be approved, and the Companies should be authorized to file, on one day's notice, tariff supplements in the form attached as Exhibit 1-4 to the Joint Petition to implement the terms of the Settlement at the time and on the basis set forth in Paragraph No. 26 of the Joint Petition, as discussed above.

Respectfully submitted,

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Dated: February 2, 2017

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STATEMENT IN SUPPORT
OF
THE OFFICE OF CONSUMER ADVOCATE

Statement B

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Metropolitan Edison Co. for Approval of a Distribution System Improvement Charge	: :	Docket Nos.	P-2015-2508942, C-2016-2531040
Petition of Pennsylvania Electric Co. for Approval of a Distribution System Improvement Charge	: :	Docket Nos.	P-2015-2508936, C-2016-2531060
Petition of Pennsylvania Power Co. for Approval of a Distribution System Improvement Charge	: :	Docket Nos.	P-2015-2508931, C-2016-2531054
Petition of West Penn Power Co. for Approval of a Distribution System Improvement Charge	: :	Docket Nos.	P-2015-2508948, C-2016-2531040

OCA STATEMENT IN SUPPORT OF
JOINT PETITION FOR SETTLEMENT OF PENDING ISSUES

The Office of Consumer Advocate (OCA), one of the signatory parties to the Joint Settlement Agreement (Settlement) respectfully requests that the terms and conditions of the Settlement be approved by the Pennsylvania Public Utility Commission (Commission). This request is based upon the OCA' s conclusion that the proposed Settlement is in the public interest and is in the interest of the customers of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power) and West Penn Power Company (West Penn) (together, the Companies).

I. INTRODUCTION

On February 16, 2016, the Companies filed individual Petitions requesting approval to establish and implement a Distribution System Improvement Charge (DSIC) to become effective as of July 1, 2016.

On February 26, 2016, the OCA filed Answers and Formal Complaints in response to the Companies' Petitions. On March 7, 2016, Citizens for Pennsylvania's Future (PennFuture) and the Environmental Defense Fund (EDF) jointly filed Petitions to Intervene. On the same date, the Met-Ed Industrial Energy Users Group (MEIUG), the Penelec Industrial Customer Alliance (PICA), the Penn Power Users Group (PPUG) and the West Penn Power Industrial Intervenors (WPPII) filed a Petition to Intervene and Answer with respect to the Petition of the Company that serves their respective members. On March 9, 2016, the OSBA filed a Notice of Appearance and Intervention in each of the Companies' cases as well as Answers to each of the Petitions. On the same date, The Pennsylvania State University (PSU) filed a Petition to Intervene in West Penn's case. On April 1, 2016, AK Steel Corporation filed a Petition to Intervene in West Penn's case. Two customers filed Formal Complaints on April 4, 2016 and April 18, 2016, respectively.

On June 9, 2016, the Commission entered four Opinions and Orders in which it approved a DSIC for each Company subject to recoupment and/or refund pending final resolution of matters referred to the Office of Administrative Law Judge for hearings.[1] The issues identified for hearings were the following:

a. Whether certain customers taking service at transmission voltage rates should be included under the DSIC;

b. Whether other customers should also be exempt from the DSIC;

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[1] Petition of Metropolitan Edison Co. for Approval of a DSIC, Docket Nos. P-2015-2508942, C-2016-2531040, Order (June 9, 2016) (Met-Ed DSIC Order); Petition of Pennsylvania Electric Co. for Approval of a DSIC, Docket Nos. P-2015-2508936, C-2016-2531060, Order (June 9, 2016) (Penelec DSIC Order); Petition of Pennsylvania Power Co. for Approval of a DSIC, Docket Nos. P-2015-2508931, C-2016-2531054, Order (June 9, 2016) (Penn Power DSIC Order); Petition of West Penn Power Co. for Approval of a DSIC, Docket Nos. P-2015-2508948, C-2016-2531019 (June 9, 2016) (West Penn DSIC Order) (collectively, DSIC Orders).

c. If revenues associated with the riders in [the Company's] tariff are properly included as distribution revenues;

d. The Petition for Intervention of MEIUG, PICA, PPUG, WPPII;

e. The Joint Petition for Intervention of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund; and

f. The Joint Motion to Compel of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund and the Commission waives the fifteen (15) day timeframe restriction set forth in 52 Pa. Code § 5.342.

On July 25, 2016, EDF/PennFuture filed a joint Notice of Withdrawal from each of the Companies' proceedings.

This matter was assigned to Administrative Law Judge Joel H. Cheskis (ALJ). On August 11, 2016, the ALJ issued a Consolidation Order to consolidate the Petition and Complaint cases. Consistent with the Scheduling Order issued on August 12, 2016, the parties participated in discovery and settlement discussions and provided periodic status reports on those discussions to the ALJ. Met-Ed, Penelec, Penn Power, West Penn, OCA, OSBA, MEIUG, PICA, PPUG and WPPII reached a settlement agreement addressing the issues referred for hearings by the Commission's June 9, 2016 DSIC Orders (Joint Petition for Settlement of Pending Issues).[2] As discussed below, the proposed settlement does not extend to or resolve any additional issues that the Commission may assign to this proceeding and, to that end, the Joint Petitioners specifically request that the consolidated Petitions and Complaint docket numbers (P-2015-2508942, C-2016-2531040, P-2015-2508936, C-2016-2531060, P-2015-2508931, C-2016-2531054, P-2015-2508948 and C-2016-2531019) not be marked closed until the conditions identified in Section IV of the Settlement are met. Specifically, this consolidated proceeding should not be closed until a Final Order is entered approving the proposed Settlement and, either,

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[2] PSU and AK Steel Corporation are not Joint Petitioners but do not oppose the proposed settlement.

(1) a Final Order is entered in the Companies' pending base rate cases conclusively determining that no additional DSIC-related issues are to be assigned to this proceeding or (2) if additional DSIC-related issues are assigned to this proceeding, a final, non-appealable order is entered that decides and resolves such issues.

The OCA submits this Statement in Support to provide its views on why the proposed Settlement is in the public interest.

II. TERMS AND CONDITIONS OF JOINT SETTLEMENT AGREEMENT

The following terms of the proposed Settlement directly address the OCA's concerns raised in its Answer:

Paragraph 20: Inclusion of Rider Revenues in the DSIC Calculation.

In its filings, the Companies did not specify which riders were proposed to be included and excluded for purposes of calculating the DSIC rate. The Settlement specifies that only revenues derived from distribution service will be included in the DSIC calculation. This clarification resolves the OCA's concern.

Paragraphs 21-26: Application of the DSIC to All Customers.

In its Met-Ed Petition, the Company proposed that the DSIC would not apply to customers receiving service under Rate Schedule TP. Met-Ed Petition at 6; Met-Ed St. 1 at 6. In its Answer, the OCA questioned whether exemption for Rate Schedule TP customers was warranted, in the public interest and consistent with Act 11 and prior Commission Orders. The Act provides that the DSIC "shall be applied equally to all customer classes as a percentage of each customer's billed revenue." 66 Pa. C.S. § 1358(d)(1); Answer at 2-3. The OCA pointed out that Met-Ed's currently approved tariff indicates that Rate Schedule TP is not limited to customers receiving service above a specific voltage level. Id. at 3; Supp. 15 to Electric Pa.

P.U.C. No. 52 at 77. The proposed Settlement (¶25) addresses the OCA's concern by revising the DSIC Rider to limit exclusion from the DSIC to customers on Rate TP served at Transmission Voltage (only).

For Penelec Rate Schedules GP and LP and Penn Power Rate Schedules GT and GSDS, the Settlement (¶¶21-23) provides each Company's clarification and confirmation that only those customers served at transmission-level voltages (over 46kV for Penelec and over 69 kV for Penn Power) or deemed to be transmission-level customers because they meet very specific criteria will be excluded from application of the DSIC. Answers at 2-3; see Petition of PPL Electric Utilities for Approval of a DSIC, Docket No. P-2012-2325034, Order at 66 (Apr. 9, 2015).

With regard to West Penn Power, the OCA questioned the basis for the Company's proposal to exclude customers receiving service under Rate Schedule 40 from application of the DSIC. Answer at 2-3. The Settlement (¶24) clarifies that West Penn will apply the DSIC to all Rate Schedule 40 customers receiving transmission-level service at 100kV or greater.

Paragraphs 21 through 25 address the concerns raised in the OCA's Answers regarding the application of the DSIC. The clarifications and revisions to the Companies' tariffs will help to ensure to that all customers served by eligible categories of distribution facilities contribute to the improvement of those facilities by paying a DSIC. The OCA submits that this result is consistent with Act 11, prior Commission orders and in the public interest.

Paragraph 26 provides for the Companies to implement modifications to the existing DSIC charge at the same time they become eligible to begin charging a DSIC rate at the conclusion of their pending base rate cases. The OCA supports this timing as a reasonable means to avoid another change to DSIC rates before those rates are zeroed out when new base rates take effect.

Paragraph 30: Additional Issues.

As noted in the Settlement and above, the Companies have base rate cases pending before the Commission. Subsequent to the filing of Answers in these consolidated proceedings and the entry of the Commission's Orders approving the Companies' DSICs and referring certain matters for hearings, Act 40 became law on June 12, 2016. Act 40 of 2016 (codified at 66 Pa. C.S. § 1301.1). Paragraph 30 of the Settlement recognizes that the effect of the new statute on the Companies' calculation of the DSIC rate could be addressed in the pending base rate cases or may be assigned to these consolidated DSIC dockets. Accordingly, the Joint Petitioners agree and request that the Commission keep the dockets open until the additional DSIC-related issues are decided. The OCA submits that it is in the interest of all parties, the Commission and the public to limit litigation regarding the effect of Act 40 on the Companies to one forum. The proposed Settlement addressing issues already pending in this proceeding, however, is ripe for Commission review. Thus, OCA submits that approval of the Settlement and Paragraph 30 is in the public interest and should be approved.

III. CONCLUSION

The Settlement effectively resolves the issues that the Office of Consumer Advocate raised and considered in response to the initial DSIC Petitions filed by Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company. For the foregoing reasons, the Office of Consumer Advocate submits that the terms and conditions of the Settlement are in the public interest and should be approved.

Respectfully Submitted,

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Dated: January 18, 2017

228824

STATEMENT IN SUPPORT
OF
THE OFFICE OF SMALL BUSINESS ADVOCATE

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508942**
Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508936**
Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508931**
Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge	: : :	**Docket No. P-2015-2508948**

STATEMENT OF THE OFFICE OF SMALL BUSINESS ADVOCATE
IN SUPPORT OF THE JOINT PETITION FOR SETTLEMENT

I. INTRODUCTION

The Small Business Advocate is authorized and directed to represent the interests of small business consumers in proceedings before the Pennsylvania Public Utility Commission ("Commission") under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. In order to discharge this statutory duty, the Office of Small Business Advocate ("OSBA") is participating as a party to this proceeding to ensure that the interests of small commercial and industrial ("Small C&I") customers of Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power"), and West Penn Power Company ("West Penn") (collectively, "the Companies") are adequately represented and protected.

II. BACKGROUND

On February 16, 2016, the Companies filed with the Pennsylvania Public Utility Commission ("the Commission") the above-captioned Petitions requesting approval to establish and implement a Distribution System Improvement Charge ("DSIC") Rider in their respective electric tariffs to become effective as of July 1, 2016. Parties to the various proceedings, in addition to the OSBA, include the Office of Consumer Advocate ("OCA"), Citizens for Pennsylvania's Future ("PennFuture") jointly with the Environmental Defense Fund ("EDF"), AK Steel Corp. ("AK Steel"), the Pennsylvania State University ("PSU") and the industrial intervenors, MetEd Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG") and West Penn Power Industrial Intervenors ("WPPII") (each of which filed a Petition to Intervene and Answer with respect to the Petition of the Company that serves their respective members).

On June 9, 2016, the Commission approved the four Petitions of the Companies for approval to establish a DSIC. In the Opinion and Order entered June 9, 2016, the Commission noted that several issues that had been raised during the DSIC proceeding would be reserved for decision at an adjudicated hearing. These issues were primarily those raised by the Office of Consumer Advocate and the industrial parties. This adjudicated proceeding would be assigned to Administrative Law Judge ("ALJ") Joel H. Cheskis.

The Commission, on June 21, 2016, entered a Prehearing Conference Order setting August 10, 2016 as the date for a Prehearing Conference on these issues, and directing the parties to serve a Prehearing Memorandum no later than August 3, 2016. The Companies requested in their Prehearing Memoranda that the four cases be consolidated for purposes of a hearing and decision. At the first Prehearing Conference, with the agreement of the intervening parties, this consolidation was approved, and one Prehearing Conference was held for the four consolidated cases.

The Companies also proposed that, in lieu of establishing a litigation schedule, the parties would: (1) schedule two or more settlement and/or technical conferences to be held between August 15 and September 15, 2016, (2) report back to the ALJ on the status of the negotiations by September 19, 2016; and (3) if the consolidated proceedings were not the subject of a settlement, a second prehearing conference would be held between September 28 and October 20, 2016 to determine whether the submission of testimony and scheduling of an evidentiary hearing may be required. No party objected to the Companies' proposal, which was adopted by the ALJ.

By Scheduling Order dated August 12, 2016, the ALJ memorialized the parties' agreement on the process for attempting to reach a settlement, reporting on settlement status and holding a second Prehearing Conference, if needed.

After numerous technical conferences and settlement discussions, the parties successfully reached an agreement on the issues identified in the June 9, 2016, Orders, for the parties to address in this proceeding, which are as follows:

a. Whether certain customers taking service at transmission voltage rates should be included under the DSIC;

b. Whether other customers should also be exempt from the DSIC;

c. If revenues associated with the riders in [the Company's] tariff are properly included as distribution revenues;

d. The Petition for Intervention of [MEIUG] [PICA] [PPUG] [WPPII];

e. The Joint Petition for Intervention of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund; and

f. The Joint Motion to Compel of the Citizen's for Pennsylvania's Future and the Environmental Defense Fund and the Commission waives the fifteen (15) day timeframe restriction set forth in 52 Pa. Code § 5.342.

The OSBA took a position on only one of these issues, whether the revenues associated with the riders in the Companies' proposed tariffs are properly included as distribution revenues (Issue C above).

III. STATEMENT IN SUPPORT

The Settlement sets forth a complete list of issues that were resolved through the negotiation process. This statement outlines the OSBA's specific reasons for concluding that the Settlement is in the best interests of small business customers.

Exclusion of Riders from Distribution Revenues

The OSBA did not present testimony during this proceeding. However, during settlement negotiations, the OSBA took the position that the revenues associated with various riders in the Companies' proposed tariffs are not technically distribution revenues and, therefore, should not be included with distribution revenues for DSIC purposes, as the Companies proposed. The OSBA felt that including such revenues in distribution rates when calculating the DSIC percentage was burdensome to ratepayers, and particularly to the small commercial class of ratepayers represented by the OSBA.

Paragraph 20 of the Settlement sets forth the agreement reached by the parties, that excludes revenues associated with the following Riders when calculating the DSIC percentage:

a. Default Service Support Rider (for all Companies);

b. NUG [Non-Utility Generation] Rider (for Met-Ed and Penelec, which are the only Companies with NUG Riders); and

c. Solar Photovoltaic Rider (for Met-Ed, Penelec, and Penn Power, which are the only Companies with Solar Photovoltaic Riders).

The OSBA took no position with respect to the other issues identified in the June 9, 2016 Orders.

IV. <u>CONCLUSION</u>

The settlement of this proceeding avoids the litigation of many of the complex, competing proposals and saves the possibly significant costs of further and more extended administrative proceedings. Such costs are borne not only by the Joint Petitioners, but ultimately by the Companies' customers as well. Avoiding extended litigation of this matter has served judicial efficiency, and allows the OSBA to more efficiently employ its resources in other areas.

For the reasons set forth in the Joint Petition, as well as the additional factors enumerated in this statement, the OSBA supports the proposed Joint Petition and respectfully requests that ALJ Cheskis and the Commission approve the Joint Petition in its entirety without modification.

Respectfully submitted,

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Dated: January 5, 2017

STATEMENT IN SUPPORT
OF
MEIUG/PICA/WPPII

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge	:	**Docket No. P-2015-2508942**
Office of Consumer Advocate v. Metropolitan Edison Company	:	**Docket No. C-2016-2531040**
Petition of Pennsylvania Electric Company for Approval of a Distribution System Improvement Charge	:	**Docket No. P-2015-2508936**
Office of Consumer Advocate v. Pennsylvania Electric Company	:	**Docket No. C-2016-2531060**
Petition of Pennsylvania Power Company for Approval of a Distribution System Improvement Charge	:	**Docket No. P-2015-2508931**
Office of Consumer Advocate v. Pennsylvania Power Company	:	**Docket No. C-2016-2531054**
Petition of West Penn Power Company for Approval of a Distribution System Improvement Charge	:	**Docket No. P-2015-2508948**
Office of Consumer Advocate v. West Penn Power Company	:	**Docket No. C-2016-2531019**

STATEMENT IN SUPPORT OF THE MET-ED INDUSTRIAL USERS GROUP, THE PENELEC INDUSTRIAL CUSTOMER ALLIANCE, THE PENN POWER USERS GROUP, AND THE WEST PENN POWER INDUSTRIAL INTERVENORS

The Met-Ed Industrial Users Group ("MEIUG"), the Penelec Industrial Customer Alliance ("PICA"), the Penn Power Users Group ("PPUG"), and the West Penn Power Industrial Intervenors ("WPPII"), collectively referred to as "the Industrials," by and through their counsel, submit this Statement in Support ("Statement") of the Joint Petition for Settlement of Pending Issues ("Joint Petition" or "Settlement"), filed in the above-captioned proceedings with the Pennsylvania Public Utility Commission ("PUC" or "Commission"). This Joint Petition reflects settlement with respect to: West Penn Power Company's ("West Penn") Petition for Approval of a Distribution System Improvement Charge; Metropolitan Edison Company's ("Met-Ed") Petition for Approval of a Distribution System Improvement Charge; Pennsylvania Electric Company's ("Penelec") Petition for Approval of a Distribution System Improvement Charge; and Pennsylvania Power Company's ("Penn Power") Petition for Approval of a Distribution System Improvement Charge (collectively, "Petitions"). Throughout this document, the Industrials will refer to Met-Ed, Penelec, Penn Power, and West Penn collectively as the "FirstEnergy Companies."

As a result of settlement discussions, the FirstEnergy Companies, the Industrials, the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA") (collectively, "Parties" or "Joint Petitioners") have agreed upon the terms embodied in the foregoing Joint Petition.[1] The Industrials offer this consolidated Statement to further demonstrate that the Settlement is in the public interest and should be approved without modification.

I. BACKGROUND

1. On February 16, 2016, the FirstEnergy Companies filed with the PUC the above-captioned Petitions requesting approval to establish and implement Distribution System

[1] As indicated in Footnote 1 of the Joint Petition, AK Steel Corporation and The Pennsylvania State University have indicated they do not oppose the Settlement.

Improvement Charge ("DSIC") Riders to their respective electric tariffs. The DSIC Riders would become effective by July 1, 2016.

2. On March 7, 2016, each of the Industrials filed with the PUC a Petition to Intervene and Answer in response to the FirstEnergy Companies' Petitions.

3. On April 19, 2016, each of the Industrials filed with the PUC a Motion for Leave to Amend Answer and an amended Petition to Intervene and Answer.

4. On August 3, 2016, each of the Industrials filed with the PUC a Prehearing Memorandum.

5. The PUC assigned the above-docketed proceedings to Administrative Law Judge ("ALJ") Joel H. Cheskis and scheduled four consecutive Initial Prehearing Conferences for the FirstEnergy Companies' cases on August 10, 2016, beginning at 10:00 a.m. During the initial Prehearing Conference, the ALJ consolidated the above-docketed proceedings. Therefore, one Prehearing Conference was held for all four proceedings. At this conference, the parties proposed the following course of action: (1) schedule additional settlement and/or technical conferences to be held between August 15 and September 15, 2016; (2) provide status reports to the ALJ on the state of negotiations by September 19, 2016; and (3) if the consolidated proceedings were not the subject of a settlement, a second prehearing conference would be held between September 28 and October 20, 2016, to determine whether the submission of testimony and scheduling of an evidentiary hearing may be required.

6. Through a Scheduling Order dated August 12, 2016, the ALJ approved the parties' proposed course of action, adopted the OCA's proposed modifications to the PUC's discovery rules, addressed the potential need for a Protective Order, and established rules for service of documents on the parties and the ALJ.

7. The parties proceeded to conduct several rounds of settlement discussions and provide the ALJ with status reports. On November 7, 2016, the Joint Petitioners informed the ALJ that a settlement in principle had been reached.

II. STATEMENT IN SUPPORT

8. The Commission has a strong policy favoring settlements. As set forth in the PUC's regulations, "[t]he Commission encourages parties to seek negotiated settlements of contested proceedings in lieu of incurring the time, expense and uncertainty of litigation." 52 Pa. Code § 69.391(a); *see also* 52 Pa. Code § 5.231. Consistent with the Commission's Policy, the Joint Petitioners engaged in negotiations to resolve the issues raised by various parties. These ongoing discussions produced the foregoing Settlement.

9. The Joint Petitioners agree that approval of the proposed Settlement is in the best interests of the Parties involved.

10. The Joint Petitioners agree that the FirstEnergy Companies should be authorized to file tariff supplements to modify the DSIC Riders on their respective electric service tariffs, consistent with the terms and conditions of the Joint Petition.

11. The Joint Petition is in the public interest for the following reasons:

a. As a result of the Joint Petition, expenses incurred by the Joint Petitioners and the Commission for completing this proceeding will be less than they would have been if the proceeding had been fully litigated.

b. Uncertainties regarding further expenses associated with possible appeals from the Final Order of the Commission regarding the issues in this Settlement are avoided as a result of the Joint Petition.

c. The Joint Petition reflects compromises on all sides presented without prejudice to any position any Joint Petitioner may have advanced so far in this proceeding. Similarly, the Joint Petition is presented without prejudice to any position any party may advance in future proceedings involving the FirstEnergy Companies.

12. In addition, the Joint Petition specifically satisfies the concerns of the Industrials in the following ways:

a. For WPPII, the Settlement proposes that "if DSIC revenues billed to one or more Rate 40 customers receiving service by a single transformation from a transmission line operating at 100 kV or greater through a substation located on the customer's premises or within 2500 feet of the customer's premises exceed $750 per month, WPPII may file a Notice to reopen the issue of the application of the DSIC to Rate 40 customers that meet the previously-described criteria and, upon filing of such a Notice," resume settlement discussions on this issue.[2] Should those settlement discussions fail to result in a negotiated agreement among the parties, WPPII reserves the opportunity to reinstate the portion of its challenge to the Petition regarding this issue at the PUC.[3] Furthermore, "[a]ny refunds, recoupment and/or reallocation of customer payment responsibility for the DSIC that result from a Commission decision entered at the conclusion of the process described above shall be effective only for charges under the DSIC billed from and after the date of the first quarterly update of the DSIC after such Order is entered unless the parties expressly agree otherwise."[4]

b. For MEIUG, the Settlement indicates that the "DSIC Rider for Met-Ed will be revised to provide that the DSIC will not apply to customers on Rate TP served at Transmission Voltage."[5] If the DSIC revenues billed to one or more customers on Rate TP receiving service voltages other than Transmission Voltage exceed $750 per month, then MEIUG may file a Notice to reopen the issue of the application of the DSIC to such customers and, upon filing such Notice, reinitiate discussions among the parties to resolve this concern.[6] If those settlement discussions fail, then MEIUG may reinstate the portion of its challenge to the Petition regarding this issue at the PUC.[7] Furthermore, "[a]ny refunds, recoupment and/or reallocation of customer payment responsibility for the DSIC that result from a Commission decision entered at the conclusion of the process described above shall be effective only for charges under the DSIC billed from and after the date of the first quarterly update of the DSIC after such Order is entered unless the parties expressly agree otherwise."[8]

c. For PICA, the Settlement indicates that "consistent with current practice, only those customers served at voltages over 46 kV are excluded from the application of the DSIC."[9] In addition, "customers taking service under the second paragraph of the

[2] Joint Petition, ¶ 24.
[3] *Id.*
[4] *Id.*
[5] *Id.* at ¶ 25.
[6] *Id.*
[7] *Id.*
[8] *Id.*
[9] *Id.* at ¶ 21.

Availability/Applicability section of Penelec's Partial Service Rider . . . are excluded from the DSIC because such customers pay an investment charge for the facilities connecting the 115 kV or higher source and their location and are deemed to be Transmission-level customers."[10]

d. For PPUG, the Settlement indicates that with regard to "Penn Power Rate Schedules GT and GSDS, the Company clarifies, confirms and agrees that, consistent with current practice, only those customers served at voltages over 69 kV are excluded from the application of the DSIC."[11]

e. Within 90 days of the Commission's issuance of an Order approving this Joint Petition, the FirstEnergy Companies "will meet with representatives of MEIUG, PICA, PPUG and WPPII to develop a process to provide, for each year of the remaining term of their current Long-Term Infrastructure Improvement Plans ("LTIIPs"), annual, and annually updated, estimates of the impact of the DSIC on the members of those groups."[12]

13. The Industrials support the Joint Petition because it is in the public interest; however, in the event the Joint Petition is rejected by the ALJ or the Commission, the Industrials will resume their litigation position, which differs from the terms of the Joint Petition.

14. As set forth above, the Industrials submit that the Settlement is in the public interest and adheres to Commission policies promoting negotiated settlements. The Settlement was achieved after several settlement discussions. Although the Joint Petitioners have invested time and resources in the negotiation of the Joint Petition, this process has allowed the parties, and the Commission, to avoid expending the substantial resources that would have been required to fully litigate the current issues in this proceeding while still reaching a just, reasonable, and non-discriminatory result. The Joint Petitioners have thus reached an amicable solution to this dispute as embodied in the Settlement. Approval of the Settlement will permit the Commission and Joint Petitioners to avoid incurring the additional time, expense, and uncertainty of further litigation of a number of major issues in this proceeding. *See* 52 Pa. Code § 69.391.

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[10] *Id.* at ¶ 22.
[11] *Id.* at ¶ 23.
[12] *Id.* at ¶ 27.

III. CONCLUSION

WHEREFORE, the Industrials respectfully request that the ALJ and the Commission approve the FirstEnergy Companies' Joint Petition for Settlement of Pending Issues without modification.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By Alessandra Hylander

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Dated: January 6, 2017

LETTERS OF NON-OPPOSITION
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Via E-Mail (jcheskis@pa.gov)
And Overnight Mail

January 5, 2017

Hon. Joel Cheskis, Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

RE: Petition of Metropolitan Edison Company for Approval of a Distribution System Improvement Charge, et al., Docket Nos. P-2015-2508942 and C-2016-2531040

Dear Judge Cheskis:

We write on behalf of AK Steel Corporation, an intervenor in the above-captioned matters to confirm that AK Steel does not oppose the Joint Petition for Settlement being filed in this case.

Respectfully submitted,

David F. Boehm, Esq. (PA Attorney I.D. # 72752)
BOEHM, KURTZ & LOWRY

COUNSEL FOR AK STEEL CORPORATION

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January 9, 2017

Via Electronic Filing

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
Harrisburg, PA 17120

Re: Petition of Metropolitan Edison Company for Approval to Establish and Implement a Distribution System Improvement Charge; Docket Nos. P-2015-2508942 & C-2016-2531040

Petition of Pennsylvania Electric Company for Approval to Establish and Implement a Distribution System Improvement Charge; Docket Nos. P-2015-2508936 & C-2016-2531060

Petition of Pennsylvania Power Company for Approval to Establish and Implement a Distribution System Improvement Charge; Docket Nos. P-2015-2508931 & C-2016-1054

Petition of West Penn Power Company for Approval to Establish and Implement a Distribution System Improvement Charge; Docket Nos. P-2015-2508948 & C-2016-2531019

THE PENNSYLVANIA STATE UNIVERSITY'S LETTER OF NON-OPPOSITION TO SETTLEMENT OF PENDING ISSUES

Dear Secretary Chiavetta:

The Pennsylvania State University (PSU) is a party to the above-captioned matter and has reviewed the terms and conditions of the Joint Petition for Settlement of Pending Issues (Joint Petition) filed today. PSU has not signed the Settlement as it did not present evidence in the matter.

However, PSU does not oppose the Settlement and does not object to its approval without modification by the Commission.

Thank you for your attention to this matter.

Very truly yours,

Thomas J. Sniscak

Thomas J. Sniscak
Christopher M. Arfaa
William E. Lehman

Counsel for
The Pennsylvania State University

TJS/CMA/das

cc: Honorable Joel H. Cheskis (email and first class mail)