

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>JOINT APPLICATION OF MID-ATLANTIC</b>	<b>:</b>	<b>DOCKET NOS.:</b>	<b>A-2015-2488903</b>
<b>INTERSTATE TRANSMISSION, LLC</b>	<b>:</b>		<b>A-2015-2488904</b>
<b>(“MAIT”); METROPOLITAN EDISON</b>	<b>:</b>		<b>A-2015-2488905</b>
<b>COMPANY (“MET-ED”) AND</b>	<b>:</b>		<b>G-2015-2488906</b>
<b>PENNSYLVANIA ELECTRIC COMPANY</b>	<b>:</b>		<b>G-2015-2488907</b>
<b>(“PENELEC”) FOR: (1) A CERTIFICATE</b>	<b>:</b>		<b>G-2015-2489542</b>
<b>OF PUBLIC CONVENIENCE UNDER 66</b>	<b>:</b>		<b>G-2015-2489543</b>
<b>PA.C.S. §1102(A)(3) AUTHORIZING THE</b>	<b>:</b>		<b>G-2015-2489544</b>
<b>TRANSFER OF CERTAIN TRANSMISSION</b>	<b>:</b>		<b>G-2015-2489545</b>
<b>ASSETS FROM MET-ED AND PENELEC TO</b>	<b>:</b>		<b>G-2015-2489547</b>
<b>MAIT; (2) A CERTIFICATE OF PUBLIC</b>	<b>:</b>		<b>G-2015-2490801</b>
<b>CONVENIENCE CONFERRING UPON</b>	<b>:</b>		<b>G-2015-2490802</b>
<b>MAIT THE STATUS OF A PENNSYLVANIA</b>	<b>:</b>		
<b>PUBLIC UTILITY UNDER 66 PA.C.S. §102;</b>	<b>:</b>		
<b>AND (3) APPROVAL OF CERTAIN</b>	<b>:</b>		
<b>AFFILIATE INTEREST AGREEMENTS</b>	<b>:</b>		
<b>UNDER 66 PA.C.S. §2102</b>	<b>:</b>		

**JOINT APPLICATION OF  
MID-ATLANTIC INTERSTATE TRANSMISSION, LLC,  
METROPOLITAN EDISON COMPANY AND  
PENNSYLVANIA ELECTRIC COMPANY**

**PUBLIC VERSION**

**June 19, 2015**

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<sup>1</sup> This exhibit contains Confidential Security Information (See 52 Pa. Code §§ 102.1 – 102.4) and therefore is being filed with the Pennsylvania Public Utility Commission on a confidential basis and should not be publicly disclosed.

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**JOINT APPLICATION OF MID-ATLANTIC INTERSTATE TRANSMISSION, LLC (“MAIT”); METROPOLITAN EDISON COMPANY (“MET-ED”) AND PENNSYLVANIA ELECTRIC COMPANY (“PENELEC”) FOR: (1) A CERTIFICATE OF PUBLIC CONVENIENCE UNDER 66 PA.C.S. §1102(A)(3) AUTHORIZING THE TRANSFER OF CERTAIN TRANSMISSION ASSETS FROM MET-ED AND PENELEC TO MAIT; (2) A CERTIFICATE OF PUBLIC CONVENIENCE CONFERRING UPON MAIT THE STATUS OF A PENNSYLVANIA PUBLIC UTILITY UNDER 66 PA.C.S. §102; AND (3) APPROVAL OF CERTAIN AFFILIATE INTEREST AGREEMENTS UNDER 66 PA.C.S. §2102**

**DOCKET NO. A-2015-  
DOCKET NO. A-2015-  
DOCKET NO. A-2015-  
DOCKET NO(S). M-2015-**

**JOINT APPLICATION OF MID-ATLANTIC INTERSTATE TRANSMISSION, LLC, METROPOLITAN EDISON COMPANY AND PENNSYLVANIA ELECTRIC COMPANY**

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and Pennsylvania Electric Company

Date: June 19, 2015

## I. INTRODUCTION AND OVERVIEW

1. Mid-Atlantic Interstate Transmission, LLC (“MAIT”), Metropolitan Edison Company (“Met-Ed”) and Pennsylvania Electric Company (“Penelec”) (together, the “Joint Applicants”) are filing this Joint Application to obtain the approval of the Pennsylvania Public Utility Commission (the “Commission”) under Chapters 11, 21 and 28 of the Public Utility Code: (1) for Met-Ed and Penelec to contribute their existing transmission assets to MAIT; (2) for MAIT to be a certificated Pennsylvania public utility; and (3) for approval of certain affiliated interest agreements. Contemporaneously, Jersey Central Power & Light Company (“JCP&L”), an affiliate of the Joint Applicants that provides electric distribution service in the State of New Jersey, is seeking the approval of the New Jersey Board of Public Utilities (“NJBPU”) to contribute its transmission assets to MAIT; for MAIT to be granted public utility status in New Jersey; and for approval of certain affiliated interest agreements (Met-Ed, Penelec and JCP&L are hereafter referred to collectively as the “Operating Companies”).

2. MAIT is a newly-formed limited liability company to be jointly owned by the Operating Companies and FirstEnergy Transmission, LLC (“FET”) that will provide interstate electric transmission service subject to the jurisdiction of the Federal Energy Regulatory Commission (“FERC”). Upon obtaining the necessary approvals from the Commission, the NJBPU and the FERC,<sup>1</sup> the Operating Companies will contribute their transmission assets to MAIT in exchange for membership interests in MAIT pursuant to certain agreements among the Operating Companies, FET and MAIT (the “Transaction”). As previously noted, MAIT is also

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<sup>1</sup> Contemporaneously, Met-Ed, Penelec, JCP&L, FET and MAIT are filing at the FERC an *Application for Authorization Pursuant to Sections 203(a)(1)(A) and 203(a)(2) of the Federal Power Act and Request for Waivers of Certain Filing Requirements for approval of the transfer of the Operating Companies' Transmission Assets to MAIT.*

seeking a certificate of public convenience conferring the status of a public utility under Section 102 of the Public Utility Code. Finally, in addition to approvals under Chapters 11 and 28, the Joint Applicants request that the Commission grant the approvals necessary under Chapter 21 of the Public Utility Code for the agreements that are necessary to consummate the Transaction and provide for the subsequent operation of MAIT, including revisions to existing affiliated interest arrangements that will facilitate the provision of shared services between MAIT and the Operating Companies, as more fully set forth hereafter.

3. The creation of MAIT and the contribution to it of the Operating Companies' transmission assets will establish a transparent, stand-alone transmission entity that is expected to have better credit metrics than any one of the Operating Companies standing alone. As explained in Section V, *infra*, consolidating all of the Operating Companies' transmission assets in a stand-alone transmission company can reduce investors' perception of financial risk, strengthen the credit profile of the transmission function and, in that way, provide improved access to capital at reasonable rates. Better credit metrics and improved access to capital is particularly important at this time because FirstEnergy has recently established the Energizing the Future ("EtF") program designed to increase the reliability of the transmission system, improve the condition of equipment on the system, enhance system performance, and improve operational flexibility. Although the EtF program initially focused on reliability enhancement projects in the transmission zone of American Transmission Systems, Inc. ("ATSI") located in Ohio and western Pennsylvania, FirstEnergy now proposes to expand the program to include reliability enhancement investments in the Met-Ed, Penelec and JCP&L zones. Based on a preliminary assessment, increased transmission system capital investments in the Operating Companies' transmission zones could total as much as \$2.5 to \$3.0 billion over the next five to ten years to

maintain reliability in the face of evolving conditions on the transmission system that are detailed in Section V, *supra*, and in the direct testimony of Jeffrey J. Mackauer (Joint Applicants' Statement No. 2). The expansion of the EtF program is the comprehensive plan for guiding these transmission investments, which will enhance reliability and improve the resiliency and capacity of the transmission system for the benefit of the Operating Companies' existing and new customers.

4. The stronger credit metrics of MAIT and the cost savings that will be realized by having one company issue all of the debt needed to finance future transmission investments, rather than separate issuances by each Operating Company, will contribute significantly to successfully implementing the expansion of the EtF program. As explained in the direct testimony of Steven R. Staub (Joint Applicants' Statement No. 3), completing the proposed Transaction is reasonably projected to produce \$135 million in debt cost savings over the thirty-year life of approximately \$1.5 billion of debt-financed transmission-related plant additions. Thus, the Transaction will place MAIT in a better position than Met-Ed or Penelec to make substantial new transmission investments designed to enhance the resilience, reliability and load-carrying capacity of their transmission systems in Pennsylvania. Moreover, the Transaction will relieve Met-Ed and Penelec of the need to issue debt to finance transmission investments and, in that way, will strengthen their capacity to fund investments in their Pennsylvania jurisdictional distribution systems. Finally, the increased and accelerated levels of investment that the Transaction will enable will have a beneficial economic impact on Pennsylvania, including spurring increased job creation, as also explained by Mr. Mackauer.

5. The names and addresses of the Joint Applicants are as follows:

Metropolitan Edison Company 2800 Pottsville Pike P.O. Box 16001 Reading, PA 19612-6001	Pennsylvania Electric Company 2800 Pottsville Pike P.O. Box 16001 Reading, PA 19612-6001	Mid-Atlantic Interstate Transmission, LLC 76 South Main Street Akron, OH 44308
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6. The names and addresses of the Joint Applicants' attorneys are as follows:

Lauren M. Lepkoski FirstEnergy Service Company 2800 Pottsville Pike P.O. Box 16001 Reading, PA 19612-6001	Thomas P. Gadsden Kenneth M. Kulak Anthony C. DeCusatis Catherine Vasudevan Morgan, Lewis & Bockius LLP 1701 Market Street Philadelphia, PA 19103-2921
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## **II. DESCRIPTION OF THE JOINT APPLICANTS AND THE OTHER COMPANIES INVOLVED IN THE PROPOSED TRANSACTION**

7. Met-Ed is a wholly-owned subsidiary of FirstEnergy Corp. ("FirstEnergy"). Met-Ed provides service to about 553,000 electric utility customers in eastern Pennsylvania. Met-Ed had a summer peak load in 2014 of about 2,817 MW, with about two-thirds of that load attributable to residential and small commercial customers. In addition to owning, operating and maintaining 11,292 circuit miles of distribution lines, Met-Ed currently owns 1,406 miles of transmission lines and related facilities within its service territory, which are under the operational control of the PJM Interconnection, LLC ("PJM") as the regional transmission organization ("RTO").

8. Penelec is a wholly-owned subsidiary of FirstEnergy. Penelec provides service to about 591,000 electric utility customers in central and western Pennsylvania. Penelec had a summer peak load in 2014 of about 2,788 MW, with about two-thirds of that load attributable to

residential and small commercial customers. In addition to owning, operating and maintaining 16,853 circuit miles of distribution lines, Penelec currently owns 2,877 miles of transmission lines and related facilities within its service territory, which are under the operational control of PJM as the RTO.

9. JCP&L is also a wholly-owned subsidiary of FirstEnergy that provides service to about 1.1 million electric utility customers in New Jersey. In addition to its distribution facilities, JCP&L currently owns 2,569 circuit miles of transmission lines and related facilities within its service territory, which are under the operational control of PJM as the RTO.

10. FET is a subsidiary of FirstEnergy. FET's subsidiaries include ATSI and Trans-Allegheny Interstate Line Company ("TrAILCo"). ATSI is a transmission-only company or "transco" that provides transmission services in the western portion of Pennsylvania and in the state of Ohio. Currently, ATSI owns and maintains over 8,100 circuit-miles of transmission lines, substations and other transmission facilities that are located solely in the ATSI Zone of PJM and are under the operational control of PJM as the RTO. ATSI is comprised in large part of the transmission assets formerly owned by FirstEnergy's operating utilities in western Pennsylvania and Ohio (*i.e.*, Pennsylvania Power Company ("Penn Power") in western Pennsylvania, Toledo Edison Company, Ohio Edison Company, and the Cleveland Electric Illuminating Company in Ohio).<sup>2</sup> TrAILCo owns and maintains over 180 circuit-miles of transmission lines, substations and other transmission facilities, including the Trans-Allegheny Interstate Line and

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<sup>2</sup> Pennsylvania Power Company ("Penn Power") a public utility subsidiary of Ohio Edison Company, which in turn a subsidiary of FirstEnergy that provides electric distribution service in western Pennsylvania, transferred its transmission assets to ATSI pursuant to the Commission's approval as evidenced by a certificate of public convenience issued in 2000. *Application Of Pennsylvania Power Co. For (1) A Certificate Of Public Convenience Authorizing The Transfer Of Certain Transmission Assets To American Transmission Systems, Inc., And (2) Approval Of Certain Affiliated Interest Agreements Necessary To Effect The Transfer*, Docket No. A-110450F0016 (July 14, 2000).



the Black Oak Static Var Compensator, with other projects under construction.<sup>3</sup> TrAILCo's operating assets are primarily located in Pennsylvania, West Virginia and northern Virginia and are under the operational control of PJM as the RTO.

11. As previously explained, MAIT is a newly formed limited liability company that will be jointly owned by the Operating Companies and FET and, following the contribution of transmission assets for which approval is requested, will furnish interstate transmission service. From and after the closing on the Transaction, MAIT will construct, own and maintain new transmission facilities in the Operating Companies' service areas, including those projects currently in the planning or construction phase.

### III. OVERVIEW OF THE PROPOSED TRANSACTION

12. The principal elements of the Transaction provide that the Operating Companies will make a one-time contribution of their existing transmission assets to MAIT as a tax-free transfer in exchange for Class B membership interests in MAIT. As owners of Class B membership interests, the Operating Companies will have voting rights over various fundamental structural matters, namely, the filing of a voluntary petition in bankruptcy, a merger or the sale of substantially all the assets of MAIT. FET, in turn, will make a cash contribution to MAIT in exchange for Class A membership interests, which will give FET operating and management control of MAIT. For financial reporting purposes, MAIT will be treated as a consolidated subsidiary of FET. The Operating Companies will record their investment in MAIT as an

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<sup>3</sup> See *Application of Trans-Allegheny Line Company (TrAILCo) For Approval: 1) for a Certificate of Public Convenience to Offer, Render Furnish or Supply Transmission Service in the Commonwealth of Pennsylvania; (2) Authorization and Certification to Locate, Construct, Operate and Maintain Certain High-Voltage Electric Substation Facilities; 3) Authority to Exercise the Power of Eminent Domain for the Construction and Installation of Aerial Electric Transmission Facilities Along the Proposed Transmission Line Routes in Pennsylvania; 4) Approval of an Exemption from Municipal Zoning Regulation With Respect to the Construction of Buildings; and 5) Approval of Certain Related Affiliated Interest Arrangements*, Docket Nos. A-110172 et al. (December 13, 2008).

investment in subsidiary companies, as explained by Mr. Taylor (Joint Applicants' Statement No. 4). MAIT will be an affiliate of FirstEnergy Service Company ("FESC"), which will provide various administrative and management services to MAIT.

13. As a result of the Transaction, the Operating Companies will no longer own any facilities serving a transmission function. All transmission services over the transmission facilities will be provided by MAIT pursuant to the terms of PJM's Open Access Transmission Tariff ("OATT"), consistent with the current operation of these facilities by Met-Ed and Penelec. The transmission facilities will remain subject to the terms of the PJM OATT at all times before, during and after the Transaction. Rates for transmission service will remain subject to the jurisdiction of the FERC and administered by PJM through the OATT. The Operating Companies will continue to own and operate all distribution facilities they presently own and will continue to provide retail electric service within their existing service territories as they do today.

14. The existing transmission assets of the Operating Companies, including transmission-related regulatory assets, will be contributed to MAIT at book value (original cost less depreciation reserve). The goodwill associated with those transmission assets, as recorded on the Operating Companies' books of account, will also be transferred to MAIT. In exchange, the Operating Companies will receive the Class B membership interests in MAIT previously described. Because the Transaction will be structured to be a tax-free exchange of assets for ownership interests in a new limited liability company, the Operating Companies will not recognize taxable gain or loss on the Transaction. Moreover, because the Transaction is a tax-free exchange, the Accumulated Deferred Income Taxes ("ADIT") associated with transmission assets recorded on Met-Ed's and Penelec's books of account will transfer to MAIT's books. Because the ADIT are associated with transmission assets, they are not taken into account in determining

the electric distribution rate base of Met-Ed and Penelec for Pennsylvania ratemaking purposes. However, transferring the ADIT to MAIT will assure that MAIT's FERC-jurisdictional rate base, like the existing FERC-jurisdictional rate bases of Met-Ed and Penelec, reflects the credit balance of ADIT. Consequently, the Transaction will not result in any cost shifting between transmission and distribution customers nor will the FERC-jurisdictional rate base attributable to the transmission assets increase solely as a result of the Transaction.

15. The Operating Companies will not transfer a fee interest in land and other real estate to MAIT in connection with the contribution of transmission assets, and such fee interests will remain on Met-Ed's and Penelec's books. However, MAIT will need certain real estate interests and access rights in order to operate and maintain the transmission facilities going forward. Accordingly, MAIT will enter into a ground lease with each of the Operating Companies to govern those interactions. The fee interest in land and other real estate used for furnishing transmission service, as well as the ground lease payments from MAIT to the Operating Companies, would be excluded in determining the distribution revenue requirement in future distribution base rate cases.

16. The Operating Companies will have no continuing obligation to contribute equity to MAIT after the initial contribution of transmission assets occurs. MAIT will pay dividends at regular intervals to the Operating Companies and FET in proportion to each company's ownership interest in MAIT at the time the dividend distribution is made. The capital structure of each Operating Company will remain unchanged as a result of the Transaction, and the Operating Companies and FET will not provide parent guarantees for MAIT's debt.

#### IV. REQUESTED COMMISSION APPROVALS

##### A. Transfer of Property

17. Section 1102(a)(3) of the Code requires the issuance by the Commission of a certificate of public convenience, upon application, evidencing its approval for a “public utility or an affiliated interest of a public utility” to “acquire from, or transfer to [any other entity by any means whatsoever] the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.” 66 Pa. C. S. § 1102(a)(3).

18. The Commission may issue a certificate of public convenience upon a finding that “the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public.” 66 Pa.C.S. § 1103(a). This standard requires the Commission to find that the elements of a proposed transaction will “affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way.” *City of York v. Pa. Pub. Util. Comm'n*, 449 Pa. 136, 151,295 A.2d 825, 828 (1972). The “substantial public interest” standard is satisfied by a preponderance of the evidence that the requisite benefit will accrue from the transaction, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. Pub. Util. Comm'n*, 594 Pa. 583, 617, 937 A.2d 1040, 1057 (2007). Further, the public benefit test does not require that every customer receive a benefit from a proposed transaction. *Popowsky*, at 617-18, 937 A.2d at 1061. As explained in Section V, *infra*, and in the testimony accompanying this Joint Application, the Transaction will produce substantial affirmative benefits that satisfy the *York* test.

19. Chapter 28 of the Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. §§ 2801 *et seq.*, requires that, in the exercise of authority the Commission may

otherwise have with respect to the disposition of assets of an electric distribution company, the Commission shall consider the potential anti-competitive effects or discriminatory conduct of the disposition and whether it will prevent retail electricity customers in this Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail electricity market.

**B. Public Utility Status**

20. Subject to necessary state and FERC approvals of the Transaction, MAIT will furnish only interstate transmission service. Consequently, MAIT will be a “public utility” for purposes of the Federal Power Act (“FPA”), which grants the FERC “exclusive authority to regulate the transmission and sale at wholesale of electric energy in interstate commerce.”<sup>4</sup>

21. Because the FERC has exclusive jurisdiction over the interstate transmission of electric energy and the public utilities that provide interstate transmission service and because MAIT will not provide any Pennsylvania intrastate public utility service, the Commission will not have jurisdiction over MAIT’s rates, terms or conditions of transmission service, as the Commission has previously recognized:<sup>5</sup>

Transmission services are FERC jurisdictional and, as such, the terms and conditions under which unbundled transmission services are to be provided to customers will be controlled by the FERC-approved PJM Open Access Tariff for the transmission services procured by PECO or a competitive supplier . . . . The terms and conditions for transmission services for each separate rate classification are those established by FERC.

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<sup>4</sup> *New England Power Co. v. New Hampshire*, 455 U.S. 331, 340 (1982). *Accord New York v. FERC*, 535 U.S. 1, 18-19 (2002) (“the [Federal Power Act] gave FERC jurisdiction over the transmission of electric energy in interstate commerce”).

<sup>5</sup> *Pa. P.U.C. v. PECO Energy Co.*, Docket No. R-00973953, 1998 Pa. PUC LEXIS 2 at \*12-14 (Feb. 5, 1998).

22. Notwithstanding the exclusivity of FERC's jurisdiction over MAIT's transmission rates and service, MAIT is requesting that the Commission issue it a certificate of public convenience under Section 1101 of the Public Utility Code conferring public utility status under Section 102. Although a certificate of public convenience is not necessary for MAIT to exercise the power of eminent domain in Pennsylvania,<sup>6</sup> the issuance of a certificate of public convenience will subject MAIT to the Commission's regulations pertaining to the siting of high voltage (i.e., greater than 100 kV) transmission lines. As a consequence of MAIT's submission to the Commission's siting regulations, MAIT will also be assured that its siting, location, construction and operation of transmission facilities in Pennsylvania, including the existing transmission facilities of Met-Ed and Penelec, will not be subject to municipal zoning and land use regulations.<sup>7</sup>

23. MAIT further requests that the certificate of public convenience to be issued by the Commission: (1) demarcate a service area for MAIT that is coextensive with the combined authorized service territories of Met-Ed and Penelec; and (2) expressly state that MAIT is not thereby authorized to furnish any intrastate public utility service within Pennsylvania.

24. MAIT acknowledges that, as the holder of a certificate of public convenience, it will be required to comply with the Public Utility Code and the Commission's regulations and orders, excluding those provisions that expressly or by reasonable implication apply only to a public utility that furnishes intrastate service within Pennsylvania or that are preempted by the

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<sup>6</sup> *Application Of New York State Elec. & Gas Corp.: Request For Approval Of Abandonment Of Elec. Serv.*, Docket Nos. A-93538, A-110001 F.200, P-900488 (January 17, 1991) ("NYSEG").

<sup>7</sup> *York Water Co. v. York*, 250 Pa. 115, 118, 95 A. 396, 397 (1915). *Accord Duquesne Light Co. v. Monroeville Borough*, 449 Pa. 573, 298 A.2d 256 (1972) (local zoning ordinances preempted); *County of Chester v. Philadelphia Electric Co.*, 420 Pa. 422, 218 A.2d 331 (1966) (local land development planning requirements preempted); *Duquesne Light Co. v. Upper St. Clair Twp.*, 377 Pa. 323, 105 A.2d 287 (1954) (local zoning and building permit requirements preempted).

FERC's exclusive jurisdiction over transmission service and rates. Additionally, MAIT reserves the right to hereafter petition the Commission to be relieved of requirements that, given MAIT's provision of only interstate transmission service subject to the exclusive jurisdiction of the FERC, would not serve a reasonable regulatory purpose to impose on MAIT.

**C. Affiliated Interest Transactions**

25. Section 2102(a) of the Pennsylvania Public Utility Code, 66 Pa. C.S. § 2102(a), requires the filing of contracts with affiliates that provide for the "furnishing of ...construction, engineering...or similar services [or] ...purchase, sale, lease or exchange of any property, right or thing...." for approval by the Commission.

26. The Joint Applicants are requesting that the Commission approve as affiliated interest agreements the ground leases between MAIT and each Joint Applicant. Forms of the ground leases are provided as Joint Applicants' Exhibit KJT-2 accompanying Joint Applicants' Statement No. 4. Pursuant to the ground leases, each Joint Applicant will lease the real estate rights associated with the transmission assets being contributed to MAIT by that Joint Applicant.

27. The Joint Applicants are also requesting Commission approval of modifications to four existing affiliated interest agreements to include MAIT in order to facilitate its transmission-related activities and business operations. The first is the FirstEnergy Service Agreement, under which MAIT will be entitled to receive administrative, management, and other services from FESC. A copy of this agreement, as amended, is provided as Joint Applicants' Exhibit KJT-5 and is addressed in Joint Applicants' Statement No. 4. The second is the Mutual Assistance Agreement ("MAA"), a copy of which is provided as Joint Applicants' Exhibit KJT-6 and is also addressed in Joint Applicants' Statement No. 4. Under the amended MAA, MAIT will be able to request and receive non-power goods and services from any of the FirstEnergy operating

companies, including the Joint Applicants, consistent with the terms and conditions of the MAA (e.g., technical support services and workers to assist MAIT in the performance of its operations as a stand-alone transmission asset owner). The third is the Intercompany Income Tax Allocation Agreement, under which MAIT will be able to participate in FirstEnergy's filing of a consolidated tax return. A copy of this agreement is being provided as Joint Applicants' Exhibit KJT-7 and is discussed in Joint Applicants' Statement No. 4. The fourth is the FirstEnergy Regulated Money Pool Agreement, under which MAIT will become a member of FirstEnergy Regulated Money Pool Agreement and will be able to borrow from, or lend to, other regulated companies to manage its working capital requirements. A copy of this agreement is being provided as Joint Applicants' Exhibit SRS-4 and is discussed in Joint Applicants' Statement No. 3.

## **V. BENEFITS OF THE TRANSACTION**

28. FirstEnergy has recently established the Energizing the Future ("EtF") program, which will increase the reliability of the transmission system, improve the condition of equipment, enhance system performance, and improve operational flexibility. The EtF program initially focused on reliability enhancement investments in the ATSI transmission zone. FirstEnergy now proposes to expand the EtF program to include reliability enhancement investments in the Met-Ed, Penelec and JCP&L zones.

29. Based on a preliminary assessment, increased transmission system capital investments in the service territories of the Operating Companies are needed that could total as much as \$2.5 to \$3.0 billion over the next five to ten years. FirstEnergy has determined that significant investment in the transmission facilities within the Operating Companies' respective service areas is needed to maintain reliability stemming from various changes on those transmission systems, including, among other factors, generation changes (i.e. the retirement of



existing generation units and the addition of, new fossil fueled and renewable generating facilities); changes in load; the imposition of the North American Electric Reliability Corporation (“NERC”) and ReliabilityFirst (“RF”) reliability standards; increased reliance on demand-side resources; heightened concerns with cyber and physical security; the aging and deterioration of existing infrastructure; system conditions that FirstEnergy’s periodic assessments have uncovered; and the need for additional operational flexibility. (See Joint Applicants’ Statement No. 2.) The expansion of the EtF program is the comprehensive plan for guiding these transmission investments. The expansion of the EtF program will improve the resilience, reliability, and capacity of the transmission system for the Operating Companies’ existing and new customers.

30. Because of the levels of investment that will be needed to enhance the transmission grid, it will be increasingly challenging for utilities that have the obligation to meet the service requirements of retail electric distribution customers to implement sustained transmission expansion and enhancement initiatives while maintaining investment grade credit ratings to support an adequate supply of investor capital. Companies that are focused solely on the delivery of safe and reliable transmission service offer several advantages, which can result in enhanced reliability and lower overall costs for customers:

**Reduced Cost of Capital.** A transmission-only company improves transparency for investors, which can reduce perceived investor risk and improve the overall credit profile of the business. Higher credit ratings generally translate into greater access to capital at a lower cost and provide a direct benefit to transmission customers and to the customers of public utilities that need transmission service to furnish retail distribution service. Stand-alone transmission companies with a singular focus and transparent cost recovery mechanisms can be an attractive

investment for a wider spectrum of investors and, therefore, provide added flexibility in raising equity capital through multiple avenues, whether public or private, at lower cost.

**Reduced Competition for Capital.** Investment by each Operating Company in transmission facilities competes with other necessary investments and can be deferred in favor of more immediate or emergency investments in distribution facilities. Without such competing interests, MAIT will be able to pursue investment in necessary transmission facilities on which a reasonable return can be earned.

Furthermore, MAIT's operational flexibility and access to capital will provide greater flexibility to respond promptly, efficiently, and cost-effectively to PJM and NERC reliability requirements. This is especially important because, under the existing structure where the Operating Companies own the transmission assets, PJM requirements to construct new transmission projects increasingly commit a significant portion of the Operating Companies' available capital to such projects, which is then unavailable for distribution system investment. Consequently, the capital demands of more transmission projects could limit the amount of available capital for needed distribution plant investments, and the associated increase in debt burden could adversely affect the financial condition and credit profiles of the Operating Companies.

Because MAIT will issue debt in its own name without a parent guarantee, any debt incurred by MAIT to finance new transmission will not affect the financial condition and credit ratings of the Operating Companies. This will allow the Operating Companies to have greater control over their annual expenditures dedicated to the distribution business and similarly reduce the range of business lines that must be evaluated for purposes of assessing risks by investors.

Hence, the migration to a transmission-only model not only better supports the sustained level of transmission investment needed at MAIT, but at the same time preserves the Operating Companies' capacity to issue debt for their own distribution system needs.

**Efficiency.** MAIT will be a much larger transmission owner than any of the Operating Companies would ever be individually. Because MAIT would be a larger company with a larger asset pool, it would be better equipped from a financial perspective to secure the debt required to make substantial investments in the transmission system on reasonable terms. Rather than issuing debt at each of the Operating Companies for needed investment, the debt only needs to be issued at the MAIT level. This makes the process more cost effective, efficient and less time consuming.

**Operational Benefits and Job Creation.** The creation of MAIT will facilitate and accelerate the realization of the numerous operational benefits described by Mr. Mackauer (Joint Applicants' Statement No. 2), which will increase reliability and harden the transmission system against physical and cyber-attacks. Specifically, the formation of MAIT and completion of the proposed Transaction will enable increased and accelerated investment in projects such as constructing new and upgrading existing transmission lines and substations; enhancing the communications infrastructure; and modernizing the transmission system by, among other initiatives, enhancing physical and cyber security. As described in detail in Mr. Mackauer's direct testimony, the projects to be undertaken can be grouped into one or more of five general categories, each of which will provide the direct benefits to system reliability, resilience and customer service summarized below:

- (i) **System Condition Projects** are designed principally to enhance system

reliability. Consequently, most of the projects in this category will reduce the frequency and/or duration of customer outages, although certain projects are designed to reduce maintenance costs, increase safety, generally modernize the transmission system and address environmental concerns.

(ii) **System Performance Projects** will help to increase real time operational “visibility” into the status of the transmission system and conditions existing on the system and, thereby, improve situational awareness, which, in turn, will enable quicker analysis of, and response to, system events. The addition of breakers and automatic sectionalizing switches at tapped substations will enhance reliability and improve service to customers by increasing the speed of system restoration and reducing the frequency and duration of outages.

(iii) **Operational Flexibility Projects** will provide more flexibility in dealing with both scheduled and unscheduled outages and, in that way, enhance reliability. Such projects will also add load-serving capability, increase the transmission system’s operating margin to better respond to future unexpected shifts in generation and system loading, and, in general, establish a more robust transmission system.

(iv) **Transmission Communications Infrastructure, Physical Security Enabling and Cyber Security Projects** will enhance the reliability, security and general capability of the communications systems that are required to monitor, control, and protect the transmission system. These projects will also help to reduce maintenance costs, employee overtime expenses and equipment failures.

(v) **Physical Security Projects** will enhance reliability and increase situational awareness by providing the means for earlier identification of potential threats to

critical substation assets. These measures, which include installing or enhancing security systems, will also safeguard the public from electrical hazards and deter criminal activity through faster detection of unusual events, thus enabling appropriate responses to be initiated sooner. These projects will also harden the transmission system through additional or enhanced physical security measures and monitoring.

In addition to the numerous operational benefits outlined above, increasing and accelerating investment in the transmission system will create benefits for the economy. In that regard, based upon initial assessments of the scope and nature of the work encompassed by the proposed expansion of the EtF, it is estimated that the increased investments MAIT will facilitate will have a material, positive effect on job creation in the states covered by the Operating Companies' transmission zones.

## **VI. IMPACT ON COMPETITION**

31. The Joint Applicants seek to separate their transmission facilities from their distribution facilities in order to pave the way for a more efficient vehicle to finance significant investment in transmission assets. MAIT does not currently own any generation, distribution or transmission facilities and will not own or control any generation or any distribution assets upon completion of the proposed Transaction. When the contribution of the Operating Companies' transmission assets to MAIT is completed, Met-Ed and Penelec will no longer own any facilities serving a transmission function. Consequently, the proposed contribution will have no effect on the concentration of generation or transmission assets or upon market power. Moreover, the proposed Transaction will leave the transmission facilities under the operational control of an RTO and, therefore, it will have no adverse effect on competition in the wholesale power market.

## VII. ISSUANCE OF A CERTIFICATE OF PUBLIC CONVENIENCE TO MAIT

32. MAIT requests the issuance of certificate of public convenience conferring upon it public utility status on the terms and conditions set forth in Section IV.B., *supra*, pursuant to Section 1101 of the Public Utility Code, which provides, in relevant part, as follows:

Upon the application of any proposed public utility and the approval of such application by the commission evidenced by its certificate of public convenience first had and obtained, it shall be lawful for any such proposed public utility to begin to offer, render, furnish, or supply service within this Commonwealth. The commission's certificate of public convenience granted under the authority of this section shall include a description of the nature of the service and of the territory in which it may be offered, rendered, furnished or supplied.

33. Section 1103 of the Public Utility Code provides that a certificate of public convenience should be issued if the Commission "shall find and determine that the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public."<sup>8</sup>

34. In applying Sections 1101 and 1103, the Commission has held that a certificate of public convenience conferring public utility status will be issued where there is a need for the proposed service and the applicant had demonstrated its fitness to provide that service.<sup>9</sup>

35. When the assets and service territory of an existing utility are being transferred to another utility, there is a rebuttable presumption that need for the transferor's service continues

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<sup>8</sup> 66 Pa.C.S. §1103.

<sup>9</sup> See *Application of Newtown Artesian Water Company*, 2003 Pa. PUC LEXIS 40 (July 1, 2003).

and satisfies the applicable legal standard.<sup>10</sup> Moreover, as explained in Section V, *supra*, and in the direct testimony accompanying the Joint Application, after the consummation of the proposed Transaction, MAIT will provide financial and operational benefits that would not be achieved by the Operating Companies' continuing to own the transmission assets being contributed to MAIT. Specifically, MAIT will be an entity singularly focused on furnishing transmission service that will have improved financial metrics and enhanced access to capital at reasonable costs. This, in turn, will enable MAIT to increase and accelerate investments in the transmission projects identified by Mr. Mackauer in Joint Applicants' Statement No. 2. The significant benefits to customers and to the Commonwealth of Pennsylvania from those projects are also described in Mr. Mackauer's direct testimony. Consequently, in addition to the legal presumption of continued need to which MAIT is entitled as the transferee of Met-Ed's and Penelec's transmission assets, substantial evidence supports an independent finding that the formation of MAIT and completion of the Transaction will satisfy the "need" requirement for the issuance of certificate of public convenience conferring public utility status on MAIT.

36. The Commission has held that "fitness" encompasses: (1) the technical capacity to fulfill the identified service need in a satisfactory fashion; (2) the financial capacity to obtain the plant and equipment needed to perform the proposed service in a reliable and responsible fashion; and (3) a propensity to operate safely and legally.<sup>11</sup> As explained by Mr. Fullem in Joint Applicants' Statement No. 1, MAIT satisfies each of the components of the fitness requirement:

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<sup>10</sup> *Applications of Pennsylvania-American Water Company*, Docket Nos. A-212285F019; A-212285F020; A-212285F021, 1995 Pa. PUC LEXIS 197 at \*6-7 (October 26, 1995).

<sup>11</sup> *Re William O'Connor*, 54 Pa. P.U.C. 547, 549 (1980).

(i) **Technical Capacity.** Like the Operating Companies, MAIT will be a member of the FirstEnergy holding company system and, as such, will have access to the resources and expertise available from FESC. MAIT will also be able to call upon and use the existing well-trained complement of Operating Companies' employees, which has extensive experience in operating and maintaining the Operating Companies' transmission systems.

(ii) **Financial Capacity.** MAIT will have adequate short-term borrowing capacity through its participation in the FirstEnergy Money Pool Agreement and FET's \$1.0 billion credit facility to meet all of the obligations of its day-to-day operations. Additionally, MAIT's strengthened financial metrics will facilitate obtaining long-term debt at reasonable rates. MAIT's access to debt capital and the opportunity for FET to make additional equity contributions will be sufficient to maintain and, as necessary, expand MAIT's transmission system.

(iii) **Propensity To Operate Safely And Legally.** MAIT will operate safely and in full compliance with applicable legal requirements and, as the successor to the Operating Companies' transmission functions, MAIT will continue the Operating Companies' track record of satisfying all applicable legal and regulatory obligations and consistently furnishing safe and reliable transmission service.

For all of the reasons set forth above, MAIT fully satisfies all three components of the fitness requirement for issuance of a certificate of public convenience as a Pennsylvania public utility.



## VIII. SUPPORTING TESTIMONY

37. With this Joint Application, the Joint Applicants are submitting the written direct testimony and supporting exhibits of four witnesses, which, subject to possible supplementation in response to positions, inquiries and issues set forth in the filings by other parties or in interim orders of the Commission, will comprise the Joint Applicants' case-in-chief:

**Charles V. Fullem** (Joint Applicants' Statement No. 1) is Director, Rates and Regulatory Affairs-Pennsylvania. Mr. Fullem provides an overview of the Transaction. He also describes how MAIT will be operated, the affiliated interest agreements it will utilize, the classification of its transmission assets, and the public benefits of the Transaction. Additionally, Mr. Fullem explains why MAIT satisfies all of the requirements for issuance of a certificate of public convenience conferring public utility status under Pennsylvania law, including its financial, technical and legal fitness to furnish transmission service in Pennsylvania as a successor to the Operating Companies.

**Jeffery J. Mackauer** (Joint Applicants' Statement No. 2) is Director of Transmission Planning & Protection. Mr. Mackauer describes the transmission planning process at FirstEnergy and discusses the benefits and capital requirements associated with expanding FirstEnergy's EtF program to cover the transmission systems currently owned and operated by the Operating Companies.

**Steven R. Staub** (Joint Applicants' Statement No. 3) is Vice President and Treasurer at FESC and, in that role, is responsible for treasury activities for each of the FirstEnergy companies. Mr. Staub describes the financial aspects of the proposed transaction and the associated agreements, and also discusses the benefits of the Transaction.

**K. Jon Taylor** (Joint Applicants' Statement No. 4) is Vice President, Controller, and Chief Accounting Officer of FirstEnergy. Mr. Taylor discusses the various tax and accounting aspects of the Transaction.

**IX. ADDITIONAL SUPPORTING EXHIBITS**

38. The following exhibits, containing additional information in support of this Joint Application, accompany, and are discussed in, the direct testimony of the Joint Applicants' witnesses:

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
Charles V. Fullem	CVF-1	Organizational chart of the post-Transaction corporate structure
Steven R. Staub	SRS-1	Amended and Restated Limited Liability Company Operating Agreement
Steven R. Staub	SRS-2	Corporate Bond Spreads
Steven R. Staub	SRS-3	FirstEnergy Regulated Money Pool Agreement
K. Jon Taylor	KJT-1	Capital Contribution Agreement
K. Jon Taylor	KJT-2	Met-Ed Ground Lease Penelec Ground Lease
K. Jon Taylor	KJT-3	List of real property associated with each substation that is part of transfer
K. Jon Taylor	KJT-4	Transmission facility maps
K. Jon Taylor	KJT-5	FirstEnergy Service Agreement
K. Jon Taylor	KJT-6	Revised and Amended Restated Mutual Assistance Agreement

<b>Witness</b>	<b>Exhibit</b>	<b>Description</b>
K. Jon Taylor	KJT-7	Intercompany Income Tax Allocation Agreement
K. Jon Taylor	KJT-8	Proposed accounting entries

## **X. OTHER REQUIRED APPROVALS**

39. In addition to approval from the Commission, other regulatory approvals will be required before the Transaction can be concluded. Notably, approval by the FERC under Section 203 of the Federal Power Act (16 U.S.C. § 824b) is required for the contribution of electric transmission assets to MAIT by the Operating Companies. Also, as previously noted, approval by the NJBPU is required for JCP&L to contribute its transmission assets to MAIT. The Joint Applicants will provide the Commission, under separate cover, with copies of the FERC filing and the Verified Petition submitted by JCP&L to the NJBPU.

## **XI. REQUEST FOR FORMAL CONSOLIDATION AND CONDUCT OF CONSOLIDATED PROCEEDINGS**

40. The Commission's regulations provide as follows concerning the formal consolidation of proceedings<sup>12</sup>:

### § 5.81. Consolidation.

(a) The Commission or presiding officer, with or without motion, may order proceedings involving a common question of law or fact to be consolidated. The Commission or presiding officer may make orders concerning the conduct of the proceeding as may avoid unnecessary costs or delay.

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<sup>12</sup> 52 Pa. Code §5.81.

41. The requests for Commission approvals set forth herein, namely, for the issuance of certificates of public convenience under Sections 1101 and 1103 and the approval of affiliated interest agreements, as described in Section IV, *supra*, involve a common nucleus of operative facts centering on the contribution of Met-Ed's and Penelec's transmission assets to MAIT, as a proposed certificated Pennsylvania public utility. Moreover, substantially similar set of legal standards exist for issuance of the requested certificates which, in large measure, center on whether the proposed Transaction will provide affirmative benefits and is in the public interest. Therefore, formal consolidation, into a single proceeding, of all of the requests for approval set forth in the Joint Application will help to develop a more complete, understandable and meaningful evidentiary record than would exist if each request were assigned to a separate proceeding. Moreover, formal consolidation will avoid duplication and repetition in the submission of testimony, the conduct of discovery and evidentiary proceedings, briefing, the issuance of an initial decision, and the preparation and filing of exceptions and reply exceptions. Accordingly, consolidation will conserve administrative time, resources and money as well as reduce the costs of the Joint Applicants and other parties.

42. Formal consolidation will ensure that each request for approval in the Joint Application and any subsidiary issues would be treated procedurally in the same fashion as the individual issues in a single base rate proceeding. As a consequence, witnesses would be permitted to address any issue or group of issues in a single statement of direct, rebuttal, surrebuttal or rejoinder testimony (as applicable); a single set of consolidated evidentiary hearings would be conducted; witnesses, when presented, would be subject to cross-examination with regard to all of the testimony they submitted in the consolidated proceeding; one main and one reply brief would be filed by each party in which all of the issues in the consolidated proceeding

could be addressed; a single initial decision would be issued covering all contested issues; and each party would be permitted to file exceptions and reply exceptions addressing all of the issues in the initial decision.

43. For all of the foregoing reasons, the formal consolidation of the requests for approval set forth in the Joint Application in the manner delineated above is fully justified, in the public interest and should be granted.

## **XII. PROPOSED PROCEDURAL SCHEDULE**

44. The Joint Applicants desire to complete the Transaction as expeditiously as possible consistent with the legitimate review rights of interested parties. With that in mind, the Joint Applicants suggest that holding an initial Prehearing Conference early in the process will assist the parties in identifying and resolving issues. A litigation schedule can be developed after any active parties have been identified, with the assistance of the presiding Administrative Law Judge.

## **XIII. NOTICE**

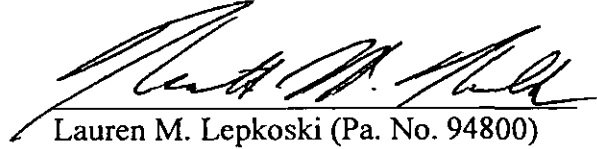
45. The Joint Applicants are serving copies of this filing on the Office of Consumer Advocate, the Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, the Met-Ed Industrial Users Group and the Penelec Industrial Customer Alliance. A service list is attached to the transmittal letter that accompanies this Joint Application. The Joint Applicants respectfully request that the Commission publish notice of this filing in the Pennsylvania Bulletin, with a reasonable deadline for intervention in this proceeding. The Joint Applicants will provide such additional forms of notice as the Commission may hereafter direct.

#### XIV. CONCLUSION

46. For all of the reasons set forth in, and supported by, this Joint Application, the Transaction satisfies the legal requirements for the approvals necessary to consummate the Transaction as described previously, and the Joint Applicants, therefore, request that the Commission: (1) issue certificates of public convenience evidencing approval under 66 Pa.C.S. §1102(a)(3) for the of the Joint Applicants' transmission assets to MAIT in the manner previously described in this Joint Application; (2) find and determine, pursuant to 66 Pa.C.S. §2810(e), that the Transaction will not result in anticompetitive or discriminatory conduct, including the unlawful exercise of market power, which would prevent retail electricity customers in the Commonwealth from obtaining the benefits of a properly functioning and workable competitive retail electricity market; (3) issue a certificate of public convenience under 66 Pa.C.S. §1101 conferring on MAIT the status of a public utility as defined in 66 Pa.C.S. §102; (4) find and determine that the affiliated agreements submitted with this Joint Application satisfy the legal standard for approval under Chapter 21 of the Public Utility Code; and (5) grant such additional approvals as may be necessary to consummate the Transaction.

WHEREFORE, the Joint Applicants respectfully urge the Commission to grant the approvals and authorizations requested herein and more specifically delineated in Paragraph 46, above, and grant formal consolidation as requested in Section XI, *supra*.

Respectfully submitted,



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Counsel for Mid-Atlantic Interstate  
Transmission, LLC, Metropolitan Edison  
Company and Pennsylvania Electric  
Company

Date: June 19, 2015

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2/29/16  
HBS  
JAT

**JOINT APPLICATION OF MID-ATLANTIC INTERSTATE TRANSMISSION, LLC (“MAIT”); METROPOLITAN EDISON COMPANY (“MET-ED”) AND PENNSYLVANIA ELECTRIC COMPANY (“PENELEC”) FOR: (1) A CERTIFICATE OF PUBLIC CONVENIENCE UNDER 66 PA.C.S. §1102(A)(3) AUTHORIZING THE TRANSFER OF CERTAIN TRANSMISSION ASSETS FROM MET-ED AND PENELEC TO MAIT; (2) A CERTIFICATE OF PUBLIC CONVENIENCE CONFERRING UPON MAIT THE STATUS OF A PENNSYLVANIA PUBLIC UTILITY UNDER 66 PA.C.S. §102; AND (3) APPROVAL OF CERTAIN AFFILIATE INTEREST AGREEMENTS UNDER 66 PA.C.S. §2102**

**DOCKET NOS.:**

~~A-2015-2488903~~  
A-2015-2488904  
A-2015-2488905  
G-2015-2488906  
G-2015-2488907  
G-2015-2489542  
G-2015-2489543  
G-2015-2489544  
G-2015-2489545  
G-2015-2489547  
G-2015-2490801  
G-2015-2490802

Direct Testimony  
of  
Charles V. Fullem

**List of Topics Addressed**

Transaction Overview  
Mid-Atlantic Interstate Transmission, LLC’s Request For Public Utility Status  
Classification of Transmission Assets  
Regulatory Framework  
Public Benefits



1  
2  
3

**DIRECT TESTIMONY  
OF  
CHARLES V. FULLEM**

4     **I.     INTRODUCTION AND PURPOSE**

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

6     A.     My name is Charles V. Fullem, and my business address is 2800 Pottsville Pike, Reading,  
7            Pennsylvania 19605.

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

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

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

1 rates, rules and regulations and ensuring their uniform application and interpretation.

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

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

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

8 A. I am testifying on behalf of Mid-Atlantic Interstate Transmission, LLC ("MAIT"), Met-  
9 Ed and Penelec.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide an overview of the proposed transaction (the  
12 "Transaction"), under which Met-Ed, Penelec and Jersey Central Power & Light  
13 Company ("JCP&L") (collectively, the "Operating Companies") will contribute their  
14 transmission assets to MAIT, a newly-formed subsidiary of FirstEnergy Transmission,  
15 LLC ("FET") in which the Operating Companies will have membership interests. In  
16 addition to the overview, I will describe how MAIT will be operated, the affiliated  
17 interest agreements it will utilize, the classification of its transmission assets, and the  
18 public benefits of the Transaction. I will also explain that MAIT, which is requesting that  
19 the Commission grant it public utility status, has the technical, financial and legal fitness  
20 to satisfy the criteria for issuance of a certificate of public convenience.

1 **Q. Are you sponsoring any exhibits as part of this filing?**

2 A. Yes. I am sponsoring one exhibit with my testimony. Joint Applicants' Exhibit CVF-1  
3 comprises an organizational chart of the pre-Transaction corporate structure and an  
4 organizational chart of the post-Transaction corporate structure.

5 **Q. Please identify the other witnesses submitting direct testimony on behalf of Met-Ed  
6 and Penelec in this proceeding.**

7 A. Mr. Jeffrey J. Mackauer (Joint Applicants' Statement No. 2) will describe the  
8 transmission planning process at FirstEnergy and discuss the benefits and capital  
9 requirements associated with expanding FirstEnergy's Energizing the Future ("EtF")  
10 program to cover the transmission systems currently owned and operated by the  
11 Operating Companies.

12 Mr. Steven R. Staub (Joint Applicants' Statement No. 3) will describe the structure of the  
13 Transaction and its financial aspects. Mr. Staub will also describe and explain the  
14 financial benefits of the Transaction and address the inclusion of MAIT in the  
15 FirstEnergy Regulated Money Pool Agreement.

16 Mr. K. Jon Taylor (Joint Applicants' Statement No. 4) provides a description of the  
17 transmission facilities to be contributed by the Operating Companies to MAIT. Mr.  
18 Taylor also provides a detailed discussion of accounting and tax issues, including how the  
19 Operating Companies will account for their investment in MAIT and the dividends they  
20 will receive from MAIT, as well as proposed changes to the FirstEnergy Service  
21 Company Agreement, Mutual Assistance Agreement, and Intercompany Income Tax  
Allocation Agreement. Mr. Taylor further provides a description of the Ground Leases

1 that Met-Ed and Penelec will be entering into with MAIT.

2 **II. TRANSACTION OVERVIEW**

3 **A. Existing FirstEnergy Subsidiaries and Transmission Service**

4 **Q. Please describe the FirstEnergy subsidiaries that are a part of this Transaction.**

5 A. Met-Ed is a wholly-owned subsidiary of FirstEnergy. Met-Ed provides service to about  
6 553,000 electric utility customers in eastern Pennsylvania. Met-Ed had a summer peak  
7 load in 2014 of 2,817 MW, with about two-thirds of that load attributable to residential  
8 and small commercial customers. In addition to owning and maintaining 11,292 circuit  
9 miles of distribution lines, Met-Ed currently owns 1,406 miles of transmission lines and  
10 related facilities within its service territory, which are under the operational control of the  
11 PJM Interconnection, LLC ("PJM") as the regional transmission organization ("RTO").

12 Penelec is a wholly-owned subsidiary of FirstEnergy. Penelec provides service to about  
13 591,000 electric utility customers in central and western Pennsylvania. Penelec had a  
14 summer peak load in 2014 of 2,788 MW, with about two-thirds of that load attributable  
15 to residential and small commercial customers. In addition to owning and maintaining  
16 16,853 circuit miles of distribution lines, Penelec currently owns 2,877 miles of  
17 transmission lines and related facilities within its service territory, which are under the  
18 operational control of PJM as the RTO.

19 JCP&L is also a wholly-owned subsidiary of FirstEnergy that provides service to about  
20 1.1 million electric utility customers in New Jersey. In addition to its distribution  
21 facilities, JCP&L currently owns 2,569 circuit miles of transmission lines and related  
22 facilities within its service territory, which are under the operational control of PJM as

the RTO.

FET is a subsidiary of FirstEnergy. FET's subsidiaries include American Transmission Systems, Inc. ("ATSI") and Trans-Allegheny Interstate Line Company ("TrAILCo"). ATSI is a transmission-only utility or "transco" that provides transmission services in the western portion of Pennsylvania and the state of Ohio. Currently, ATSI owns and maintains over 8,100 circuit-miles of transmission lines, substations and other transmission facilities that are located principally in the ATSI Zone of PJM and are under the operational control of PJM as the RTO. ATSI is comprised in large part of the transmission assets formerly owned by FirstEnergy's operating utilities in western Pennsylvania and Ohio (*i.e.*, Pennsylvania Power Company ("Penn Power") in western Pennsylvania, The Toledo Edison Company, Ohio Edison Company, and The Cleveland Electric Illuminating Company in Ohio).<sup>1</sup>

TrAILCo owns, operates and maintains over 180 circuit-miles of transmission lines, substations and other transmission facilities, including the Trans-Allegheny Interstate Line and the Black Oak Static Var Compensator, with other projects under construction.<sup>2</sup>

TrAILCo's operating assets are primarily located in Pennsylvania, West Virginia and

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<sup>1</sup> Pennsylvania Power Company ("Penn Power") a public utility subsidiary of Ohio Edison Company, which is in turn a subsidiary of FirstEnergy that provides electric distribution service in western Pennsylvania, transferred its transmission assets to ATSI pursuant to the Commission's approval as evidenced by a certificate of public convenience issued in 2000. *Application Of Pennsylvania Power Co. For (1) A Certificate Of Public Convenience Authorizing The Transfer Of Certain Transmission Assets To American Transmission Systems, Inc., And (2) Approval Of Certain Affiliated Interest Agreements Necessary To Effect The Transfer*, Docket No. A-110450F0016 (July 14, 2000) ("ATSI Order").

<sup>2</sup> See *Application of Trans-Allegheny Line Company (TrAILCo) For Approval: 1) for a Certificate of Public Convenience to Offer, Render Furnish or Supply Transmission Service in the Commonwealth of Pennsylvania; (2) Authorization and Certification to Locate, Construct, Operate and Maintain Certain High-Voltage Electric Substation Facilities; 3) Authority to Exercise the Power of Eminent Domain for the Construction and Installation of Aerial Electric Transmission Facilities Along the Proposed Transmission Line Routes in Pennsylvania; 4) Approval of an Exemption from Municipal Zoning Regulation With Respect to the Construction of Buildings; and 5) Approval of Certain Related Affiliated Interest Arrangements*, Docket Nos. A-110172 *et al.* (December 13, 2008).

1 northern Virginia and are under the operational control of PJM as the RTO. *See* Joint  
2 Applicants' Exhibit No. CVF-1.

3 MAIT is a newly-formed subsidiary of FET, in which the Operating Companies will own  
4 membership interests. MAIT's business functions and activities, as well as its  
5 relationship to Met-Ed and Penelec and other subsidiaries of FirstEnergy are discussed  
6 and explained further in my direct testimony as well as in Steven R. Staub's and K. Jon  
7 Taylor's direct testimony.

8 **Q. Please describe how Met-Ed and Penelec currently provide transmission service.**

9 A. All transmission services are currently provided by PJM, which utilizes the facilities of  
10 Met-Ed and Penelec, as transmission owners, pursuant to the terms of the PJM Open-  
11 Access Transmission Tariff ("OATT") approved by the Federal Energy Regulatory  
12 Commission ("FERC"). The FERC has jurisdiction over transmission rates and  
13 practices, as well as contracts affecting transmission rates. This Commission has  
14 authority over Met-Ed's and Penelec's retail service and rates.

15 **Q. How are Met-Ed and Penelec currently being compensated for providing  
16 transmission service?**

17 A. PJM bills entities that take transmission service over transmission facilities in PJM  
18 ("Transmission Customers") consistent with the provisions of the OATT. Transmission  
19 Customers include entities serving load (the Load Serving Entities, or "LSEs") in Met-  
20 Ed's and Penelec's service territories. The LSEs include electric generation suppliers  
21 ("EGSs") and wholesale suppliers of default service selected through the competitive  
22 default service procurement processes approved by the Commission. The EGSs include

1 the cost of network integrated transmission service in the prices they charge to shopping  
2 customers, and Met-Ed and Penelec include the cost associated with network integrated  
3 transmission service in the price of default service. The associated payments made to  
4 PJM by Transmission Customers are used to compensate Met-Ed and Penelec for  
5 providing transmission service. PJM's monthly billing to Met-Ed and Penelec includes  
6 credit code 2100, which compensates Met-Ed and Penelec for the network integrated  
7 transmission service charges collected by PJM on their behalf.<sup>3</sup>

8 **B. The Transaction**

9 **Q. Please describe the Transaction and the resulting corporate structure.**

10 A. The Operating Companies will make a one-time contribution of their existing  
11 transmission assets<sup>4</sup> to MAIT through a tax-free transfer in exchange for Class B  
12 membership interests<sup>5</sup> in MAIT. FET, in turn, will make a cash contribution to MAIT in  
13 exchange for a membership interest that will give FET operating and management control  
14 of MAIT. As a result of the Transaction, the Operating Companies will no longer own  
15 any facilities performing a transmission function. The distribution assets owned by the  
16 Operating Companies will not be affected. FET and the Operating Companies will have  
17 membership interests in MAIT, and MAIT will operate as a transmission-only entity. A

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<sup>3</sup> Met-Ed and Penelec currently collect PJM Transmission related charges for (i) Regional Transmission Expansion Plan ("RTEP"), (ii) Expansion Cost Recovery, and (iii) Reliability Must Run ("RMR") generating unit declarations and charges associated with plant deactivation on a non-bypassable basis through the Default Service Support Riders in their respective retail tariffs. Other ancillary transmission services are billed to the same entities as network integrated transmission service.

<sup>4</sup> "Transmission assets" are defined in the Capital Contribution Agreement (Exhibit No. KJT-1 accompanying Joint Applicants' Statement No. 4, the direct testimony of K. Jon Taylor) ("Contribution Agreement"). The terms of the Contribution Agreement are explained in more detail in Mr. Taylor's direct testimony.

<sup>5</sup> Class B membership interests do not confer operating control and management authority over MAIT. However, the Operating Companies will maintain voting rights over "special matters," which include decisions pertaining to bankruptcy, mergers, any sale of substantially all assets of MAIT and amendment of the LLC Operating Agreement.

1 more detailed discussion of the Transaction is provided in Joint Applicants' Statement  
2 No. 3, the direct testimony of Mr. Staub, and pre-Transaction and post-Transaction  
3 organizational charts are provided in Joint Applicants' Exhibit No. CVF-1.

4 **Q. Please describe the assets and associated liabilities that will be contributed by Met-**  
5 **Ed and Penelec to MAIT.**

6 A. The net book value (original cost less depreciation reserve) of the existing transmission  
7 assets and the associated goodwill will be contributed to MAIT in exchange for a  
8 membership interest in MAIT. This tax-free transaction also results in a transfer of  
9 transmission property-related Accumulated Deferred Income Taxes ("ADIT") from Met-  
10 Ed's and Penelec's books to MAIT's books. Because the ADIT associated with  
11 transmission assets are already excluded from the determination of Met-Ed's and  
12 Penelec's distribution rate bases, the Transaction will not result in any cost shifting  
13 between transmission and distribution customers. The accounting for the Transaction,  
14 including the specific tax implications of the Transaction, are discussed in additional  
15 detail in Joint Applicants' Statement No. 4, the direct testimony of Mr. Taylor.

16 **Q. Will Met-Ed and Penelec contribute land or other real estate interests associated**  
17 **with the contributed transmission assets?**

18 A. No. The associated land and other real estate interests will remain on Met-Ed's and  
19 Penelec's books, and Ground Leases will be put into place – one between Met-Ed, as  
20 lessor, and MAIT, as lessee, and one between Penelec, as lessor, and MAIT as lessee.<sup>6</sup>  
21 The associated transmission land and other real estate interests, as well as the Ground

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<sup>6</sup> A ground lease was also entered into between ATSI and Penn Power to provide ATSI the interests in real property it needs to furnish transmission service in Pennsylvania. See ATSI Order.



1 Lease payments from MAIT to Met-Ed and Penelec, will be excluded from future  
2 distribution base rate cases. This is consistent with existing ratemaking treatment of the  
3 land interests, which are included in FERC Account 350, which have historically been  
4 reflected in the determination of transmission rates, and which have been excluded from  
5 the determination of the distribution rate bases of Met-Ed and Penelec as non-  
6 jurisdictional.

7 **Q. Will the capital structures of Met-Ed and Penelec be affected by the Transaction?**

8 A. No. Met-Ed's and Penelec's investment in transmission assets will simply shift from  
9 plant accounts to an asset account, FERC Account 123.1 *Investment in Subsidiary*  
10 *Companies*, after the contribution is complete. Their capitalization will not be affected.

11 **Q. Will the Transaction change how the transmission service currently provided by**  
12 **Met-Ed and Penelec is regulated?**

13 A. No, it will not. All transmission services over the transmission facilities will be provided  
14 by MAIT pursuant to the terms of the PJM OATT, consistent with the current operation  
15 of these facilities by Met-Ed and Penelec. The transmission facilities will remain subject  
16 to the terms of the PJM OATT at all times before, during and after the Transaction.  
17 Rates for transmission service will remain subject to the jurisdiction of the FERC and  
18 administered by PJM through the OATT.

19 **Q. Will MAIT have a contractual relationship with other FirstEnergy companies?**

20 A. Yes, it will. Therefore, Met-Ed and Penelec are each requesting Commission approval of  
21 five affiliated interest agreements.

1 The first is the FirstEnergy Service Company Agreement (Joint Applicants'  
2 Statement No. 4, Joint Applicants' Exhibit KJT-5), under which MAIT will be  
3 entitled to receive administrative, management, and other services from FESC as  
4 set forth in the agreement. The allocations set forth in the FirstEnergy Service  
5 Company Agreement are consistent with FERC's applicable requirements.

6 The second is the Revised and Amended Mutual Assistance Agreement ("MAA")  
7 (Joint Applicants' Statement No. 4, Joint Applicants' Exhibit KJT-6), under  
8 which MAIT will be able to request and receive non-power goods and services  
9 from the FirstEnergy operating companies consistent with the terms and  
10 conditions of the MAA. For example, technical support services and workers,  
11 including those from Met-Ed and Penelec, could be provided under the MAA to  
12 assist MAIT in the performance of its operations as a separate transmission asset  
13 owner.

14 The third is the Intercompany Income Tax Allocation Agreement (Joint  
15 Applicants' Statement No. 4, Joint Applicants' Exhibit KJT-7), under which  
16 MAIT will be able to participate in FirstEnergy's filing of a consolidated tax  
17 return as described in the direct testimony of Mr. Taylor.

18 The fourth consists of the Ground Leases between each of the Joint Applicants'  
19 and MAIT (Joint Applicants' Statement No. 4, Joint Applicants' Exhibit KTJ-2).  
20 Under the Ground Leases, MAIT will obtain the interests in real property needed  
21 to furnish transmission service in the Med-Ed, Penelec and JCP&L zones.

22 Fifth and finally, MAIT will be added as a signatory to the FirstEnergy Regulated

1 Money Pool Agreement (Joint Applicants' Statement No. 3, Joint Applicants'  
2 Exhibit SRS-3). Under the terms of the FirstEnergy Regulated Money Pool  
3 Agreement, regulated companies within the FirstEnergy system can lend to, or  
4 borrow from, each other to manage their working capital requirements.

5 **III. MAIT'S REQUEST FOR A CERTIFICATE OF PUBLIC CONVENIENCE**

6 **Q. As part of the Joint Application, is MAIT requesting that the Commission issue a**  
7 **certificate of public convenience conferring upon it public utility status?**

8 **A.** Yes, MAIT is requesting that the Commission issue a certificate of public convenience  
9 conferring upon it public utility status. As I previously explained, MAIT will only  
10 provide interstate electric transmission service that is subject to the jurisdiction of the  
11 FERC. Consequently, MAIT is requesting that the certificate of public convenience  
12 issued to it expressly state that it does not confer the right to furnish any intrastate electric  
13 service in Pennsylvania. Although FERC will have exclusive jurisdiction over the rates,  
14 terms and conditions of MAIT's provision of transmission service, the issuance of a  
15 certificate of public convenience conferring public utility status upon MAIT will subject  
16 MAIT to the Commission's regulations pertaining to the siting of high voltage (i.e.,  
17 greater than 100 kV) transmission lines. As explained in Section IV.B. of the Joint  
18 Application, as a consequence of MAIT's submission to the Commission's siting  
19 regulations, MAIT will also be assured that its siting, location, construction and operation  
20 of transmission facilities in Pennsylvania will not be subject to municipal zoning and land  
21 use regulations.

1 **Q. Please address MAIT's fitness to furnish public utility service.**

2 A. I understand that an applicant for a certificate of public convenience conferring public  
3 utility service in Pennsylvania must demonstrate its fitness to furnish public utility  
4 service and that there are three components to that requirement, namely technical,  
5 financial and legal fitness, which I will address below.

6 **Q. Will MAIT have the technical capacity to furnish electric transmission service in**  
7 **Pennsylvania the manner set forth in the Joint Application and accompanying**  
8 **testimony?**

9 A. Yes, it will. MAIT will be a member of the FirstEnergy holding company system and, as  
10 such, will have access to the resources and expertise available from FESC in the same  
11 manner and on the same terms as the Operating Companies do currently. The  
12 FirstEnergy Service Company Agreement (Joint Applicants' Exhibit No. KJT-5) and the  
13 MAA (Joint Applicants' Exhibit No. KJT-6), for which approval as affiliated interest  
14 agreements is being sought in the Joint Application, will provide the legal basis for  
15 MAIT to request and obtain the full range of services as set forth under the terms of those  
16 agreements. MAIT will also be able to call upon and use the existing well-trained  
17 complement of Operating Companies employees, which has extensive experience in  
18 operating and maintaining the Operating Companies' transmission systems.

19 **Q. Please describe MAIT's financial fitness.**

20 A. MAIT will be a member of FirstEnergy's regulated money pool, pursuant to the terms of  
21 the FirstEnergy Regulated Money Pool Agreement (Joint Applicants' Exhibit SRS-3), for  
22 which approval is requested in the Joint Application and is expected to also have short-

1 term borrowing capacity under FET's current \$1.0 billion credit facility. These two  
2 sources of short-term borrowing capacity should provide MAIT sufficient liquidity for all  
3 of its day-to-day operations. New capital investments in transmission assets will be  
4 financed by a combination of FET's contributions of equity and the issuance of debt by  
5 MAIT. As explained by Mr. Staub, MAIT is expected to have increased access to debt  
6 capital at reasonable rates based on the stronger financial metrics of a stand-alone  
7 transmission-only entity (Joint Applicants' Statement No. 3).

8 **Q. Will MAIT have the legal fitness to be a certificated Pennsylvania public utility?**

9 **A.** Yes, it will. MAIT will operate and maintain its entire interstate transmission system,  
10 including the portions thereof located in Pennsylvania, safely and in full compliance with  
11 applicable legal requirements and, as successor to the Operating Companies, it will  
12 continue their track record of meeting applicable legal and regulatory obligations and  
13 consistently furnishing safe and reliable transmission service. Moreover, MAIT  
14 acknowledges that, as the holder of a certificate of public convenience, it will be required  
15 to comply with the Public Utility Code and the Commission's regulations and orders,  
16 excluding those provisions that expressly or by reasonable implication apply only to a  
17 public utility that furnishes intrastate service within Pennsylvania or that are preempted  
18 by the FERC's exclusive jurisdiction over transmission service and rates. However,  
19 MAIT reserves the right to hereafter petition the Commission to be relieved of  
20 requirements that, given MAIT's provision of only interstate transmission service subject  
21 to the exclusive jurisdiction of the FERC, would not serve a reasonable regulatory  
22 purpose to impose on MAIT.

1       **IV.     CLASSIFICATION OF TRANSMISSION ASSETS**

2       **Q.     Was a study completed to determine what assets should be contributed to MAIT?**

3       A.     Yes. An independent consultant, Navigant, was hired to complete what is known as a  
4       “seven factor test” to distinguish between “transmission” facilities, which are subject to  
5       FERC’s exclusive jurisdiction,<sup>7</sup> and “local distribution” facilities, which are subject to the  
6       exclusive jurisdiction of the Commission. The seven factors are used to identify the  
7       “primary function of a facility” in accordance with FERC requirements.<sup>8</sup> If the primary  
8       function is transmission, the facility is subject to FERC’s exclusive jurisdiction; if the  
9       primary function is distribution, the facility is under exclusive state jurisdiction.

10      **Q.     How do Met-Ed and Penelec currently classify transmission assets?**

11      A.     Met-Ed currently classifies all facilities with voltage levels at or above 69 kV and 34.5  
12      kV facilities with a delta configuration (“34.5 delta”) as transmission facilities while  
13      Penelec currently classifies all facilities with voltage levels at or above 46 kV as  
14      transmission facilities.

15      **Q.     Did Navigant recommend any changes to the existing transmission and distribution  
16      classifications?**

17      A.     Yes, it recommended a very limited change for Met-Ed. Based on the seven factor test,  
18      Navigant recommended moving all six of Met-Ed’s 34.5 kV delta facilities from  
19      transmission to distribution. Navigant’s analysis determined that those six facilities are

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<sup>7</sup> 16 U.S.C. § 824(b)(1) (granting FERC exclusive jurisdiction over the “transmission of electric energy in interstate commerce” and “sale of electric energy at wholesale in interstate commerce”).

<sup>8</sup> *Cal. Pac. Elec. Co., LLC*, 133 FERC ¶ 61,018 at P 45 (2010) (“[E]ven when a distribution facility is used to facilitate a jurisdictional wholesale sale . . . , if the primary function of the facility is local distribution, only the use of the facility for the [FERC]-jurisdictional services will be subject to [FERC’s] jurisdiction.”).

1 not operated as a transmission network and are serving a distribution function.

2 **Q. Does Met-Ed accept Navigant's recommendation?**

3 A. Yes. Therefore, all of Met-Ed's 34.5 kV delta facilities will be removed from  
4 transmission and classified as distribution. The reclassified assets will fall under the  
5 Commission's jurisdiction and be subject to state regulatory authority in a manner  
6 consistent with all other distribution assets owned by Met-Ed. Thus, Met-Ed's assets to  
7 be moved from transmission to distribution will be reflected in distribution rates to be  
8 established in future distribution rate cases. Penelec will not be reclassifying any of its  
9 assets as a result of Navigant's recommendation.

10 **Q. What further analysis did Met-Ed and Penelec complete to distinguish the assets  
11 that would be contributed?**

12 A. Met-Ed and Penelec completed an internal review of its FERC transmission plant  
13 accounts applying the results of the seven factor test. It was determined that certain  
14 assets currently recorded in FERC Account Nos. 352 (Structures), 353 (Station  
15 Equipment), 354 (Towers and Fixtures), 355 (Poles and Fixtures), 356 (Overhead  
16 Conductors and Devices), 358 (Underground Conductors and Devices) and 359 (Roads  
17 and Trails) serve a distribution function. For Met-Ed and Penelec, the total net book  
18 value as of December 31, 2014 of the property to be reclassified is \$2.5 million and \$1.6  
19 million, respectively. The property to be reclassified is properly subject to the  
20 jurisdiction of the Commission in the same manner as all other distribution property  
21 owned by Met-Ed and Penelec.

1 Q. Were the depreciated original costs of Met-Ed's 34.5 kV delta facilities to be  
2 reclassified pursuant to Navigant's recommendation or the transmission assets to be  
3 reclassified based on Met-Ed's and Penelec's internal analyses included in Met-Ed's  
4 or Penelec's rate base in their distribution rate cases at Docket Nos. R-2014-2428745  
5 and R-2014-2428743, respectively?

6 A. No. Those facilities were excluded from both Met-Ed's and Penelec's rate base claims in  
7 those cases because they were classified as transmission assets and, therefore, were  
8 recorded in FERC transmission asset accounts. As a consequence, cost recovery for  
9 those facilities occurs through Met-Ed's and Penelec's FERC-jurisdictional rates for  
10 network integration transmission service. When MAIT's transmission rates become  
11 effective following the implementation of MAIT's FERC formula rate, the revenue  
12 requirement associated with the reclassified facilities will have been removed from  
13 MAIT's rate for network integration transmission service. Once that occurs, Met-Ed's  
14 and Penelec's distribution customers will receive service furnished by the reclassified  
15 facilities that will not be reflected in MAIT's network integration transmission service  
16 rates and also will not be reflected in Met-Ed's or Penelec's distribution base rates until  
17 the conclusion of their next distribution base rate cases.

18 V. REGULATORY FRAMEWORK

19 Q. Will FET pursue a formula rate for MAIT once the contribution of assets is  
20 complete?

21 A. Yes. Once the Transaction is approved, the next step will be to file a formula rate for  
22 MAIT at FERC. The combination of a formula rate mechanism and a transparent



1 transmission-only entity creates an environment that will facilitate raising, at favorable  
2 costs, the capital needed to accelerate FET's investment in the expansion of the EtF  
3 program. The expansion of EtF program is discussed by Mr. Mackauer in Joint  
4 Applicants' Statement No. 2. In this regard, I would note that recent legislative and  
5 regulatory policy in Pennsylvania has recognized the importance of creating a regulatory  
6 structure supportive of accelerated capital investment in electric distribution assets. Act  
7 11 of 2012 authorized the use of a fully projected future test year and a distribution  
8 system improvement charge ("DSIC") that can be employed by electric distribution  
9 companies. The creation of MAIT and its filing of a formula rate at FERC will provide a  
10 similar regulatory framework for transmission assets, which will enable the acceleration  
11 of FET's investment in its transmission system.

12 **VI. PUBLIC BENEFITS**

13 **Q. Please describe generally the benefits expected from the Transaction.**

14 A. A key benefit of the Transaction is the increased transparency resulting from the  
15 Transaction with respect to distribution and transmission businesses. This increased  
16 transparency, in turn, is expected to facilitate necessary capital investment in  
17 transmission which will benefit Met-Ed and Penelec customers.

18 **Q. How will the Transaction increase transparency?**

19 A. Met-Ed's and Penelec's financial reports historically have either shown combined  
20 transmission and distribution earnings or included specific exclusions and allocations to  
21 reflect the earnings of the distribution portion of each utility. After the Transaction, Met-  
Ed's and Penelec's quarterly financial reports will be better aligned with the assets

1 recorded on their books and will not require adjustments to isolate the earned rate of  
2 return of their intrastate retail distribution businesses. Likewise, Met-Ed and Penelec will  
3 no longer need to exclude transmission plant, revenue and expenses or calculate  
4 allocations to transmission service in preparing distribution rate filings, which will  
5 simplify and streamline those filings and should reduce the time and resources required  
6 for other parties to review and analyze the Operating Companies' supporting data.

7 From a transmission perspective, the consolidation of the Operating Companies'  
8 transmission assets within MAIT will allow interested parties to easily review the annual  
9 updates to the transmission revenue requirement because that review can be focused on a  
10 single entity that owns only transmission assets. The Transaction will also provide both  
11 the FERC and this Commission increased clarity with respect to the business functions  
12 each commission regulates, resulting in greater certainty that there is no misallocation  
13 between the transmission and distribution functions of what currently are treated as  
14 common assets and common costs.

15 Finally, the Transaction will provide an additional level of assurance that customers and  
16 suppliers have nondiscriminatory access to the transmission system. Today, Met-Ed and  
17 Penelec maintain nondiscriminatory access to the transmission system through functional  
18 separation and strict adherence to the FERC Standards of Conduct. The Transaction will  
19 create a corporate separation of the transmission business, rather than the functional  
20 separation that exists today.

21 **Q. How will the Transaction facilitate capital investment?**

22 **A.** As explained by Mr. Staub in Joint Applicants' Statement No. 3, the creation of a single,

1 transmission-only entity will put investors in a better position to identify and quantify the  
2 risks of investing in the transmission business. The resulting reduction in investor risk  
3 will, in turn, provide better access to capital and facilitate needed capital investments. As  
4 described by Mr. Staub, MAIT is expected to start with a better credit rating than Met-Ed  
5 or Penelec, which will translate into lower debt costs and savings in interest expense.

6 **Q. With the approval of the Transaction, will MAIT be in a position to make**  
7 **significant capital investment to maintain and enhance the reliability of its**  
8 **transmission assets?**

9 A. Yes. If the Transaction is approved, MAIT is expected to accelerate construction  
10 programs requiring the investment of between \$2.5 billion and \$3.0 billion over the next  
11 five to ten years in transmission infrastructure in the PJM transmission zones for Met-Ed,  
12 Penelec and JCP&L. As described by Mr. Mackauer, the expansion of the EtF program  
13 is designed to improve the resilience, reliability, and load-carrying capacity of the  
14 transmission system for existing and new customer loads. The investment would include  
15 both transmission planning/protection and reliability enhancement-driven projects, such  
16 as: (1) new, re-conducted, and rebuilt transmission lines; (2) new and enhanced  
17 substations (i.e. new breakers, transformers and/or capacitors); and (3) the installation of  
18 dynamic reactive resources (i.e., new capacitors and static var compensators to quickly  
19 regulate system voltage). In addition, investments in communication infrastructure  
20 would be made to enhance cyber security and secure remote access to transmission  
21 substations.

22 As explained by Mr Staub, MAIT will provide a more efficient vehicle for financing this

1 transmission investment and also ensure that the distribution function of Met-Ed and  
2 Penelec will not be adversely affected. Financing transmission infrastructure  
3 replacements and PJM-driven projects through Met-Ed and Penelec may limit the  
4 available capital for important distribution investment or could adversely affect their  
5 financial position and credit profiles. By financing transmission projects at MAIT, debt  
6 incurred for these investments will not impact the financial position of Met-Ed and  
7 Penelec.

8 **Q. Will the Transaction result in cost savings for Met-Ed and Penelec customers and**  
9 **other transmission customers in Pennsylvania?**

10 A. Yes. First, as I noted earlier, MAIT is expected to start with a better credit rating than  
11 Met-Ed and Penelec, with no expected adverse impact on the existing credit ratings of  
12 those Companies. This will translate into lower debt costs and savings in interest  
13 expense for transmission operations during a time when MAIT will be raising significant  
14 amounts of capital. Given that \$2.5 to \$3.0 billion of investment in transmission facilities  
15 is planned over the next five to ten years, the reduction in interest costs could amount to  
16 over \$135 million over the 30-year life of those bonds. Those significant savings will  
17 flow to customers through reduced costs when setting transmission rates through the  
18 FERC ratemaking process.

19 **Q. Are there other benefits associated with this Transaction?**

20 A. Yes. As noted earlier, the approval of MAIT will allow for the accelerated investment of  
21 \$2.5 to \$3.0 billion in the transmission system. An investment of that magnitude will  
22 create additional jobs, as discussed further in Joint Applicants' Statement No. 2, the

1 direct testimony of Mr. Mackauer.

2 **Q. Will the proposed contribution of transmission assets to MAIT have any**  
3 **anticompetitive effect or will it enhance customers' ability to secure the benefits of**  
4 **retail competition?**

5 A. No. As noted previously, the Operating Companies seek only to more definitively  
6 separate their transmission facilities from their distribution facilities in order to pave the  
7 way for a more efficient vehicle to finance significant investment in transmission assets.  
8 MAIT does not own any generation, distribution or transmission facilities and will not  
9 own or control any generation or any distribution assets upon completion of the proposed  
10 Transaction. When the contribution of transmission assets to MAIT is completed, Met-  
11 Ed and Penelec will no longer own transmission facilities. Consequently, the proposed  
12 contribution will have no effect on the concentration of generation or transmission assets  
13 or upon market power. Moreover, because the proposed transaction will continue to have  
14 the transmission facilities under the operational control of an RTO, it will have no  
15 adverse effect on competition in the wholesale power market.

16 **Q. Please summarize the principal benefits that the Transaction will create.**

17 A. The Transaction will create greater transparency by placing transmission assets and  
18 distribution assets in separate companies. Greater transparency will provide state  
19 regulatory authorities and the FERC better vision into the functions that each regulates.  
20 The correlative benefit is that transmission assets, revenues and expenses will no longer  
21 be recorded, as such, on Met-Ed's and Penelec's books of account, which, as I previously  
22 explained, will streamline and simplify distribution base rate cases. Additionally, the

1 new corporate structure will consolidate all the transmission assets currently owned by  
2 the Operating Companies into a single, separate company which, in turn, will facilitate  
3 implementing a FERC formula rate mechanism. Both of those factors, working in  
4 combination, along with the greater transparency that a separate transmission-only  
5 company will afford investors and the investment community, will increase MAIT's  
6 creditworthiness and access to capital and, thereby, enable MAIT to accelerate the  
7 expansion of the EtF program across the currently separate transmission zones of Met-  
8 Ed, Penelec and JCP&L. In that regard, using the reasonable assumptions regarding  
9 credit ratings, interest costs and levels of investment that I discussed previously, the  
10 potential exists to achieve forecasted debt cost savings of up to \$135 million over a  
11 thirty-year term of financing associated with the expansion of the EtF program.

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

13 **A.** Yes, it does at this time.

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

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

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

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

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

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

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

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

**PUCO Cases:**

<b>Case No.</b>	<b>Case Name</b>
85-521-EL-COI	In the Matter of the Investigation into the Perry Nuclear Power Station
88-170-EL-AIR	In the Matter of the Application of The Cleveland Electric Illuminating Company for Authority to Amend and to Increase Certain of its Filed Schedules Fixing Rates and Charges for Electric Service
88-171-EL-AIR	In the Matter of the Application of The Toledo Edison Company for Authority to Amend and to Increase Certain of its Filed Schedules Fixing Rates and Charges for Electric Service
91-1528-EL-CSS	In the Matter of the Complaint of Toledo Premium Yogurt, Inc., dba Freshens Yogurt, Complainant, v. The Toledo Edison Company, Respondent
91-2308-EL-CSS	Board of Education, Cleveland City Schools v. The Cleveland Electric Illuminating Company
92-504-EL-CSS	Board of Education, Cleveland City Schools v. The Cleveland Electric Illuminating Company
95-02-EL-ABN	In the Matter of the Application of the City of Clyde Requesting Removal of Certain Electric Distribution Facilities of The Toledo Edison Company from Within Clyde's Corporate Limits
01-174-EL-CSS	In the Matter of the Complaint of the City of Cleveland and WPS Energy Services, Inc., Complainants v. The Cleveland Electric Illuminating



Company and FirstEnergy Corp., Respondents

**PaPUC Cases:**

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

- P-2011-2273650 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of their Default Service Programs
- P-2011-2273668 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of their Default Service Programs
- P-2011-2273669 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of their Default Service Programs
- P-2011-2273670 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of their Default Service Programs
- M-2012-2334387 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of its Act 129 Phase II EE&C Plans
- M-2012-2334392 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of its Act 129 Phase II EE&C Plans
- M-2012-2334395 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of its Act 129 Phase II EE&C Plans
- M-2012-2334398 Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of its Act 129 Phase II EE&C Plans
- R-2014-2428745 Metropolitan Edison Company – General Base Rate Filing
- R-2014-2428743 Pennsylvania Electric Company – General Base Rate Filing
- R-2014-2428744 Pennsylvania Power Company – General Base Rate Filing
- R-2014-2428742 West Penn Power Company – General Base Rate Filing

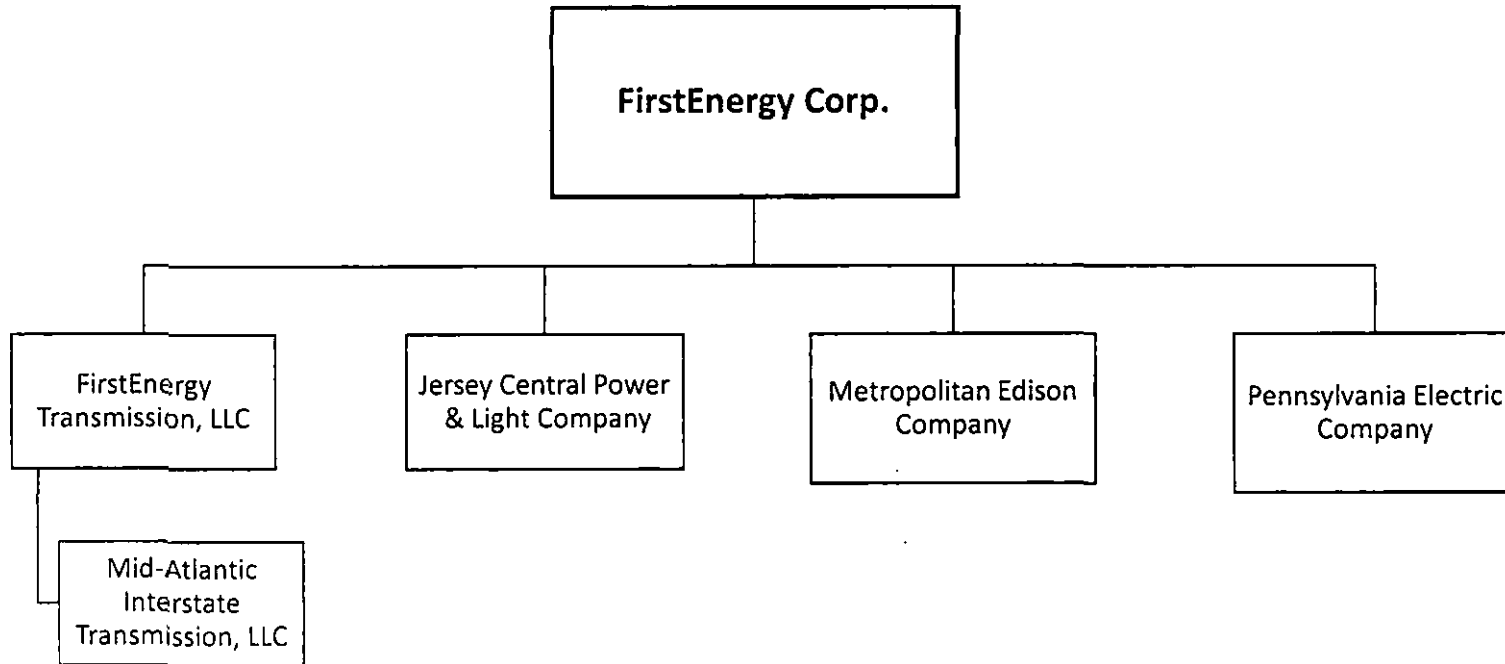
**NY State Public Service Commission Cases**

<b>Case No.</b>	<b>Case Name</b>
09-M-0311	Implementation of Chapter 59 of the Laws of 2009 Establishing a Temporary Annual Assessment Pursuant to Public Service Law §18-a(6).
11-E-0594	Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Pennsylvania Electric Company for Electric Service

**FERC Cases:**

<b>Docket No.</b>	<b>Case Name</b>
ER93-471-000	COS – FERC Rate Case: The Cleveland Electric Illuminating Company v. Cleveland Public Power

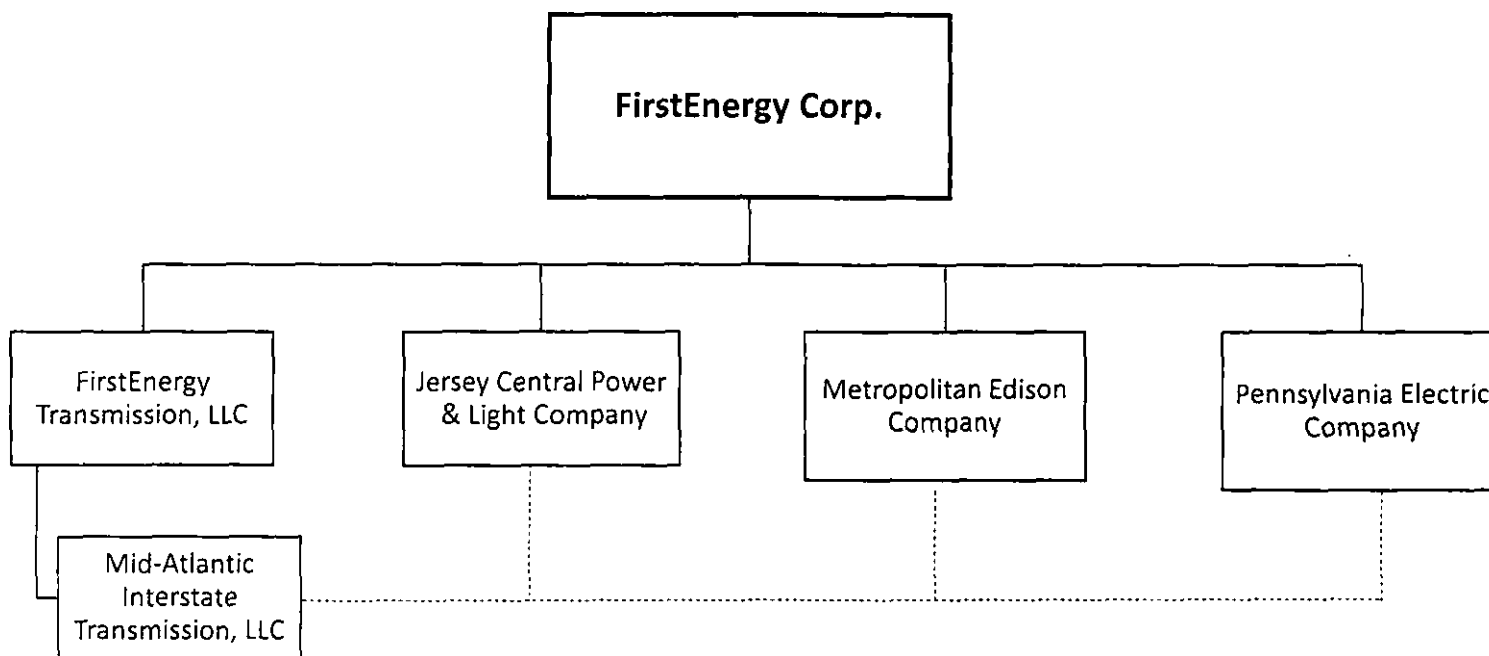
Organization Chart of Pre-Transaction Corporate Structure



Note: FirstEnergy Corp., FirstEnergy Transmission, LLC, Jersey Central Power & Light Company and Pennsylvania Electric Company have subsidiaries that are not shown on this chart.

Organization Chart of Post-Transaction Corporate Structure

Exhibit CVF-1



Note: FirstEnergy Corp., FirstEnergy Transmission, LLC, Jersey Central Power & Light Company and Pennsylvania Electric Company have subsidiaries that are not shown on this chart.