COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET, HARRISBURG, PA 17120

BUREAU OF
INVESTIGATION
&
ENFORCEMENT

January 14, 2025

Via Electronic Filing
Secretary Rosemary Chiavetta
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Pennsylvania Public Utility Commission v.
FirstEnergy Pennsylvania Electric Company
Docket No. R-2024-3047068
I&E Pre-Served Testimony, Exhibits, and Verification Statements

Dear Secretary Chiavetta:

Enclosed for electronic filing please find the **NON-PROPRIETARY** version of the Bureau of Investigation and Enforcement's Pre-Served Testimony, Exhibits, and Verification Statements in the above-captioned proceeding. The **PROPRIETARY** version will be submitted to the Secretary's Bureau via their ShareFile. The following documents were admitted into the record via the First Post-Hearing Order that was issued on August 21, 2024:

Vanessa Okum:	I&E Statement No. 1 (PROPRIETARY)	I&E Exhibit No. 1 (PROPRIETARY)
D. C. Patel:	I&E Statement No. 2	I&E Exhibit No. 2
Joseph Kubas:	I&E Statement No. 3 (PROPRIETARY)	I&E Exhibit No. 3
Christine Wilson:	I&E Statement No. 4	I&E Exhibit No. 4 (PROPRIETARY)

Vanessa Okum:	I&E Statement No. 1-R (PROPRIETARY)	I&E Exhibit No. 1-R
Christine Wilson:	I&E Statement No. 4-R	

Vanessa Okum:	I&E Statement No. 1-SR (PROPRIETARY)	I&E Exhibit No. 1-SR
D. C. Patel:	I&E Statement No. 2-SR	
Joseph Kubas:	I&E Statement No. 3-SR (PROPRIETARY)	I&E Exhibit No. 3-SR
Christine Wilson:	I&E Statement No. 4-SR	

Verification Statements for Vanessa Okum, D. C. Patel, Joseph Kubas, and Christine Wilson

Copies of this letter are being served on parties of record per the attached Certificate of Service. Should you have any questions, please do not hesitate to contact me.

Sincerely,



Scott B. Granger
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SBG/ac
Enclosures

cc: Administrative Law Judge Katrina L. Dunderdale (*Cover Letter and Certificate of Service only*)
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Marissa Boyle, TUS (*Cover Letter and Certificate of Service only*)
Per Certificate of Service (*Cover Letter and Certificate of Service only*)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3047068
	:	
FirstEnergy Pennsylvania Electric Company	:	

CERTIFICATE OF SERVICE

I hereby certify that I am serving the foregoing **Letter Regarding Pre-Served Testimony, Exhibits, and Verification Statements** dated January 14, 2025, in the manner and upon the persons listed below:

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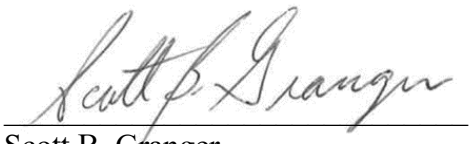
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I&E Statement No. 1
Witness: Vanessa Okum
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Direct Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

RATE BASE

TABLE OF CONTENTS

INTRODUCTION **1**
SUMMARY OF RECOMMENDED ADJUSTMENTS **3**
OVERALL I&E POSITION **5**
PAYROLL **10**
EMPLOYEE BENEFITS **15**
PAYROLL TAXES **18**
SERVICE COMPANY EXPENSE **23**
CASH WORKING CAPITAL **26**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Vanessa Okum, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. WHAT IS YOUR EDUCATION AND EMPLOYMENT BACKGROUND?

A. An outline of my education and employment background is set forth in the attached Appendix A.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. I&E's analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to review the base rate filing of FirstEnergy Pennsylvania Electric Company (FirstEnergy, FE PA, or Company), including the

rate-related requests for the Metropolitan Edison (Met-Ed), Pennsylvania Electric (Penelec), Pennsylvania Power (Penn Power), and West Penn Power (West Penn) Rate Districts, and make recommended adjustments to the Company's proposed operating and maintenance (O&M) expenses and cash working capital claims for the fully projected future test year (FPFTY) ending December 31, 2025. I also present the overall I&E recommended revenue requirement based on my adjustments and the adjustments of the other I&E witnesses.

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 1 contains schedules that support my direct testimony.

Q. WHAT TEST YEARS IS FIRSTENERGY USING IN THIS PROCEEDING?

A. The Company is using the year ended December 31, 2023, as the historic test year (HTY), the year ending December 31, 2024, as the future test year (FTY), and the year ending December 31, 2025, as the FPFTY in this proceeding.[1]

Q. WHAT IS THE COMPANY'S REQUESTED REVENUE INCREASE?

A. FirstEnergy is requesting a total annual revenue increase of $503,849,000 based on the FPFTY revenue requirement, which reflects a total base rate claim for its distribution operations of all four rate districts combined.[2] The total is broken down

[1] FE PA Statement No. 3, p. 2.
[2] FE PA Exhibit PML-1, pp. 1-2.

into separate revenue requirements by rate district as follows:

	Revenue Increase
Met-Ed	$146,332,000
Penelec	$132,963,000
Penn Power	$54,764,000
West Penn	$169,789,000
Total FirstEnergy	**$503,849,000**

SUMMARY OF RECOMMENDED ADJUSTMENTS

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS.

A. The following table summarizes my recommended adjustments:

Met-Ed Rate District	**Company Base Rate Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$37,585,000	$36,461,000	($1,124,000)
Employee Benefits Expense	$16,174,000	$15,690,000	($484,000)
Payroll Tax Expense	$872,000	$2,789,000	$1,917,000
Service Company Expense	$53,655,782	$46,790,473	($6,865,309)
Total O&M Adjustments			**($6,556,309)**
Rate Base Adjustments:			
Capitalized Payroll	$46,309,000	$44,924,000	($1,385,000)
Capitalized Employee Benefits	$19,929,000	$19,333,000	($596,000)
Capitalized Payroll Taxes	$1,075,000	$3,437,000	$2,362,000
Cash Working Capital	$65,234,000	$64,054,000	($1,180,000)
Total Rate Base Adjustments			**($799,000)**

Penelec Rate District	**Company Base Rate Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$42,908,000	$41,604,000	($1,304,000)
Employee Benefits Expense	$10,292,000	$9,979,000	($313,000)
Payroll Tax Expense	$984,000	$3,183,000	$2,199,000
Service Company Expense	$62,285,942	$54,069,799	($8,216,143)
Total O&M Adjustments			**($7,634,143)**
Rate Base Adjustments:			
Capitalized Payroll	$49,367,000	$47,866,000	($1,501,000)
Capitalized Employee Benefits	$11,842,000	$11,482,000	($360,000)
Capitalized Payroll Taxes	$1,132,000	$3,662,000	$2,530,000
Cash Working Capital	$64,441,000	$63,112,000	($1,329,000)
Total Rate Base Adjustments			**($660,000)**

1

Penn Power Rate District	**Company Base Rate Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$8,107,000	$7,930,000	($177,000)
Employee Benefits Expense	$3,027,000	$2,961,000	($66,000)
Payroll Tax Expense	$138,000	$607,000	$469,000
Service Company Expense	$15,829,931	$13,786,583	($2,043,348)
Total O&M Adjustments			**($1,817,348)**
Rate Base Adjustments:			
Capitalized Payroll	$14,860,000	$14,536,000	($324,000)
Capitalized Employee Benefits	$5,548,000	$5,427,000	($121,000)
Capitalized Payroll Taxes	$254,000	$1,112,000	$858,000
Cash Working Capital	$14,835,000	$15,123,000	$288,000
Total Rate Base Adjustments			**$701,000**

2

West Penn Rate District	Company Base Rate Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Payroll Expense	$34,484,000	$33,746,000	($738,000)
Employee Benefits Expense	$5,250,000	$5,138,000	($112,000)
Payroll Tax Expense	$866,000	$2,581,000	$1,715,000
Service Company Expense	$63,759,694	$56,441,257	($7,318,437)
Total O&M Adjustments			**($6,453,437)**
Rate Base Adjustments:			
Capitalized Payroll	$46,847,000	$45,844,000	($1,003,000)
Capitalized Employee Benefits	$7,133,000	$6,980,000	($153,000)
Capitalized Payroll Taxes	$1,177,000	$3,507,000	$2,330,000
Cash Working Capital	$56,986,000	$57,322,000	$336,000
Total Rate Base Adjustments			**$1,510,000**

OVERALL I&E POSITION

Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT FOR MET-ED?

A. I&E's total recommended revenue requirement for Met-Ed is $512,791,000. This recommended revenue requirement represents an increase of $16,815,000 to present rate revenues of $495,976,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel,[3]

[3] I&E Statement No. 2.

Joseph Kubas,[4] and Christine Wilson.[5] A calculation of the I&E recommended revenue requirement is shown below in Table I(a):

FE-Met-Ed		TABLE I(a)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	495,976	0	495,976	16,815	512,791
Deductions:					
O&M Expenses	218,097	-88,981	129,116	196	129,312
Depreciation/Amortization	165,146	0	165,146		165,146
Taxes, Other	32,457	0	32,457	1,021	33,478
Income Taxes:					
Current State	-165	7,274	7,109	1,246	8,355
Current Federal	840	17,589	18,429	3,014	21,443
Deferred Taxes	1,506	0	1,506		1,506
ITC	0	0	0		0
Total Deductions	417,881	-64,118	353,763	5,477	359,240
Income Available	78,095	64,118	142,213	11,338	153,551
Measure of Value	2,157,612	-93,435	2,064,177	0	2,064,177
Rate of Return	3.62%		6.89%		7.44%

Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT FOR PENELEC?

A. I&E's total recommended revenue requirement for Penelec is $535,259,000. This recommended revenue requirement represents an increase of $38,455,000 to present rate revenues of $496,804,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel,

[4] I&E Statement No. 3.
[5] I&E Statement No. 4.

Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue requirement is shown below in Table I(b):

FE-Penelec		TABLE I(b)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	496,804	0	496,804	38,455	535,259
Deductions:					
O&M Expenses	209,556	-58,570	150,986	487	151,473
Depreciation/Amortization	152,448	0	152,448		152,448
Taxes, Other	31,912	0	31,912	2,332	34,244
Income Taxes:					
Current State	1,311	4,784	6,095	2,847	8,942
Current Federal	4,283	11,573	15,856	6,886	22,742
Deferred Taxes	969	0	969		969
ITC	0	0	0		0
Total Deductions	400,479	-42,213	358,266	12,552	370,818
Income Available	96,325	42,213	138,538	25,903	164,441
Measure of Value	2,269,068	-58,499	2,210,569	0	2,210,569
Rate of Return	4.25%		6.27%		7.44%

Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT FOR PENN POWER?

A. I&E's total recommended revenue requirement for Penn Power is $151,356,000. This recommended revenue requirement represents an increase of $18,934,000 to present rate revenues of $132,422,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue

requirement is shown below in Table I(c):

FE-Penn Power		TABLE I(c)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	132,422	0	132,422	18,934	151,356
Deductions:					
O&M Expenses	62,060	-24,230	37,830	193	38,023
Depreciation/Amortization	49,027	0	49,027		49,027
Taxes, Other	8,359	0	8,359	1,151	9,510
Income Taxes:					
Current State	-1,354	1,980	626	1,405	2,031
Current Federal	-2,905	4,789	1,884	3,399	5,283
Deferred Taxes	1,380	0	1,380		1,380
ITC	0	0	0		0
Total Deductions	116,567	-17,461	99,106	6,148	105,254
Income Available	15,855	17,461	33,316	12,786	46,102
Measure of Value	644,947	-25,194	619,753	0	619,753
Rate of Return	2.46%		5.38%		7.44%

Q. WHAT IS I&E'S TOTAL RECOMMENDED REVENUE REQUIREMENT FOR WEST PENN?

A. I&E's total recommended revenue requirement for West Penn is $535,463,000. This recommended revenue requirement represents an increase of $91,021,000 to present rate revenues of $444,442,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue

requirement is shown below in Table I(d):

FE-West Penn		TABLE I(d)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	444,442	0	444,442	91,021	535,463
Deductions:					
O&M Expenses	212,475	-47,299	165,176	855	166,031
Depreciation/Amortization	148,092	0	148,092		148,092
Taxes, Other	29,196	0	29,196	5,538	34,734
Income Taxes:					
Current State	-1,099	3,861	2,762	6,762	9,524
Current Federal	-1,803	9,339	7,536	16,352	23,888
Deferred Taxes	771	0	771		771
ITC	0	0	0		0
Total Deductions	387,632	-34,099	353,533	29,507	383,040
Income Available	56,810	34,099	90,909	61,514	152,423
Measure of Value	2,094,172	-45,156	2,049,016	0	2,049,016
Rate of Return	2.71%		4.44%		7.44%

Q. PLEASE SUMMARIZE I&E'S COMBINED RECOMMENDED REVENUE REQUIREMENT.

A. I&E's total recommended revenue requirement for all FirstEnergy rate districts combined is $1,734,869,000. This recommended revenue requirement represents an increase of $165,225,000 to present rate revenues of $1,569,644,000. As mentioned above, this total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A summary of the total I&E recommended revenue requirement is shown in

the table below:

First Energy - I&E Overall Recommendation Total Revenue Requirement Summary ($ in Thousands)						
		Total Company	Met Ed	Penelec	Penn Power	West Penn
Present Rate Revenue		$ 1,569,644	$ 495,976	$ 496,804	$ 132,422	$ 444,442
I&E Recommended:						
Additional Revenue Requirement		$ 165,225	$ 16,815	$ 38,455	$ 18,934	$ 91,021
I&E Recommended Revenues		$ 1,734,869	$ 512,791	$ 535,259	$ 151,356	$ 535,463
Rate Increase/(Decrease)		$ 165,225	$ 16,815	$ 38,455	$ 18,934	$ 91,021
		10.5%	3.4%	7.7%	14.3%	20.5%
Company Filing Increase		$ 503,848	$ 146,332	$ 132,963	$ 54,764	$ 169,789
Difference		$ (338,623)	$ (129,517)	$ (94,508)	$ (35,830)	$ (78,768)

PAYROLL

Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR PAYROLL?

A. The Company's payroll expense claim includes straight time payroll, overtime payroll, and incentive compensation for both union and non-union employees.[6]

Q. WHAT IS THE COMPANY'S CLAIM FOR PAYROLL?

A. The Company is claiming FPFTY total payroll of $280,467,000[7] which is broken down by rate district and partially capitalized to rate base, producing payroll expense and capitalized payroll as follows:

[6] FE PA Exhibit FR.II-D-10, Attachment A.
[7] FE PA Exhibit PML-1, p. 38.

Payroll	FPFTY Claim	O&M Allocation	Payroll Expense	Capitalized Payroll
Met-Ed	$83,894,000	44.8%	$37,585,000	$46,309,000
Penelec	$92,275,000	46.5%	$42,908,000	$49,367,000
Penn Power	$22,967,000	35.3%	$8,107,000	$14,860,000
West Penn	$81,331,000	42.4%	$34,484,000	$46,847,000
Total FirstEnergy	**$280,467,000**		**$123,084,000**	**$157,383,000**

Note that while I&E has routinely only addressed payroll expense due to the minimal impact capitalized payroll adjustments have on the overall revenue requirement, in this proceeding I will be addressing both the expensed and capitalized payroll issues due to the unusually large capitalized percentage (>50%) claimed by the Company in this proceeding.

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim for the budgeted payroll is based on projected year-end headcount levels as well as wage increases for union and non-union employees that are expected to occur within the test year.[8]

Q. DO YOU AGREE WITH THE COMPANY'S PAYROLL CLAIM?

A. No.

[8] FE PA Statement No. 3, p. 15 and FE PA Exhibit PML-1, p. 38.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an allowance of $119,741,000 for payroll expense, or a reduction of $3,343,000 ($123,084,000- $119,741,000) to the Company's payroll expense claim, and an allowance of $153,170,000 for capitalized payroll, or a reduction of $4,213,000 ($157,383,000 - $153,170,000) to the Company's capitalized payroll broken down by rate district as follows:

Payroll Expense	FPFTY O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$37,585,000	$36,461,000	($1,124,000)
Penelec	$42,908,000	$41,604,000	($1,304,000)
Penn Power	$8,107,000	$7,930,000	($177,000)
West Penn	$34,484,000	$33,746,000	($738,000)
Total FirstEnergy	**$123,084,000**	**$119,741,000**	**($3,343,000)**

Capitalized Payroll	FPFTY Cap. Claim	I&E Allowance	I&E Adjustment
Met-Ed	$46,309,000	$44,924,000	($1,385,000)
Penelec	$49,367,000	$47,866,000	($1,501,000)
Penn Power	$14,860,000	$14,536,000	($324,000)
West Penn	$46,847,000	$45,844,000	($1,003,000)
Total FirstEnergy	**$157,383,000**	**$153,170,000**	**($4,213,000)**

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?

A My recommendation is based on a vacancy rate that I calculated for each rate district using budgeted and actual headcount data provided by the Company in response to

I&E-RE-35-D and summarized on I&E Exhibit No. 1, Schedule 1.[9] These vacancy rates shown below were multiplied by each rate district's payroll expense claim to determine my recommended adjustment.

	Average Vacancy Rate
Met-Ed	2.99%
Penelec	3.04%
Penn Power	2.18%
West Penn	2.14%

These average vacancy rates produced the following recommended O&M expense adjustments:

Met-Ed = $37,585,000 x 2.99%, or $1,124,000 (rounded)

Penelec = $42,908,000 x 3.04%, or $1,304,000 (rounded)

Penn Power = $8,107,000 x 2.18%, or $177,000 (rounded)

West Penn = $34,484,000 x 2.14%, or $738,000 (rounded)

The vacancy rates also produce the following capitalized payroll adjustments:

Met-Ed = $46,309,000 x 2.99%, or $1,385,000 (rounded)

Penelec = $49,367,000 x 3.04%, or $1,501,000 (rounded)

Penn Power = $14,860,000 x 2.18%, or $324,000 (rounded)

West Penn = $46,847,000 x 2.14%, or $1,003,000 (rounded)

[9] I&E Exhibit No. 1, Schedules 1 and 2.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED VACANCY ADJUSTMENT?

A. My recommended vacancy adjustment is based on the annual vacancy rates experienced by each rate district in the fiscal year (FY) ended December 31, 2023. To determine a vacancy rate, I reviewed the Company's history of actual monthly filled positions and budgeted positions as provided by the Company for the three most recent historic years. However, the Company points out in the attachment in response to I&E-RE-35-D that a reorganization took place from November 2021 to January 2022 and that the headcount budget for FY 2021 did not reflect the new organizational structure.[10] Based on the resulting vacancy rates, however, I assume the Company meant to say that FY 2022 did not reflect the new organizational structure rather than FY 2021. If the reorganization began at the end of FY 2021, it is reasonable to assume that the headcount budget for FY 2022 was already set at that time and was not updated for this change. Based on the assumption that the data from FY 2021 and FY 2022 are not appropriate for the purpose of determining a forward-looking vacancy rate, I used only the data from FY 2023 to calculate the vacancy rate for each rate district by dividing average vacancies into average budgeted employees. I then applied each rate district's vacancy rate to its FPFTY payroll expense claim to calculate the vacancy adjustment.

[10] I&E Exhibit No. 1, Schedule 2.

Q. EXPLAIN YOUR RATIONALE FOR THE VACANCY ADJUSTMENT.

A. It is unreasonable to assume that the Company will fill and maintain 100% full staffing throughout the FPFTY based on its own historic vacancy records. These records support my recommended adjustment to account for vacant positions.

It is important to note that there will always be a certain level of normal vacancies due to retirements, resignations, transfers, etc. Additionally, there will always be a delay in hiring due to the time involved in recruiting and filling normal vacancies as well as newly added positions. Such vacancies will yield an annual savings in payroll costs which needs to be reflected for ratemaking to eliminate an unreasonable impact on rates.

EMPLOYEE BENEFITS

Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR EMPLOYEE BENEFITS?

A. The employee benefits claim includes workers compensation, pension costs, other post-employment benefits, medical insurance, savings plan, and other benefits.[11]

Q. WHAT IS THE COMPANY'S CLAIM FOR EMPLOYEE BENEFITS?

A. The Company is claiming employee benefits of $79,195,000[12] broken down by rate district and partially capitalized to rate base as follows:

[11] FE PA Exhibit No. PML-1, p. 48.
[12] FE PA Exhibit No. PML-1, p. 48.

Employee Benefits	FPFTY Claim	O&M Allocation	Benefits Expense	Capitalized Benefits
Met-Ed	$36,103,000	44.8%	$16,174,000	$19,929,000
Penelec	$22,134,000	46.5%	$10,292,000	$11,842,000
Penn Power	$8,575,000	35.3%	$3,027,000	$5,548,000
West Penn	$12,383,000	42.4%	$5,250,000	$7,133,000
Total FirstEnergy	**$79,195,000**		**$34,743,000**	**$44,452,000**

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's FPFTY claim was calculated in multiple steps. First, the Company calculated an effective benefit rate by dividing total benefits by total payroll for each rate district. Next, the effective benefit rate was applied to the amount of the Company's FPFTY labor adjustment, resulting in the Company's FPFTY benefits adjustment. Then, the benefit adjustment was added to the starting benefits amount to calculate total employee benefits. Finally, the O&M allocation rate was applied total employee benefits resulting in the FPFTY total employee benefits expense claim.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM FOR EMPLOYEE BENEFITS?

A. No.

Q. WHAT IS YOUR RECOMMENDATION FOR EMPLOYEE BENEFITS?

A. I recommend an allowance of $33,768,000, or a reduction of $975,000 ($34,743,000 - $33,768,000) to the Company's employee benefits expense claim and an allowance of $43,222,000, or a reduction of $1,230,000 ($44,452,000 - $43,222,000) to the Company's capitalized benefits broken down by rate district as follows:

O&M Employee Benefits	FPFTY O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$16,174,000	$15,690,000	($484,000)
Penelec	$10,292,000	$9,979,000	($313,000)
Penn Power	$3,027,000	$2,961,000	($66,000)
West Penn	$5,250,000	$5,138,000	($112,000)
Total FirstEnergy	**$34,743,000**	**$33,768,000**	**($975,000)**

Capitalized Employee Benefits	FPFTY Cap. Claim	I&E Allowance	I&E Adjustment
Met-Ed	$19,929,000	$19,333,000	($596,000)
Penelec	$11,842,000	$11,482,000	($360,000)
Penn Power	$5,548,000	$5,427,000	($121,000)
West Penn	$7,133,000	$6,980,000	($153,000)
Total FirstEnergy	**$44,452,000**	**$43,222,000**	**($1,230,000)**

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation corresponds to the vacancy adjustment made to payroll expense above.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDED ADJUSTMENT TO EMPLOYEE BENEFITS?

A. I calculated my adjustment by applying the same vacancy rate that was calculated for the payroll adjustment as shown below:

O&M Employee Benefits	FPFTY O&M Claim	Vacancy Rate	I&E Adjustment
Met-Ed	$16,174,000	2.99%	($484,000)
Penelec	$10,292,000	3.04%	($313,000
Penn Power	$3,027,000	2.18%	($66,000)
West Penn	$5,250,000	2.14%	($112,000)
Total FirstEnergy	**$34,743,000**		**($975,000)**

Capitalized Employee Benefits	FPFTY Cap. Claim	Vacancy Rate	I&E Adjustment
Met-Ed	$19,929,000	2.99%	($596,000)
Penelec	$11,842,000	3.04%	($360,000)
Penn Power	$5,548,000	2.18%	($121,000)
West Penn	$7,133,000	2.14%	($153,000)
Total FirstEnergy	**$44,452,000**		**($1,230,000)**

PAYROLL TAXES

Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIM FOR PAYROLL TAXES?

A. The Company's claim for payroll taxes includes its share of federal and state payroll taxes, such as Social Security, Medicare, and federal and state unemployment taxes, and is based on employee compensation.

Q. WHAT IS THE COMPANY'S CLAIM FOR PAYROLL TAXES?

A. The Company claimed FPFTY total payroll taxes of $6,498,000[13] which is broken down by rate district and partially capitalized to rate base, producing payroll tax expense as follows:

Payroll Tax Expense	FPFTY Claim	O&M Allocation	Payroll Tax Expense	Capitalized Payroll Tax
Met-Ed	$1,947,000	44.8%	$872,000	$1,075,000
Penelec	$2,116,000	46.5%	$984,000	$1,132,000
Penn Power	$392,000	35.3%	$138,000	$254,000
West Penn	$2,043,000	42.4%	$866,000	$1,177,000
Total FirstEnergy	**$6,498,000**		**$2,860,000**	**$3,638,000**

Q. DID THE COMPANY IDENTIFY ANY NECESSARY CORRECTIONS TO ITS PAYROLL TAX CLAIM?

A. Yes. The Company has stated in response to I&E-RE-32-D and OCA-IV-45 that its initial claim in the filing is incorrect due to an error in the calculation causing a lower effective payroll tax rate.[14] The Company states that it will update this claim in rebuttal testimony and will apply a 7.65% effective tax rate, which I have calculated as follows:

[13] FE PA Exhibit PML-1, p. 59.
[14] I&E Exhibit No. 1, Schedule 3.

O&M Payroll Tax Expense	FPFTY O&M Payroll Claim	Effective Payroll Tax Rate	I&E Calculated FPFTY Corrected Payroll Tax Claim
Met Ed	$37,585,000	7.65%	$2,875,000
Penelec	$42,908,000	7.65%	$3,282,000
Penn Power	$8,107,000	7.65%	$620,000
West Penn	$34,484,000	7.65%	$2,638,000
Total FirstEnergy	**$123,084,000**		**$9,415,000**

Capitalized Payroll Tax Expense	FPFTY Capitalized Payroll Claim	Effective Payroll Tax Rate	I&E Calculated FPFTY Corrected Payroll Tax Claim
Met Ed	$46,309,000	7.65%	$3,543,000
Penelec	$49,367,000	7.65%	$3,777,000
Penn Power	$14,860,000	7.65%	$1,137,000
West Penn	$46,847,000	7.65%	$3,584,000
Total FirstEnergy	**$157,383,000**		**$12,041,000**

Q. DO YOU ACCEPT THE COMPANY'S CORRECTION TO ITS EFFECTIVE PAYROLL TAX RATE MAKING IT 7.65%?

A. Yes.

Q. DO YOU AGREE WITH THE COMPANY'S CORRECTED PAYROLL TAX CLAIM?

A. No.

Q. WHAT IS YOUR RECOMMENDATION FOR PAYROLL TAXES?

A. I recommend an allowance of $9,160,000 for O&M payroll tax expense, or an increase of $6,300,000 ($9,160,000 - $2,860,000) and an allowance of $11,718,000 for capitalized payroll taxes, or an increase of $8,080,000 ($11,718,000 - $3,638,000) to the Company's as-filed claim broken down by rate district as follows:

O&M Payroll Tax Expense	FPFTY As-Filed O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$872,000	$2,789,000	$1,917,000
Penelec	$984,000	$3,183,000	$2,199,000
Penn Power	$138,000	$607,000	$469,000
West Penn	$866,000	$2,581,000	$1,715,000
Total FirstEnergy	**$2,860,000**	**$9,160,000**	**$6,300,000**

Capitalized Payroll Tax Expense	FPFTY As-Filed Cap Claim	I&E Allowance	I&E Adjustment
Met-Ed	$1,075,000	$3,437,000	$2,362,000
Penelec	$1,132,000	$3,662,000	$2,530,000
Penn Power	$254,000	$1,112,000	$858,000
West Penn	$1,177,000	$3,507,000	$2,330,000
Total FirstEnergy	**$3,638,000**	**$11,718,000**	**$8,080,000**

It should be noted that an increase in this expense is necessary to reflect the Company's updated effective tax rate. After the Company updates its position in rebuttal testimony, my recommended adjustment will change.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation accepts the Company's correction to its payroll tax rate, making it 7.65%, and reflects a corresponding adjustment for my recommended vacancy adjustment made to payroll above.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDED ALLOWANCE FOR PAYROLL TAXES?

A. I calculated my recommended allowance by multiplying my recommended payroll expense allowance amounts by the effective payroll tax rate of 7.65% as shown below:

O&M Payroll Tax Expense	I&E Recommended O&M Payroll Expense Allowance	Corrected Payroll Expense Tax Rate	I&E Recommended O&M Payroll Tax Expense Allowance
Met-Ed	$36,461,000	7.65%	$2,789,000
Penelec	$41,604,000	7.65%	$3,183,000
Penn Power	$7,930,000	7.65%	$607,000
West Penn	$33,746,000	7.65%	$2,581,000
Total FirstEnergy	**$119,742,000**		**$9,160,000**

Capitalized Payroll Tax Expense	I&E Recommended Cap. Payroll Expense Allowance	Corrected Payroll Expense Tax Rate	I&E Recommended Cap. Payroll Tax Expense Allowance
Met-Ed	$44,924,000	7.65%	$3,437,000
Penelec	$47,866,000	7.65%	$3,662,000
Penn Power	$14,536,000	7.65%	$1,112,000
West Penn	$45,844,000	7.65%	$3,507,000
Total First Energy	**$153,170,000**		**$11,718,000**

SERVICE COMPANY EXPENSE

Q. BRIEFLY EXPLAIN THE FIRSTENERGY SERVICE COMPANY EXPENSE.

A. FirstEnergy Service Company (FESC) is a centralized service provider formed for the purpose of providing administrative, management, operations support, and other services to FirstEnergy and its affiliated companies, including FE PA. The Company states that this system is more efficient and less costly than providing, managing, and staffing such services at each individual affiliate. The Company also points out that although FESC provides utility operations-related support services, it is important to emphasize that FESC generally does not perform operations services, which are instead performed by the FirstEnergy utility companies themselves.[15]

Q. WHAT IS THE COMPANY'S CLAIM FOR SERVICE COMPANY FEES?

A. The Company is claiming service company expense of $195,531,349 broken down by rate district as follows:[16]

	FPFTY Claim
Met-Ed	$53,655,782
Penelec	$62,285,942
Penn Power	$15,829,931
West Penn	$63,759,694
Total FirstEnergy	**$195,531,349**

[15] FE PA Statement No. 4, pp. 27-28.
[16] FE PA Exhibit No. FR.II-D-8, Attachment B.

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim is based on historical data and adjusted for payroll increases occurring at FESC during the FPFTY.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR SERVICE COMPANY EXPENSE?

A. I recommend an allowance of $171,088,112 or a reduction of $24,443,237 to the Company's FPFTY service company expense claim broken down as follows:

Service Company Expense	**FPFTY Claim**	**I&E Allowance**	**I&E Adjustment**
Met-Ed	$53,655,782	$46,790,473	($6,865,309)
Penelec	$62,285,942	$54,069,799	($8,216,143)
Penn Power	$15,829,931	$13,786,583	($2,043,348)
West Penn	$63,759,694	$56,441,257	($7,318,437)
Total FirstEnergy	**$195,531,349**	**$171,088,112**	**($24,443,237)**

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation is based on removing stock-based incentive compensation paid to FESC employees and charged to FE PA. In response to OCA-IV-4, the Company provided the claimed service company expense for Short-Term Incentive

Compensation (STIP) and Long-Term Incentive Compensation (LTIP) as summarized below:[17]

	FPFTY STIP	FPFTY LTIP
Met-Ed	$4,441,579	$2,423,730
Penelec	$5,315,514	$2,900,629
Penn Power	$1,321,964	$721,384
West Penn	$4,734,734	$2,583,703
Total FirstEnergy	**$15,813,791**	**$8,629,446**

All regular, non-represented full-time and part-time employees may be eligible for cash compensation via the STIP, while executive level positions are eligible to receive restricted stock units via the LTIP.[18]

Q. EXPLAIN THE RATIONALE FOR REMOVING INCENTIVE COMPENSATION FROM SERVICE COMPANY FEES.

A. In response to OCA-IV-2,[19] the Company provided key pages of the STIP document which indicate that **{BEGIN PROPRIETARY}** [redacted] **{END PROPIETARY}** Additionally, in response to OCA-IV-4, the Company states that the LTIP is designed to link a portion of an executive's compensation to the interests of the shareholders.

[17] I&E Exhibit No. 1, Schedule 4, p. 1.
[18] I&E Exhibit No. 1, Schedule 4.
[19] I&E Exhibit No. 1, Schedule 5 - PROPRIETARY.

As both the STIP and LTIP are: (1) paid to employees who do not work directly for the utility and are generally not performing operations services; and (2) are based on earnings per share metrics or aligned with shareholder interests, these costs do not relate to the safe and reliable distribution of the service and should therefore not be passed through to ratepayers.

CASH WORKING CAPITAL

Q. WHAT IS A CWC ALLOWANCE FOR RATEMAKING PURPOSES?

A. CWC includes the amount of funds necessary to operate a utility during the interim period between the rendition of service, including the payment of related expenses, and the receipt of revenue in payment for services rendered by the utility.

Q. HOW DOES THE COMPANY CALCULATE ITS CWC CLAIM?

A. The Company calculates its CWC claim using a lead/lag study. A lead/lag study measures the differences in time between: (1) the time services are rendered until payment of those services is received; and (2) the time between the point when a utility has incurred an expense and the actual payment of the expense. Stated a different way, the lead/lag study measures how many days exist on an average between the midpoint of the service period and the date the payment is made.

Q. DO YOU AGREE WITH THE COMPANY'S USE OF THE LEAD/LAG METHOD?

A. Yes. I agree with the Company's use of this method.

Q. WHAT IS THE COMPANY'S CLAIM FOR CWC?

A. The Company's total claim for CWC is $201,496,000 broken down by rate district as follows:[20]

	FPFTY Claim
Met-Ed	$65,234,000
Penelec	$64,441,000
Penn Power	$14,835,000
West Penn	$56,986,000
Total FirstEnergy	**$201,496,000**

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an allowance of $199,611,000 or reduction of $1,885,000 ($201,496,000 - $199,611,000) broken down by rate district as follows:

Cash Working Capital	FPFTY Claim	I&E Allowance	I&E Adjustment
Met-Ed	$65,234,000	$64,054,000	($1,180,000)
Penelec	$64,441,000	$63,112,000	($1,329,000)
Penn Power	$14,835,000	$15,123,000	$288,000
West Penn	$56,986,000	$57,322,000	$336,000
Total FirstEnergy	**$201,496,000**	**$199,611,000**	**($1,885,000)**

[20] FE PA Exhibit PML-1, p. 19.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation includes modification of the Company's claim based on all recommended adjustments to O&M expenses as discussed previously in this testimony, as well as the O&M expenses discussed in the testimony of I&E witnesses Christine Wilson[21] and Joseph Kubas.[22]

Q. HOW DO YOUR PROPOSED ADJUSTMENTS, DISCUSSED ABOVE, IMPACT YOUR RECOMMENDATION FOR CWC?

A. All O&M adjustments that are cash-based expense claims are included when determining the Company's overall CWC requirement. Therefore, CWC was adjusted to reflect these recommended adjustments. In order to reflect the I&E recommended adjustments, I modified the Company's electronic CWC file as shown in FE PA Exhibit No. TSL-5.[23]

Q. SUMMARIZE WHERE EACH OF THE I&E RECOMMENDED O&M EXPENSE ADJUSTMENTS ARE REFLECTED IN THE CWC COMPUTATION.

A. **Line 3 - Payroll:**

The payroll section on line 3 of each rate district's CWC summary includes my payroll adjustment.

[21] I&E Statement No. 4.
[22] I&E Statement No. 3.
[23] I&E Exhibit No. 1, Schedule 6.

Line 4 - Benefits:

The benefits section on line 4 of each rate district's CWC summary includes my employee benefits adjustment as well as Ms. Wilson's adjustments for pension and other post-employment benefits.

Line 6 – Service Company:

The service company section on line 6 of each rate district's CWC summary includes my adjustment for service company expense.

Line 8 – Other O&M Expenses:

The other O&M expense section on line 8 of each rate district's CWC summary includes Ms. Wilson's adjustments for storm reserve, extraordinary storm deferrals, COVID-19 expense, vegetation management, and electric vehicle pilot program, as well as Mr. Kubas's adjustment for the Verizon complaint.

Line 15 – Payroll Taxes:

The payroll taxes section on line 15 of each rate district's CWC summary includes my adjustment for payroll tax expense. For this expense, the amount entered by the Company in the CWC calculation spreadsheet did not match the claim in Exhibit PML-1, so instead of adding my adjustment as I did with the other entries, I replaced the Company's number with my recommended allowance.

Q. IS YOUR RECOMMENDED CWC ALLOWANCE A FINAL RECOMMENDATION?

A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together in the Administrative Law Judge's

Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claim.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Vanessa Okum

Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania
June 2022 – Present
Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement

Magnolia Realty Services, Elizabethville, Pennsylvania
February 2016 – Present
Realtor

May 2015 – May 2019
Business Manager

The Vanguard Group, Malvern, Pennsylvania
October 2011 – December 2014
Financial Administrator, Corporate Financial Services

March 2010 – October 2011
Financial Analyst, Fund Financial Services

June 2008 – March 2010
Financial Associate, Fund Financial Services

Education/Professional Development:

University of Massachusetts – Amherst, Amherst, Massachusetts, 2012
Master of Business Administration

Elizabethtown College, Elizabethtown, Pennsylvania, 2008
Bachelor of Science in International Business
Concentration in Finance

Testimony Submitted:

I have submitted testimony in the following proceedings:

R-2024-3045192 at al. – Veolia Water Pennsylvania, Inc.

R-2023-3043189 et al. – Pennsylvania-American Water Company

R-2023-3039919 et al. – Pittsburgh Water and Sewer Authority

R-2023-3037428 – National Fuel Gas Distribution Corporation (1307(f))

R-2022-3037368 – UGI Utilities, Inc. – Electric Division

I have assisted with testimony in the following proceedings:

R-2022-3031704 – Borough of Ambler Water Department

R-2022-3032764 – Leatherstocking Gas Company, LLC

I&E Exhibit No. 1 Witness:
Vanessa Okum
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany

the

Direct Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

RATE BASE

Vacancy Rate Calculation

2021

Source: FE PA Response to I&E-RE-35-D

Budgeted Employees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG	AVG
Met-Ed	650	650	650	650	650	676	676	676	676	676	676	676	665	663
Penelec	763	763	763	763	794	794	794	794	794	781	773	763	778	780
Penn Power	190	190	189	188	190	190	190	190	190	190	190	190	190	190
West Penn	744	744	739	739	769	759	758	759	752	752	752	742	751	752

Vacancies

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG	AVG*	Rate*
Met-Ed	-5	-7	-10	-11	-14	-13	-13	-16	-20	-21	-41	-44	-18	-13	-1.96%
Penelec	-12	-11	-18	-28	-37	-41	-33	-31	-31	-20	-28	-17	-26	-26	-3.36%
Penn Power	1	0	-2	-1	1	2	3	3	2	2	0	1	1	1	0.58%
West Penn	-5	-6	-1	1	-5	3	1	-1	4	-4	-28	-19	-5	-1	-0.17%

2022

Budgeted Employees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG
Met-Ed	679	679	679	679	678	693	693	693	693	693	692	692	687
Penelec	761	759	758	759	775	773	772	771	771	769	765	763	766
Penn Power	194	192	194	194	198	198	198	197	197	196	196	196	196
West Penn	750	750	750	749	765	764	762	761	759	757	755	750	756

Vacancies

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG	Rate
Met-Ed	-84	-90	-95	-95	-87	-108	-110	-114	-112	-113	-109	-113	-103	-14.92%
Penelec	-61	-61	-68	-73	-78	-84	-90	-89	-87	-81	-71	-69	-76	-9.92%
Penn Power	-19	-16	-18	-19	-23	-24	-23	-20	-22	-25	-23	-23	-21	-10.85%
West Penn	-112	-116	-122	-122	-122	-130	-135	-138	-135	-135	-130	-126	-127	-16.79%

2023

Budgeted Employees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG
Met-Ed	603	603	603	586	611	612	612	612	612	612	612	612	608
Penelec	723	723	722	711	733	732	733	733	724	724	724	724	726
Penn Power	178	178	178	178	181	181	181	181	181	181	181	181	180
West Penn	637	638	638	638	641	640	640	640	639	639	639	639	639

Vacancies

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AVG	Rate
Met-Ed	-26	-23	-25	-7	-32	-33	-33	-3	-8	-9	-7	-12	-18	-2.99%
Penelec	-27	-29	-28	-18	-40	-39	-40	-19	-14	-5	-2	-4	-22	-3.04%
Penn Power	-4	-4	-4	-6	-9	-9	-9	-2	1	0	0	-1	-4	-2.18%
West Penn	-16	-16	-22	-21	-24	-23	-23	0	-8	-6	-1	-4	-14	-2.14%

2021 Rate*	2023 Rate	Avg
-1.96%	-2.99%	-2.48%
-3.36%	-3.04%	-3.20%
0.58%	-2.18%	-0.80%
-0.17%	-2.14%	-1.16%

* January through October only.

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

2021

					Feb		
Rate District	**BargainType**	**Actuals**	**Budget**	**Variance**	**Actuals**	**Budget**	**Variance**
Met-Ed	Bargaining	463	465	-2	461	465	-4
	Non-Bargaining	182	185	-3	182	185	-3
Met-Ed Total		**645**	**650**	**-5**	**643**	**650**	**-7**
Penelec	Bargaining	484	488	-4	483	488	-5
	Non-Bargaining	267	275	-8	269	275	-6
Penelec Total		**751**	**763**	**-12**	**752**	**763**	**-11**
Penn Power	Bargaining	133	134	-1	133	134	-1
	Non-Bargaining	58	56	2	57	56	1
Penn Power Total		**191**	**190**	**1**	**190**	**190**	**0**
West Penn Power	Bargaining	472	465	7	472	465	7
	Non-Bargaining	267	279	-12	266	279	-13
West Penn Power Total		**739**	**744**	**-5**	**738**	**744**	**-6**
Grand Total		**2326**	**2347**	**-21**	**2323**	**2347**	**-24**

***In Nov 2021 to Jan 2022 - FEU Reorganization Took Place - 2021's Budget did not reflect new org structure.**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Mar			Apr			May			Jun
Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals
456	465	-9	457	465	-8	454	465	-11	483
184	185	-1	182	185	-3	182	185	-3	180
640	**650**	**-10**	**639**	**650**	**-11**	**636**	**650**	**-14**	**663**
477	488	-11	474	488	-14	497	519	-22	495
268	275	-7	261	275	-14	260	275	-15	258
745	**763**	**-18**	**735**	**763**	**-28**	**757**	**794**	**-37**	**753**
130	133	-3	130	132	-2	133	134	-1	134
57	56	1	57	56	1	58	56	2	58
187	**189**	**-2**	**187**	**188**	**-1**	**191**	**190**	**1**	**192**
472	460	12	472	460	12	501	490	11	501
266	279	-13	268	279	-11	263	279	-16	261
738	**739**	**-1**	**740**	**739**	**1**	**764**	**769**	**-5**	**762**
2310	**2341**	**-31**	**2301**	**2340**	**-39**	**2348**	**2403**	**-55**	**2370**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Jul			Aug			Sep			
Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget
491	-8	482	491	-9	479	491	-12	478	491
185	-5	181	185	-4	181	185	-4	178	185
676	**-13**	**663**	**676**	**-13**	**660**	**676**	**-16**	**656**	**676**
519	-24	496	519	-23	493	519	-26	493	519
275	-17	265	275	-10	270	275	-5	270	275
794	**-41**	**761**	**794**	**-33**	**763**	**794**	**-31**	**763**	**794**
134	0	134	134	0	134	134	0	133	134
56	2	59	56	3	59	56	3	59	56
190	**2**	**193**	**190**	**3**	**193**	**190**	**3**	**192**	**190**
479	22	500	478	22	497	478	19	495	472
280	-19	259	280	-21	261	281	-20	261	280
759	**3**	**759**	**758**	**1**	**758**	**759**	**-1**	**756**	**752**
2419	**-49**	**2376**	**2418**	**-42**	**2374**	**2419**	**-45**	**2367**	**2412**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Oct			Nov			Dec			
Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance
-13	475	491	-16	471	491	-20	471	491	-20
-7	180	185	-5	164	185	-21	161	185	-24
-20	**655**	**676**	**-21**	**635**	**676**	**-41**	**632**	**676**	**-44**
-26	492	506	-14	492	498	-6	493	488	5
-5	269	275	-6	253	275	-22	253	275	-22
-31	**761**	**781**	**-20**	**745**	**773**	**-28**	**746**	**763**	**-17**
-1	133	134	-1	133	134	-1	133	134	-1
3	59	56	3	57	56	1	58	56	2
2	**192**	**190**	**2**	**190**	**190**	**0**	**191**	**190**	**1**
23	491	472	19	490	472	18	489	463	26
-19	257	280	-23	234	280	-46	234	279	-45
4	**748**	**752**	**-4**	**724**	**752**	**-28**	**723**	**742**	**-19**
-45	**2356**	**2399**	**-43**	**2294**	**2391**	**-97**	**2292**	**2371**	**-79**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

2022

		Jan			Feb		
Rate District	**BargainType**	**Actuals**	**Budget**	**Variance**	**Actuals**	**Budget**	**Variance**
Met-Ed	Bargaining	468	487	-19	462	487	-25
	Non-Bargaining	127	192	-65	127	192	-65
Met-Ed Total		**595**	**679**	**-84**	**589**	**679**	**-90**
Penelec	Bargaining	493	485	8	492	483	9
	Non-Bargaining	207	276	-69	206	276	-70
Penelec Total		**700**	**761**	**-61**	**698**	**759**	**-61**
Penn Power	Bargaining	134	136	-2	134	134	0
	Non-Bargaining	41	58	-17	42	58	-16
Penn Power Total		**175**	**194**	**-19**	**176**	**192**	**-16**
West Penn Power	Bargaining	481	482	-1	480	482	-2
	Non-Bargaining	157	268	-111	154	268	-114
West Penn Power Total		**638**	**750**	**-112**	**634**	**750**	**-116**
Grand Total		**2108**	**2384**	**-276**	**2097**	**2380**	**-283**

***In Nov 2021 to Jan 2022 - FEU Reorganization Took Place - 2021's Budget did not reflect new org structure.**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Mar			Apr			May			Jun
Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals
463	487	-24	462	487	-25	469	487	-18	467
121	192	-71	122	192	-70	122	191	-69	118
584	**679**	**-95**	**584**	**679**	**-95**	**591**	**678**	**-87**	**585**
487	480	7	485	480	5	499	496	3	497
203	278	-75	201	279	-78	198	279	-81	192
690	**758**	**-68**	**686**	**759**	**-73**	**697**	**775**	**-78**	**689**
134	136	-2	133	136	-3	134	140	-6	134
42	58	-16	42	58	-16	41	58	-17	40
176	**194**	**-18**	**175**	**194**	**-19**	**175**	**198**	**-23**	**174**
475	482	-7	476	480	-4	492	493	-1	487
153	268	-115	151	269	-118	151	272	-121	147
628	**750**	**-122**	**627**	**749**	**-122**	**643**	**765**	**-122**	**634**
2078	**2381**	**-303**	**2072**	**2381**	**-309**	**2106**	**2416**	**-310**	**2082**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Jul			Aug			Sep			
Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget
502	-35	462	502	-40	459	502	-43	459	502
191	-73	121	191	-70	120	191	-71	122	191
693	**-108**	**583**	**693**	**-110**	**579**	**693**	**-114**	**581**	**693**
494	3	488	493	-5	490	492	-2	490	491
279	-87	194	279	-85	192	279	-87	194	280
773	**-84**	**682**	**772**	**-90**	**682**	**771**	**-89**	**684**	**771**
140	-6	134	140	-6	134	139	-5	132	139
58	-18	41	58	-17	43	58	-15	43	58
198	**-24**	**175**	**198**	**-23**	**177**	**197**	**-20**	**175**	**197**
492	-5	481	490	-9	477	489	-12	475	487
272	-125	146	272	-126	146	272	-126	149	272
764	**-130**	**627**	**762**	**-135**	**623**	**761**	**-138**	**624**	**759**
2428	**-346**	**2067**	**2425**	**-358**	**2061**	**2422**	**-361**	**2064**	**2420**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Oct			Nov			Dec			
Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance
-43	454	501	-47	454	501	-47	452	501	-49
-69	126	192	-66	129	191	-62	127	191	-64
-112	**580**	**693**	**-113**	**583**	**692**	**-109**	**579**	**692**	**-113**
-1	490	489	1	487	485	2	487	483	4
-86	198	280	-82	207	280	-73	207	280	-73
-87	**688**	**769**	**-81**	**694**	**765**	**-71**	**694**	**763**	**-69**
-7	130	138	-8	131	138	-7	131	138	-7
-15	41	58	-17	42	58	-16	42	58	-16
-22	**171**	**196**	**-25**	**173**	**196**	**-23**	**173**	**196**	**-23**
-12	472	485	-13	466	483	-17	465	481	-16
-123	150	272	-122	159	272	-113	159	269	-110
-135	**622**	**757**	**-135**	**625**	**755**	**-130**	**624**	**750**	**-126**
-356	**2061**	**2415**	**-354**	**2075**	**2408**	**-333**	**2070**	**2401**	**-331**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

2023

		Jan			Feb		
Rate District	**BargainType**	**Actuals**	**Budget**	**Variance**	**Actuals**	**Budget**	**Variance**
Met-Ed	Bargaining	450	463	-13	453	463	-10
	Non-Bargaining	127	140	-13	127	140	-13
Met-Ed Total		**577**	**603**	**-26**	**580**	**603**	**-23**
Penelec	Bargaining	484	501	-17	478	501	-23
	Non-Bargaining	212	222	-10	216	222	-6
Penelec Total		**696**	**723**	**-27**	**694**	**723**	**-29**
Penn Power	Bargaining	132	132	0	131	132	-1
	Non-Bargaining	42	46	-4	43	46	-3
Penn Power Total		**174**	**178**	**-4**	**174**	**178**	**-4**
West Penn Power	Bargaining	460	478	-18	458	479	-21
	Non-Bargaining	161	159	2	164	159	5
West Penn Power Total		**621**	**637**	**-16**	**622**	**638**	**-16**
Grand Total		**2068**	**2141**	**-73**	**2070**	**2142**	**-72**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Mar			Apr			May			Jun
Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals
449	463	-14	446	446	0	446	471	-25	446
129	140	-11	133	140	-7	133	140	-7	133
578	**603**	**-25**	**579**	**586**	**-7**	**579**	**611**	**-32**	**579**
476	500	-24	472	489	-17	472	511	-39	472
218	222	-4	221	222	-1	221	222	-1	221
694	**722**	**-28**	**693**	**711**	**-18**	**693**	**733**	**-40**	**693**
130	132	-2	128	132	-4	128	135	-7	128
44	46	-2	44	46	-2	44	46	-2	44
174	**178**	**-4**	**172**	**178**	**-6**	**172**	**181**	**-9**	**172**
452	479	-27	448	479	-31	448	482	-34	448
164	159	5	169	159	10	169	159	10	169
616	**638**	**-22**	**617**	**638**	**-21**	**617**	**641**	**-24**	**617**
2062	**2141**	**-79**	**2061**	**2113**	**-52**	**2061**	**2166**	**-105**	**2061**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Jul			Aug			Sep			
Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget
472	-26	446	472	-26	467	472	-5	464	472
140	-7	133	140	-7	142	140	2	140	140
612	**-33**	**579**	**612**	**-33**	**609**	**612**	**-3**	**604**	**612**
510	-38	472	511	-39	494	511	-17	498	502
222	-1	221	222	-1	220	222	-2	212	222
732	**-39**	**693**	**733**	**-40**	**714**	**733**	**-19**	**710**	**724**
135	-7	128	135	-7	131	135	-4	137	135
46	-2	44	46	-2	48	46	2	45	46
181	**-9**	**172**	**181**	**-9**	**179**	**181**	**-2**	**182**	**181**
481	-33	448	481	-33	481	481	0	483	480
159	10	169	159	10	159	159	0	148	159
640	**-23**	**617**	**640**	**-23**	**640**	**640**	**0**	**631**	**639**
2165	**-104**	**2061**	**2166**	**-105**	**2142**	**2166**	**-24**	**2127**	**2156**

FE PA Response to I&E Interrogatory RE, No. 035
Attachment A
Witness: T. Ashton

Oct			Nov			Dec			
Variance	Actuals	Budget	Variance	Actuals	Budget	Variance	Actuals	Budget	Variance
-8	466	472	-6	467	472	-5	467	472	-5
0	137	140	-3	138	140	-2	133	140	-7
-8	**603**	**612**	**-9**	**605**	**612**	**-7**	**600**	**612**	**-12**
-4	509	502	7	513	502	11	512	502	10
-10	210	222	-12	209	222	-13	208	222	-14
-14	**719**	**724**	**-5**	**722**	**724**	**-2**	**720**	**724**	**-4**
2	137	135	2	137	135	2	137	135	2
-1	44	46	-2	44	46	-2	43	46	-3
1	**181**	**181**	**0**	**181**	**181**	**0**	**180**	**181**	**-1**
3	485	480	5	484	480	4	483	480	3
-11	148	159	-11	154	159	-5	152	159	-7
-8	**633**	**639**	**-6**	**638**	**639**	**-1**	**635**	**639**	**-4**
-29	**2136**	**2156**	**-20**	**2146**	**2156**	**-10**	**2135**	**2156**	**-21**

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 32

"Reference FE PA Exhibit PML-1, p. 59, Adjustment IS-11 concerning the claimed effective payroll tax rates, explain in detail how the rate districts are experiencing the following effective payroll tax rates when the current social security tax rate far exceeds these percentages: (A) Met-Ed – 2.32%; (B) Penelec – 2.29%; (C) Penn Power – 1.71%; and (D) West Penn – 2.51%."

RESPONSE:

See FE PA Response to OCA Interrogatory Set IV, No. 45 for an explanation of the error in the numerator of the effective payroll tax rate calculation, which is causing the low effective payroll tax rates shown of FE PA Exhibit PML-1, page 59, line 3.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

OFFICE OF CONSUMER ADVOCATE Set IV, No. 45

"Please provide a breakdown related to the associated payroll tax expense and tax rates for each of the payroll taxes totaling $6,429,000 shown on FE PA PML-1 page 58 and 59 of 63."

RESPONSE:

The $6.429 million of payroll taxes shown on FE PA Exhibit PML-1, pages 58 and 59 are the payroll taxes remaining after the settlement of payroll to various O&M accounts and capital. The per budget payroll tax rate of 7.65%, which consisted of the Social Security tax rate of 6.2% and the Medicare tax rate of 1.45%, is used to calculate the total payroll tax in the budget of $19.628 million.

The amount of the adjustment shown on FE PA Exhibit PML-1, page 59, line 8 should have been $97,000, which is calculated as the O&M payroll adjustment of $1.232 million, as shown on FE PA Exhibit PML-1, page 38, line 17 times the payroll tax rate of 7.65%. FE PA will update this calculation in rebuttal.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

OFFICE OF CONSUMER ADVOCATE Set IV, No. 4

"Please provide a detailed breakdown of all incentive compensation costs included in the affiliated charges of the Company's Service Company (FESC). Please provide a schedule of the recipients of the incentive compensation and the reason for such."

RESPONSE:
See below for incentive compensation costs allocated from the FirstEnergy Service Company (FESC).

Short-Term Incentive Compensation (STIP)

Company	2023	2024	2025
Metropolitan Edison Company	4,569,660	4,312,213	4,441,579
Pennsylvania Power Company	5,377,060	5,160,693	5,315,514
Pennsylvania Electric Company	1,356,881	1,283,461	1,321,964
West Penn Power Company	4,950,932	4,596,830	4,734,734
Total	**$ 16,254,533**	**$ 15,353,196**	**$ 15,813,792**

Long-Term Incentive Compensation (LTIP)

Company	2023	2024	2025
Metropolitan Edison Company	2,804,097	2,504,556	2,423,730
Pennsylvania Electric Company	3,299,545	2,997,358	2,900,629
Pennsylvania Power Company	832,628	745,441	721,384
West Penn Power Company	3,038,059	2,669,863	2,583,703
Total PA	**$ 9,974,329**	**$ 8,917,218**	**$ 8,629,446**

The Short-Term Incentive Program ("STIP" or "program") provides incentive awards to employees of FirstEnergy Corp. ("FirstEnergy") whose contributions support the successful achievement of Financial and Operational Key Performance Indicators ("KPIs"). STIP awards are cash-based awards based on the terms and conditions of the FirstEnergy Corp. 2020 Incentive Compensation Plan ("Incentive Plan"), which was approved by FirstEnergy's shareholders. See FE PA Response to OCA Interrogatory Set IV, No. 2 Attachment B for a copy of the Incentive Plan. The STIP KPIs are developed in accordance with the performance measures identified in the Incentive Plan.

All regular, non-represented full-time and part-time employees may be eligible to participate in the program if they work a minimum of 500 productive hours and are hired prior to October 1.

STIP awards for the program year will generally be paid in February (but no later than March 15th) of the following year.

2023: STIP Awards for plan year 2022 were paid on 2/17/2023.
2024: STIP Awards for plan year 2023 were paid on 2/16/2024.
2025: STIP Awards for plan year 2024 are scheduled to be paid on 2/14/2025.

The Long-Term Incentive Program ("LTIP") is designed to link a portion of an executive's compensation to the interests of our shareholders. In general, executives hired into the executive group by March 1st are eligible for Performance Adjusted RSU grants in the current year. Executives hired into the executive group after March 1st of the current year will be eligible for the grants in the following year, provided they continue to meet the eligibility requirements and the annual grants are approved by the Compensation Committee of the Board of Directors.

In general, the executive group includes Tiers 1-5 as follows:

Tier	**Positions**
1	CEO
2	Direct report to the CEO (e.g., SVPs) and/or Executive Council members
3	VP and equivalents
4/5	Directors and Managers deemed to be eligible for LTIP based on market data

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Met-Ed Rate District

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

Line	Description	Met-Ed Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 647,549	$ 1,774	54.76	A	(35.35)	B	19.41	$ 34,436
3	Payroll	36,461	100	54.76	A	(17.39)	C	37.37	3,733
4	Benefits	34,114	93	54.76	A	(42.02)	C	12.75	1,191
5	Annual PSC Assessment	2,887	8	54.76	A	85.00	C	139.76	1,105
6	Service Company	46,952	129	54.76	A	(16.71)	C	38.06	4,895
7	Uncollectibles	19,196	53	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	78,006	214	54.76	A	(54.60)	C	0.16	34
9	**Total O&M Expenses**	$ 865,164	$ 2,370						$ 45,395
10	**Income Taxes**								
11	Federal Income Taxes	$ 27,337	$ 75	54.76	A	(37.00)	D	17.76	$ 1,330
12	State Income Taxes	10,792	30	54.76	A	(37.00)	D	17.76	525
13	**Total Income Taxes**	$ 38,129	$ 104						$ 1,856
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 2,789	$ 8	54.76	A	(21.17)	E	33.59	$ 257
16	Ad Valorem Tax	434	1	54.76	A	24.41	F	79.18	94
17	Gross Receipts Tax	82,441	226	54.76	A	33.99	G	88.76	20,047
18	Public Utility Realty Tax	2,310	6	54.76	A	64.50	H	119.26	755
19	Sales and Use Tax	122	0	54.76	A	(29.49)	I-J	25.27	8
20	Other Tax	-	-	54.76	A	(21.17)	E	33.59	-
21	**Total Taxes Other Than Income Taxes**	$ 88,096	$ 241						$ 21,161
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 45,526	$ 125	54.76	A	(93.86)	K	(39.09)	$ (4,876)
24	Customer Deposits	2,501	7	54.76	A	(275.83)	K	(221.06)	(1,515)
25	**Total Interest Expense**	$ 48,026	$ 132						$ (6,391)
26	**Prepayments**						L		$ 2,033
27	**Cash Working Capital Requirement**	$ 1,039,415	$ 2,848						$ 64,054

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Penelec Rate District

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

Line	Description	Penelec Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 505,114	$ 1,384	56.01	A	(35.91)	B	20.10	$ 27,820
3	Payroll	41,604	114	56.01	A	(17.89)	C	38.13	4,346
4	Benefits	37,084	102	56.01	A	(38.62)	C	17.40	1,768
5	Annual PSC Assessment	2,886	8	56.01	A	85.00	C	141.01	1,115
6	Service Company	54,251	149	56.01	A	(16.71)	C	39.31	5,842
7	Uncollectibles	19,672	54	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	114,719	314	56.01	A	(53.92)	C	2.10	660
9	**Total O&M Expenses**	$ 775,329	$ 2,124						$ 41,550
10	**Income Taxes**								
11	Federal Income Taxes	$ 28,008	$ 77	56.01	A	(37.00)	D	19.01	$ 1,459
12	State Income Taxes	11,122	30	56.01	A	(37.00)	D	19.01	579
13	**Total Income Taxes**	$ 39,130	$ 107						$ 2,038
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 3,183	$ 9	56.01	A	(18.71)	E	37.31	$ 325
16	Ad Valorem Tax	188	1	56.01	A	4.35	F	60.36	31
17	Gross Receipts Tax	74,709	205	56.01	A	55.07	G	111.09	22,737
18	Public Utility Realty Tax	1,668	5	56.01	A	64.50	H	120.51	551
19	Sales and Use Tax	123	0	56.01	A	(29.54)	I-J	26.48	9
20	Other Tax	1	0	56.01	A	(29.65)	E	26.37	0
21	**Total Taxes Other Than Income Taxes**	$ 79,872	$ 219						$ 23,654
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 47,877	$ 131	56.01	A	(93.30)	K	(37.29)	$ (4,891)
24	Customer Deposits	2,081	6	56.01	A	(287.11)	K	(231.09)	(1,318)
25	**Total Interest Expense**	$ 49,959	$ 137						$ (6,209)
26	**Prepayments**						L		$ 2,079
27	**Cash Working Capital Requirement**	$ 944,290.62	$ 2,587						$ 63,112

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Penn Power Rate District

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

Line	Description	Penn Power Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 186,512	$ 511	51.06	A	(35.50)	B	15.57	$ 7,955
3	Payroll	7,930	22	51.06	A	(17.20)	C	33.87	736
4	Benefits	11,209	31	51.06	A	(37.77)	C	13.29	408
5	Annual PSC Assessment	915	3	51.06	A	85.00	C	136.06	341
6	Service Company	13,833	38	51.06	A	(16.71)	C	34.35	1,302
7	Uncollectibles	5,000	14	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	24,845	68	51.06	A	(60.28)	C	(9.22)	(627)
9	**Total O&M Expenses**	$ 250,242	$ 686						$ 10,115
10	**Income Taxes**								
11	Federal Income Taxes	$ 6,832	$ 19	51.06	A	(37.00)	D	14.06	$ 263
12	State Income Taxes	2,673	7	51.06	A	(37.00)	D	14.06	103
13	**Total Income Taxes**	$ 9,505	$ 26						$ 366
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 607	$ 2	51.06	A	(20.10)	E	30.96	$ 51
16	Ad Valorem Tax	80	0	51.06	A	14.06	F	65.12	14
17	Gross Receipts Tax	23,827	65	51.06	A	37.51	G	88.57	5,782
18	Public Utility Realty Tax	402	1	51.06	A	64.50	H	115.56	127
19	Sales and Use Tax	-	-	51.06	A	(29.77)	I-J	21.30	-
20	Other Tax	0	0	51.06	A	(39.90)	E	11.16	0
21	**Total Taxes Other Than Income Taxes**	$ 24,916	$ 68						$ 5,975
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 13,608	$ 37	51.06	A	(93.44)	K	(42.37)	$ (1,580)
24	Customer Deposits	537	1	51.06	A	(287.70)	K	(236.64)	(348)
25	**Total Interest Expense**	$ 14,145	$ 39						$ (1,928)
26	**Prepayments**						L		$ 595
27	**Cash Working Capital Requirement**	$ 298,809	$ 819						$ 15,123

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - West Penn Rate District

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

Line	Description	West Penn Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 754,044	$ 2,066	49.59	A	(35.09)	B	14.50	$ 29,950
3	Payroll	33,746	92	49.59	A	(20.20)	C	29.40	2,718
4	Benefits	26,418	72	49.59	A	(36.76)	C	12.84	929
5	Annual PSC Assessment	3,574	10	49.59	A	85.00	C	134.59	1,318
6	Service Company	56,663	155	49.59	A	(16.71)	C	32.88	5,105
7	Uncollectibles	17,058	47	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	166,017	455	49.59	A	(55.39)	C	(5.80)	(2,639)
9	**Total O&M Expenses**	$ 1,057,520	$ 2,897						$ 37,381
10	**Income Taxes**								
11	Federal Income Taxes	$ 28,784	$ 79	49.59	A	(37.00)	D	12.59	$ 993
12	State Income Taxes	11,550	32	49.59	A	(37.00)	D	12.59	398
13	**Total Income Taxes**	$ 40,333	$ 111						$ 1,391
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 2,581	$ 7	49.59	A	(21.41)	E	28.18	$ 199
16	Ad Valorem Tax	186	1	49.59	A	(18.56)	F	31.03	16
17	Gross Receipts Tax	91,285	250	49.59	A	37.26	G	86.85	21,720
18	Public Utility Realty Tax	1,720	5	49.59	A	64.50	H	114.09	538
19	Sales and Use Tax	7	0	49.59	A	(29.45)	I-J	20.14	0
20	Other Tax	-	-	49.59	A	(27.16)	E	22.43	-
21	**Total Taxes Other Than Income Taxes**	$ 95,779	$ 262						$ 22,473
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 44,187	$ 121	49.59	A	(95.83)	K	(46.23)	$ (5,597)
24	Customer Deposits	2,159	6	49.59	A	(279.51)	K	(229.92)	(1,360)
25	**Total Interest Expense**	$ 46,346	$ 127						$ (6,957)
26	**Prepayments**						L		$ 3,034
27	**Cash Working Capital Requirement**	$ 1,239,980	$ 3,397						$ 57,322

I&E Statement No. 2
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

TABLE OF CONTENTS

INTRODUCTION OF WITNESS **1**

BACKGROUND **2**

COMPANY'S RATE OF RETURN CLAIM **5**

I&E POSITION **6**

PROXY GROUP **6**

CAPITAL STRUCTURE **12**

COST RATE OF LONG-TERM DEBT **14**

COST OF COMMON EQUITY **15**

COMMON METHODS 15

I&E RECOMMENDED METHOD TO EMPLOY 17

SUMMARY OF THE COMPANY'S RESULTS **26**

I&E RECOMMENDATION **27**

DISCOUNTED CASH FLOW 28

CAPITAL ASSET PRICING MODEL (CAPM) 31

CRITIQUE OF MR. D'ASCENDIS'S PROPOSED COST OF EQUITY **37**

WEIGHTS GIVEN TO THE CAPM, RP, AND CE METHODS 38

RISK ANALYSIS 40

CAPM ANALYSIS 41

RISK-FREE RATE OF RETURN 41

ECAPM 43

FLOTATION COST ADJUSTMENT 45

OVERALL RATE OF RETURN RECOMMENDATION **48**

INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is D. C. Patel and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL EXPERIENCE?

A. My education and professional experience is set forth in the attached Appendix A.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for representing the public interest in rate and other proceedings before the Commission. I&E's analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the utility company, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to review the base rate filing of FirstEnergy Pennsylvania Electric Company (FE PA or Company) and make recommendations regarding the Company's rate of return, including capital structure, cost of long-term debt, the cost of equity, and the overall fair rate of return for the fully projected future test year (FPFTY) ending December 31, 2025.

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 2 contains schedules that support my direct testimony.

BACKGROUND

Q. WHAT IS THE GENERAL DEFINITION OF RATE OF RETURN IN THE CONTEXT OF A RATE CASE?

A. Rate of return is one of the components of the revenue requirement formula. Rate of return is the amount of revenue an investment generates in the form of net income. It is typically expressed as a percentage of the amount of an asset base at a particular point in time, which in base rate proceedings, is the projected rate base balance at the end of the FPFTY.

Q. WHAT IS THE REVENUE REQUIREMENT FORMULA?

A. The revenue requirement formula used in base rate cases is as follows:

$$RR = E + D + T + (RB \times ROR)$$

Where:

RR = Revenue Requirement

E = Operating Expenses

D = Depreciation Expense

T = Taxes

RB = Rate Base

ROR = Overall Rate of Return

In the above formula, the rate of return is expressed as a percentage. The calculation of that percentage is independent of the determination of the appropriate rate base value for ratemaking purposes. As such, the appropriate total dollar return is dependent upon the proper computation of the rate of return and the proper valuation of the Company's rate base.

Q. WHAT CONSTITUTES A FAIR AND REASONABLE OVERALL RATE OF RETURN?

A. A fair and reasonable overall rate of return is one that will allow the utility an *opportunity* to recover those costs prudently incurred by all classes of capital used to finance the rate base during the prospective period in which its rates will be in effect.

The *Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia,* 262 U.S. 679, 692-93 (1923), and the *FPC v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944) cases set forth the principles that are generally

accepted by regulators throughout the country as the appropriate criteria for measuring a fair rate of return:

1. A utility is entitled to a return similar to that being earned by other enterprises with corresponding risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures.
2. A utility is entitled to a return level reasonably sufficient to assure financial soundness.
3. A utility is entitled to a return sufficient to maintain and support its credit and raise necessary capital.
4. A fair return can change (increase or decrease) along with economic conditions and capital markets.

Q. EXPLAIN HOW THE OVERALL RATE OF RETURN IS TRADITIONALLY CALCULATED IN BASE RATE PROCEEDINGS.

A. In base rate proceedings, the overall rate of return is traditionally calculated using the weighted average cost of capital method. To calculate the weighted average cost of capital, a company's capital structure must first be determined by comparing the percentage of each capitalization component, which has financed rate base, to total capital. In FE PA's case, the capital components consist of long-term debt and common equity. Next, the effective cost rate of each capital structure component must be determined. The historical component of the cost rate of debt can be computed accurately, and any future debt issuances are based

on estimates. The cost rate of common equity is not fixed and is more difficult to measure. Because of this difficulty, a proxy group is used as discussed later in this testimony. Next, each capital structure component percentage is multiplied by its corresponding effective cost rate to determine the weighted capital component cost rate. The I&E table in the *"I&E Position"* section below demonstrates the interaction of each capital structure component and its corresponding effective cost rate. Finally, the sum of the weighted cost rates produces the overall rate of return. This overall rate of return is multiplied by the rate base to determine the return portion of a company's revenue requirement.

COMPANY'S RATE OF RETURN CLAIM

Q. WHO IS THE COMPANY'S RATE OF RETURN WITNESS?

A. FE PA witness Dylan D'Ascendis is the primary witness addressing the rate of return. Throughout his direct testimony (FE PA Statement No. 10), Mr. D'Ascendis provides analysis of the cost of common equity and overall rate of return for FE PA. Bill Wang addresses the ratemaking capital structure and the cost of long-term debt (FE PA Statement No. 11).

Q. PLEASE SUMMARIZE THE COMPANY'S RATE OF RETURN CLAIM.

A. Mr. D'Ascendis recommends the following rate of return based on the FPFTY ending December 31, 2025 (FE PA Statement No. 10, p. 3, lines 1-3 and FE PA Exhibit DWD-1, p. 1):

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	11.30%	6.08%
Total	**100.00%**		**8.19%**

I&E POSITION

Q. PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATION.

A. I recommend the following rate of return for the Company I&E Exhibit No. 2, Schedule 1):

I & E Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	9.91%	5.33%
Total	**100.00%**		**7.44%**

PROXY GROUP

Q. WHAT IS A PROXY GROUP AS USED IN BASE RATE CASES?

A. A proxy group is a set of companies that have similar traits as compared to the subject utility. This group of companies acts as a benchmark for determining the

subject utility's rate of return in a base rate case.

Q. WHAT ARE THE REASONS FOR USING A PROXY GROUP?

A. A proxy group's cost of equity is used as a benchmark to satisfy the long-established guideline of utility regulation that seeks to provide the subject utility with the opportunity to earn a return similar to that of enterprises with corresponding risks and uncertainties.

A proxy group is typically utilized since the use of data exclusively from one company may be less reliable. The lower reliability occurs because the data for one company may be subject to events that can cause short-term anomalies in the marketplace. The rate of return on common equity for a single company could become distorted in these circumstances and would therefore not be representative of similarly situated companies. Therefore, a proxy group has the effect of smoothing out potential anomalies associated with a single company.

Q. WHAT CRITERIA DID YOU USE IN SELECTING YOUR PROXY GROUP?

A. The criteria for my proxy group was designed to select companies that are representative of FE PA. I applied the following criteria to Value Line's Eastern, Central, and Western Electric Utility groups:

1. Fifty percent or more of the company's revenues must be generated from the regulated electric utility industry.

2. The company's stock must be publicly traded.

3. Investment information for the company must be available from more than one source, which includes Value Line.

4. The company must not be currently involved in an announced merger or the target of an acquisition.

5. The company must have four consecutive years of historic earnings data.

6. The company must be operating in a state that has a deregulated electric utility market.

Q. WHAT CRITERIA DID MR. D'ASCENDIS USE IN SELECTING THE COMPANIES THAT FORMULATE HIS ELECTRIC UTILITY (PROXY) GROUP?

A. Mr. D'Ascendis determined his proxy group of fourteen electric companies by using the following criteria (FE PA Statement No. 10, p. 13, line 11 through p. 14, line 6), which includes companies that:

1. Are included in the Eastern, Central, or Western Electric Utility Group of Value Line Investment Survey (Standard Edition).

2. Have 70% or greater of fiscal year 2022 total operating income derived from, and 70% or greater of fiscal year 2022 total assets attributable to regulated electric operations.

3. Had not publicly announced that it is involved in any major merger or acquisition activity (i.e., one publicly traded utility merging with or acquiring another) or any other major development.

4. Have not cut or omitted their common dividends during the five years ending 2022 or through the time of preparation of his testimony.

5. Have Value Line and Bloomberg Professional Services (Bloomberg) adjusted Beta coefficients.

6. Have positive Value Line five-year dividends per share growth rate projections.

7. Have Value Line, Zacks, or Yahoo! Finance consensus five-year earnings per share growth rate projections.

Q. WHAT PROXY GROUP DID YOU USE IN YOUR ANALYSIS?

A. I included the following sixteen companies in my proxy group:

Company	Stock Ticker
Ameren Corporation	AEE
American Electric Power Company Inc.	AEP
AVANGRID Inc.	AGR
CMS Energy Corporation	CMS
Consolidated Edison Inc.	ED
Dominion Energy Inc.	D
Duke Energy Corporation	DUK
Entergy Corporation	ETR
Eversource Energy	ES
Exelon Corporation	EXC

FirstEnergy Corporation	FE
IDACORP Inc.	IDA
Portland General Electric Company	POR
PPL Corporation	PPL
Public Service Enterprise Group Inc.	PEG
Xcel Energy Inc.	XEL

Q. WHAT PROXY GROUP DID MR. D'ASCENDIS USE IN HIS ANALYSIS?

A. Mr. D'Ascendis utilized the following fourteen companies (FE PA Statement No. 10, p. 14, lines 7-8):

Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Corporation	AEP
Duke Energy Corporation	DUK
Edison International	EIX
Entergy Corporation	ETR
Evergy, Inc.	EVRG
IDACORP, Inc.	IDA
NorthWestern Corporation	NWE
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
Portland General Electric Company	POR
Southern Company	SO
Xcel Energy Inc.	XEL

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S ELECTRIC PROXY GROUP?

A. Not entirely. Mr. D'Ascendis has seven companies that match with my proxy

group of sixteen companies and seven companies that I do not include in my proxy group. Similarly, he does not include nine companies that I include in my proxy group.

Q. PLEASE LIST THE SEVEN COMPANIES MR. D'ASCENDIS INCLUDES THAT YOU DO NOT AND EXPLAIN WHY YOU HAVE EXCLUDED THEM FROM YOUR PROXY GROUP.

A. The seven companies in question are as follows: (1) Alliant Energy Corporation, (2) Edison International, (3) Evergy, Inc., (4) NorthWestern Corporation, (5) OGE Energy Corporation, (6) Pinnacle West Capital Corporation, and (7) Southern Company. All these companies do not meet my criterion that a company must be operating in a state that has a deregulated electric utility market.

Q. PLEASE LIST THE NINE COMPANIES YOU INCLUDE THAT MR. D'ASCENDIS DOES NOT IN HIS ELECTRIC UTLITY GROUP.

A. The nine companies in question that Mr. D'Ascendi's does not include in his utility group are as follows: (1) AVANGRID, Inc., (2) CMS Energy Corp., (3) Consolidated Edison, Inc., (4) Dominion Energy, Inc., (5) Eversource Energy, (6) Exelon Corporation, (7) First Energy Corporation, (8) PPL Corporation, and (9) Public Service Enterprise Group. Inc.

CAPITAL STRUCTURE

Q. WHAT IS A CAPITAL STRUCTURE?

A. A capital structure represents how a firm has financed its rate base with different sources of funds. The primary sources of funding are long-term debt and common equity. A capital structure may also include short-term debt and preferred stock, which is not the case for FE PA.

Q. WHAT IS THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. The Company's claimed capital structure is summarized in the table below (FE PA Statement No. 10, p. 14, lines 11-12 and FE PA Exhibit DWD-1, p. 1):

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY **Projected Capital Structure as of December 31, 2025**	
Type of Capital	**Capitalization Ratio**
Long-Term Debt	46.19%
Common Equity	53.81%
Total	**100.00%**

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMED CAPITAL STRUCTURE?

A. Mr. D'Ascendis states that FE PA's common equity ratio of 53.81% is consistent with his Utility Proxy Group range of common equity ratios from 30.19% to 56.13% for the fiscal year 2022 (FE PA Statement No. 10, p. 15, lines 3-6 and FE

PA Exhibit DWD-2, p. 3). Mr. Wang explains that based on recent financial forecasts, the respective amounts of long-term debt and common equity were projected forward to December 31, 2024, the end of the future test year, and to December 31, 2025, the end of the FPFTY to capture: (1) the pay down of long-term debt; (2) the amortization of long-term debt discount; (3) planned equity infusions; and (4) anticipated changes in retained earnings (FE PA Statement No. 11, p. 4, line 19 through p. 5, line 4 and FE PA Exhibit BW-1). Therefore, he recommends the adoption of the FPFTY capital structure ratios of 46.19% long-term debt and 53.81% common equity.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S CAPITAL STRUCTURE?

A. I recommend using the Company's claimed capital structure as presented in the table above.

Q. WHAT IS THE BASIS FOR YOUR CAPITAL STRUCTURE RECOMMENDATION?

A. I believe a capital structure of 50% long-term debt and 50% common equity is optimal when trying to balance the financial integrity of a utility as well as trying to control costs to ratepayers in this proceeding. However, I recommend using the Company's claimed capital structure as it falls within the range of my proxy group's 2023 (most recently available) capital structure information published in

Compustat. The most recent five-year average ranges of my proxy group companies' capital structure ratios are from 33.39% to 71.69% long-term debt and 28.31% to 66.61% common equity, with an overall five-year average of 55.64% long-term debt and 43.98% common equity (I&E Exhibit No. 2, Schedule 2, pp. 1-2).

COST RATE OF LONG-TERM DEBT

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S COST RATE OF LONG-TERM DEBT?

A. I recommend using the Company's claimed long-term debt cost rate of 4.56% for the FPFTY (FE PA Exhibit BW-2 and FE PA Exhibit DWD-1).

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION TO USE THE COMPANY'S CLAIMED COST RATE OF LONG-TERM DEBT?

A. The Company's claimed long-term debt cost rate of 4.56% is based on the FPFTY outstanding long-term debt and the effective cost rate calculation as shown in FE PA Exhibit BW-2. Additionally, the claimed long-term debt cost rate is representative of the industry as it falls within my proxy group's 2023 implied long-term debt cost range of 3.74% to 5.41%, with an average implied long-term debt cost of 4.56%. The Mergent Bond Record shows an average yield of 5.65% (May 2023 through April 2024) for A-rated public utility bond (I&E

Exhibit No. 2, Schedule 3). Given the upward trend in interest rates, I believe that the Company's claim is representative of the utility industry.

COST OF COMMON EQUITY

COMMON METHODS

Q. WHAT METHODS ARE COMMONLY PRESENTED BY UTILITIES IN DETERMINING THE COST OF COMMON EQUITY?

A. Four methods commonly presented to estimate the cost of common equity are the Discounted Cash Flow (DCF), the Capital Asset Pricing Model (CAPM), the Risk Premium (RP) Method, and the Comparable Earnings (CE) Method.

Q. WHAT IS THE THEORETICAL BASIS FOR THE DCF METHOD?

A. The DCF method is the "dividend discount model" of financial theory, which maintains that the value (price) of any security or commodity is the discounted present value of all future cash flows. The DCF method assumes that investors evaluate stocks in the classical economic framework, which maintains that the value of a financial asset is determined by its earning power, or its ability to generate future cash flows.

Q. WHAT IS THE THEORETICAL BASIS FOR THE CAPM?

A. The CAPM describes the relationship of a stock's investment risk and its market rate of return. It identifies the rate of return investors expect so that it is

comparable with returns of other stocks of similar risk. This method hypothesizes that the investor-required return on a company's stock is equal to the return on a "risk free" asset plus an equity premium reflecting the company's investment risk. In the CAPM, two types of risk are associated with a stock: (1) firm-specific risk (unsystematic risk); and (2) market risk (systematic risk), which is measured by a firm's beta. The CAPM allows for investors to receive a return only for bearing systematic risk. Unsystematic risk is assumed to be diversified away, and therefore, does not earn a return.

Q. WHAT IS THE THEORETICAL BASIS FOR THE RP METHOD?

A. The theoretical basis for the RP method is a simplified version of the CAPM. The RP method's theory is that common stock is riskier than debt, thus, investors require a higher expected return on stocks than bonds. In the RP approach, the cost of equity is made up of the cost of debt and a risk premium. While the CAPM uses the market risk premium, it also directly measures the systematic risk of the company group using beta. The RP method does not measure the specific risk of the company.

Q. WHAT IS THE THEORETICAL BASIS FOR THE CE METHOD?

A. The CE method utilizes the concept of opportunity cost. This means that investors will likely dedicate their capital to the investment offering the highest return with similar risk to alternative investments. Unlike the DCF, CAPM, and the RP

methods, the CE method is not market-based and relies upon historic accounting data. Like the RP method, the CE method does not measure the specific risk of a company. The most problematic issue with the CE method is determining what constitutes comparable companies.

I&E RECOMMENDED METHOD TO EMPLOY

Q. WHAT METHOD DO YOU RECOMMEND TO DETERMINE AN APPROPRIATE COST OF COMMON EQUITY FOR FE PA?

A. I recommend using the DCF method as the primary method to determine the cost of common equity. Additionally, I provide a CAPM analysis to be used as a comparison, not as a check, to the DCF results. The DCF method has the most wide-spread regulatory acceptance, and the Commission has historically relied mostly upon the DCF results in base rate proceedings, including as recently as 2017, 2018, 2020, and 2021.[1]

[1] *Pa. PUC v. City of DuBois – Bureau of Water*; Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. - Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company;* Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA;* Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.;* Docket No. R-2020-3018835 (Order Entered February 19, 2021). *See generally* Disposition of Cost of Common Equity, p. 131; Pa. PUC v. PECO Energy Company – Gas Division; Docket No. R-2020-3018929 (Order Entered June 22, 2021). *See generally* Disposition of Return of Rate on Common Equity, p. 171.

Q. PLEASE EXPLAIN WHY YOU CHOSE TO EMPLOY THE DCF TO DETERMINE YOUR RECOMMENDED RETURN ON EQUITY.

A. I recommend using the DCF for a variety of reasons. The DCF is appealing to investors since it is based upon the concept that the receipt of dividends in addition to expected appreciation is the total return requirement determined by the market.[2] The use of a growth rate and expected dividend yield are also strengths of the DCF, as this recognizes the time value of money and is forward-looking. The use of the utilities' own, or in this case the proxy group's, stock prices and growth rates directly in the calculation also causes the DCF to be industry and company specific. Finally, the current inflationary and economic trends are most certainly reflected in a stock's price, which is used in determining the dividend yield, and by independent professional analysts who generate forecasted earnings growth rates. Therefore, the DCF contains the most up-to-date projected information of any model and is the superior method for determining the rate of return for the current economic market because it measures the cost of equity directly.

Q. PLEASE EXPLAIN WHY YOU ALSO CHOSE TO LOOK AT THE CAPM IN YOUR ANALYSIS.

A. I calculated a CAPM analysis only as a comparison, and not as a basis, for my recommendation because both the CAPM and the DCF include inputs that allow

[2] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, p. 153.

the results to be specific to the utility industry. However, the CAPM is based on the performance of U.S. Treasury bonds and the performance of the market as measured through the S&P 500 and is company-specific only through the use of beta. Beta reflects a stock's volatility relative to the overall market, thereby incorporating an industry-specific aspect to the CAPM, but only as a measure of how reactive the industry is compared to the market as a whole. Although changes in the utility industry are more likely to be accurately reflected in the DCF, which uses the companies' actual prices, dividends, and growth rates, I have also included the results of my CAPM analysis because changes in the market, whether as a whole or specific to the utility industry, affect the outcome of each method in different ways. As I stated, I have provided the results of my CAPM analysis as a comparison, and not as a check. And as I discuss below, the CAPM has several disadvantages and should not be given comparable weight to the DCF.

Q. EXPLAIN THE DISADVANTAGES OF THE CAPM.

A. The CAPM, and the RP method by virtue of its similarities to the CAPM, give results that indicate to an investor what the equity cost rate should be if current economic and regulatory conditions are the same as those present during the historical period in which the risk premiums were determined. This is because beta, which is the only company-specific variable in the CAPM model, measures the *historical* volatility of a stock compared to the *historical* overall market return. Reliance on historical values is especially problematic now given the recent

impact of the COVID-19 pandemic on economic conditions. Although the CAPM and RP results can be useful to investors in making rational buy and sell decisions within their portfolios, the DCF method is the superior method for determining the rate of return for the current economic market and measuring the cost of equity directly. The CAPM and the RP methods are less reliable indicators because they measure the cost of equity indirectly and risk premiums vary depending on the debt and equity being compared. Also, regulators can never be certain that economic and regulatory conditions underlying the historical period during which the risk premiums were calculated are the same today or will be the same in the future.

Q. IS THERE ANY ACADEMIC EVIDENCE THAT QUESTIONS THE CREDIBILITY OF THE CAPM MODEL?

A. Yes. An article, "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory," which appeared in the *New York Times* on February 18, 1992, summarized a CAPM study conducted by professors Eugene F. Fama and Kenneth R. French.[3] Their study examined the importance of beta, CAPM's risk factor, in explaining returns on common stock. In CAPM theory a stock with a higher beta should have a higher expected return. They found that the model did

[3] Berg, Eric N. "Market Place; A Study Shakes Confidence in the Volatile-Stock Theory" *The New York Times*, 18 Feb 1992: *nytimes.com* Web. 23 Mar 2016.

not do well in predicting actual returns and suggested the use of more elaborate multi-factor models.

A more recent article, "The Capital Asset Pricing Model: Theory and Evidence," which appeared in the *Journal of Economic Perspectives,* states that "the attraction of the CAPM is that it offers powerful and intuitively pleasing predictions about how to measure risk and the relation between expected return and risk. Unfortunately, the empirical record of the model is poor, poor enough to invalidate the way it is used in applications."[4] As a result, I conclude that the CAPM's relevance to the investment decision making process does not carry over into the regulatory rate setting process.

Q. PLEASE EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE RP METHOD FROM YOUR ANALYSIS.

A. The RP method is excluded because it is a simplified version of the CAPM and is subject to the same faults explained above. Most importantly, unlike the CAPM, the RP method does not recognize the company-specific risk through beta.

Q. EXPLAIN WHY YOU HAVE CHOSEN TO EXCLUDE THE CE METHOD IN YOUR ANALYSIS.

A. The CE method is excluded because the choice of which companies are

[4] Fama, Eugene F. and French, Kenneth R., "The Capital Asset Pricing Model: Theory and Evidence." *Journal of Economic Perspectives* (2004): Volume 18, Number 3, pp. 25-46.

comparable is highly subjective, and it is debatable whether historic accounting values are representative of the future. Moreover, its historical usage in this regulatory forum has been minimal.

Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT DEVIATE FROM THE HISTORICAL USE OF THE DCF AS THE PRIMARY METHOD IN DETERMINING A COMPANY'S RETURN ON EQUITY?

A. Yes. The Commission indicated in the 2021 Aqua Pennsylvania, Inc. (Aqua) base rate case order that its method "for determining Aqua's ROE shall utilize both I&E's DCF and CAPM methodologies"[5] and that "I&E's DCF and CAPM produce a range of reasonableness for the ROE…"[6] which deviates from prior Commission practice of primarily relying on the DCF. Most recently, the Commission's Columbia Water Company (Columbia Water) base rate case order relied on the results of I&E's DCF and CAPM analyses for determining Columbia Water's ROE.[7]

[5] *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154 (Order entered May 16, 2022).

[6] *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 178 (Order entered May 16, 2022).

[7] *Pa. PUC v. Columbia Water Company,* Docket No. R-2023-3040258, p. 105 (Order entered January 18, 2024).

Q. SHOULD THE COMMISSION'S USE OF THE CAPM AS A CEILING FOR A "RANGE OF REASONABLENESS" APPLY IN THIS PROCEEDING?

A. No. In a report issued by Regulatory Research Associates, a group within S&P Global Market Intelligence,[8] Aqua's ROE of 10.00% was stated as being above the national average for water utility base rate cases and above the Distribution System Improvement Charge (DSIC) rate authorized by the Commission of 9.80%[9] for water and wastewater utilities for the year ended December 31, 2021. This DSIC rate for water and wastewater utilities has since dropped 5 basis points to 9.75% for the year ended March 31, 2023[10] and further dropped 10 basis points to 9.65% for the year ended June 30, 2023[11] and remained at the same level 9.65% for the year ended December 31, 2023.[12] The above referenced S&P report, which directly reviews Aqua's ROE of 10.00% on the very date the Commission entered its order in Aqua's base rate proceeding demonstrated that the ROE awarded to Aqua was higher than average. Specifically, the S&P report determined that the

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8 Regulatory Research Associates, "Commission authorizes management performance bonus for Aqua Pennsylvania," *S&P Global Market Intelligence*, May 16, 2022. CIQ Pro: RRA Regulatory Focus: Commission authorizes management performance bonus for Aqua Pennsylvania (spglobal.com) (Accessed April 23, 2024).

9 PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022, at Docket No. M-2022-3032405.

10 PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2023, approved at Public Meeting on July 13, 2023 at Docket No. M-2023-3041106.

11 PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended June 30, 2023, approved at Public Meeting on October 19, 2023 at Docket No. M-2023-3042679.

12 PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2024, approved at Public Meeting on May 9, 2024 at Docket No. M-2024-3048688.

average ROE for water utility base rate cases that have been completed during the first four months of 2022 was 9.63% and for the twelve months ended April 30, 2022 was 9.53%, each of which were well below the 10.00% ROE authorized by the Commission for Aqua. This demonstrates the unreasonable skewing of results associated with using the CAPM as a ceiling for determining a utility's ROE.

In the Columbia Water order, the Commission noted that I&E's DCF and CAPM produced a range of reasonableness for the ROE from 7.84% to 11.09% and approved an ROE of 9.75% as reasonable and appropriate for that company, which is based upon consideration of a variety of factors such as increasing inflation leading to increases in interest rates and capital costs.[13] I respectfully disagree with the Commission's basis (current inflation and interest rates) for determining Columbia Water's ROE of 9.75%. I have presented and discussed below the forecasted lower-level inflation rates, and the Federal Reserve's intention to cut interest rates in 2024-2025, which would have the effect of reducing potential inflation and interest rate risks in the capital costs in 2025, when FE PA's new rates will be in effect.

Additionally, as I explained above, the CAPM should not be used as a primary method, and it should only be used as a comparison (not as a check) of the DCF. Also, as demonstrated below, the use of the CAPM in this proceeding would result in a significant burden to ratepayers during a time of increased levels

[13] *Pa. PUC v. Columbia Water Company,* Docket Nos. R-2023-3040258, pp.108-109 (Order entered January 18, 2024).

of inflation. Therefore, I disagree with providing the CAPM comparable weight to the DCF method.

Q. PLEASE COMMENT ON CURRENT INFLATION AND INTEREST RATE CONCERNS.

A. First, I cannot dispute the current economic conditions with respect to increased interest rates and government bond yields, however, it is important to note that all companies, including regulated utilities, are impacted by higher interest rates. Per the latest news article,[14] Federal Reserve officials now expected to lower the interest rates more rapidly next year, to make four rate cuts in 2025, up from three previously. Considering Chairman Powell's latest indication, it is most likely that the Federal Reserve will consider a series of interest rate cuts in 2025, which covers FE PA's FPFTY when the new rates will be in effect.

Per the monthly Blue Chip Financial Forecasts (May 31, 2024),[15] the 2024-2025 inflation rates by two measures are forecasted to be slightly over 2% as shown in the table below:

	Q2 2024	**Q3 2024**	**Q4 2024**	**Q1 2025**	**Q2 2025**	**Q3 2025**
Consumer Price Index	3.5%	2.7%	2.5%	2.4%	2.4%	2.4%
PCE Price Index	2.9%	2.3%	2.2%	2.3%	2.2%	2.2%

[14] Fed Meeting Live Updates: Powell Speaks on Rates and Inflation Report - The New York Times (nytimes.com) (accessed on June 12, 2024).

[15] Blue Chip Financial Forecasts, Vol. 43, No. 6, May 31, 2024, p. 2.

The Federal Reserve's commitment to an interest rate reduction and forecasted gradual reduction in inflationary pressure to the Federal Reserve target level of 2.0% would have the effect of reducing potential inflation and interest rate risks in the capital costs during 2025, when FE PA's new rates will be in effect. Lastly, it is important to note that unlike unregulated companies, public utilities may file rate cases to address unforeseen or increased expenses and/or revenue shortfalls due to changes in market conditions.

As discussed above, I reiterate that the current inflationary and economic trends are most certainly reflected in DCF results because it uses the stock's price and projected dividend rate, which are used in determining the forecasted dividend yield, and the forecasted five-year earnings growth rates of independent professional analysts. Therefore, the DCF with the most up-to-date projected information is the superior forward-looking method for determining the rate of return for the current economic market.

SUMMARY OF THE COMPANY'S RESULTS

Q. WHAT ARE THE RESULTS OF THE COMPANY'S COST OF EQUITY ANALYSES?

A. Mr. D'Ascendis applied the DCF, CAPM, and RP methods to the Utility Proxy Group companies in analyzing the Company's cost of equity. Additionally, he determined the Non-Price Regulated Companies Proxy Group of forty-five *non-utility* companies claiming that they are comparable in total risks to his Utility

Proxy Group and produced the DCF, CAPM, and RP analysis results for this non-utility group (the CE method) (FE PA Exhibit DWD-6, p. 3 and DWD-7, p. 1). He then adjusts his all four-analysis results range of 9.89% - 12.95% for the credit risk adjustment of (0.08%) and flotation cost adjustment of 0.21%, which results in his indicated cost of equity range of 10.01% - 13.07% (FE PA Exhibit DWD-1, p. 2). Ultimately, Mr. D'Ascendis recommends a cost of equity of 11.30% for FE PA (FE PA Statement No. 10, p. 50, lines 17-19 and FE PA Exhibit DWD-1, pp. 1-2).

I&E RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDED COST OF COMMON EQUITY FOR FE PA?

A. Based upon my analysis, I recommend a cost of common equity of 9.91% (I&E Exhibit No. 2, Schedule 1).

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation is based on the use of a forward-looking DCF method. As explained above, I used my CAPM result only to present to the Commission a comparison to my DCF results. My DCF analysis uses the proxy group companies' spot dividend yield, a 52-week dividend yield, and average of five-year earnings growth forecasts.

DISCOUNTED CASH FLOW

Q. PLEASE EXPLAIN YOUR DCF ANALYSIS.

A. My analysis employs the constant growth DCF model as portrayed in the following formula:

$$K = D_1/P_0 + g$$

Where:

K	=	Cost of equity
D_1	=	Dividend expected during the year
P_0	=	Current price of the stock
g	=	Expected growth rate

When a forecast of D_1 is not available, D_0 (the current dividend) must be adjusted by one half of the expected growth rate to account for changes in the dividend paid in period one. As forecasts for each company in my barometer group were available from Value Line, no dividends were adjusted for the purpose of my analysis.

Q. PLEASE EXPLAIN HOW YOU DEVELOPED THE DIVIDEND YIELDS USED IN YOUR DCF ANALYSIS.

A. A representative dividend yield must be calculated over a time frame that avoids the problems of both short-term anomalies and stale data series. For my DCF analysis, the dividend yield calculation places equal emphasis on the most recent spot and the 52-week average dividend yields. The following table summarizes

my dividend yield computations for the proxy group (I&E Exhibit No. 2, Schedule 4):

Proxy Group - Average Dividend Yields	
(a) Spot Dividend Yield	4.14%
(b) 52-week Average Dividend Yield	4.38%
(c) Average ((a +b) ÷ 2)	4.26%

Q. WHAT INFORMATION DID YOU RELY UPON TO DETERMINE YOUR EXPECTED GROWTH RATE?

A. I have used five-year projected growth rate estimates from Value Line, Yahoo! Finance, and Zacks.

Q. WHAT WERE THE RESULTS OF YOUR FORECASTED EARNINGS GROWTH RATES?

A. The expected average growth rates for the sixteen-company proxy group ranged from 3.30% to 9.25% with an overall average growth rate of 5.65%. To determine the growth estimate, I eliminated an unreasonably high Yahoo! Finance projected growth rate of 19.50% for Dominion Energy, Inc. and calculated a modified average growth rate of 5.65% (I&E Exhibit No. 2, Schedule 5). It is important to note that I have used Zacks and Value Line growth rates of 5.40%

and 3.00% respectively for Dominion Energy in my calculation of the average growth rate.

Q. EXPLAIN WHY YOU ELIMINATED YAHOO! FINANCE GROWTH RATE PROJECTION FOR DOMINION ENERGY.

A. While I believe that the use of a proxy group largely smooths out various anomalies, I feel that Yahoo! Finance growth projection of 19.50% for Dominion Energy was largely inconsistent with Zacks and Value Line growth rates of 5.40% and 3.00% respectively. This would have an unnecessary and unwarranted negative impact on my DCF analysis and would adversely affect my recommendation for the Company's cost of common equity.

Q. WHAT IS THE RESULT OF YOUR DCF ANALYSIS BASED ON YOUR RECOMMENDED DIVIDEND YIELD AND GROWTH RATE?

A. The results of my DCF analysis are calculated as follows (I&E Exhibit No. 2, Schedule 6):

K	**=**	**D_1/P_0**	**+**	**g**
9.91%	=	4.26%	+	5.65%

CAPITAL ASSET PRICING MODEL (CAPM)

Q. PLEASE EXPLAIN YOUR CAPM ANALYSIS.

A. My analysis employs the standard CAPM as portrayed in the following formula:

$$K = R_f + \beta(R_m - R_f)$$

Where:

K	=	Cost of equity
R_f	=	Risk-free rate of return
R_m	=	Expected rate of return on the overall stock market
β	=	Beta measures the systematic risk of an asset

Q. WHAT IS BETA AS EMPLOYED IN YOUR CAPM ANALYSIS?

A. Beta is a measure of the systematic risk of a stock in relation to the rest of the stock market. A stock's beta is estimated by calculating the linear regression of a stock's return against the return on the overall stock market. The beta of a stock with a price pattern identical to that of the overall stock market will equal one. A stock with a price movement that is greater than the overall stock market will have a beta that is greater than one and would be described as having more investment risk than the market. Conversely, a stock with a price movement that is less than the overall stock market will have a beta of less than one and would be described as having less investment risk than the market.

Q. WHAT BETA DID YOU CHOOSE FOR YOUR CAPM ANALYSIS?

A. In estimating an equity cost rate for my proxy group, I used the average of the betas for the companies as provided in the Value Line Investment Survey. The average beta for my proxy group is 0.91 (I&E Exhibit No. 2, Schedule 7).

Q. WHAT RISK-FREE RATE OF RETURN HAVE YOU CHOSEN FOR YOUR FORECASTED CAPM ANALYSIS?

A. I have chosen to use the risk-free rate of return (R_f) from the projected yield on 10-year Treasury Notes. While the yield on the short-term T-Bill is a more theoretically correct parameter to represent a risk-free rate of return, it can be extremely volatile. The volatility of short-term T-Bills is directly influenced by Federal Reserve policy. At the other extreme, the 30-year Treasury Bond exhibits more stability but is not risk-free. Long-term Treasury Bonds have substantial maturity risk associated with market risk and the risk of unexpected inflation. Long-term treasuries normally offer higher yields to compensate investors for these risks. As a result, I chose to use the yield on the 10-year Treasury Note because it mitigates the shortcomings of the other two alternatives. Additionally, the Commission has historically agreed with I&E and recognized the 10-year Treasury Note as the superior measure of the risk-free rate of return.[16]

[16] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Capital Asset Pricing Model (CAPM), p. 99; *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, p. 154 (Order entered May 16, 2022); *Pa. PUC v. Columbia Water Company*; Docket No. R-2023-3040258 (Order Entered January 18, 2024). See generally Disposition of Cost of Common Equity, pp. 107-108.

The forecasted yield on the 10-year Treasury Note, as seen in Blue Chip Financial Forecasts, is expected to range between 3.90% and 4.30% from the third quarter of 2024 through the third quarter of 2025, and it is forecasted to be and average of 3.90% for the five-year period (2025-2029). For my forecasted CAPM analysis, I chose 4.07%, which is the average of all the yield forecasts I observed (I&E Exhibit No. 2, Schedule 8).

Q. HOW DID YOU DETERMINE THE RETURN ON THE OVERALL STOCK MARKET EMPLOYED IN YOUR FORECASTED CAPM ANALYSIS?

A. To arrive at an estimated return on the overall stock market, I observed Value Line's 1700 stocks and the S&P 500 market returns. Value Line expects its universe of approximately 1700 stocks to have an average yearly return of 11.83% over the next three to five years, based on a forecasted dividend yield of 2.10% and a yearly index appreciation of 45% (I&E Exhibit No. 2, Schedule 10). The S&P 500 Index is expected to have an average yearly return of 12.16% over the past 98 years (1926-2023) and the trendline for the returns over the past 98 years has been relatively flat (I&E Exhibit No. 2, Schedule 9, pp. 1-2). I have averaged these two figures which results in an estimated market return of 12.00% (I&E Exhibit No. 2, Schedule 10).

Q. WHAT IS THE COST OF EQUITY RESULT FROM YOUR CAPM ANALYSIS?

A. The result of my analysis is as follows (I&E Exhibit No. 2, Schedule 11).

K	=	R_f	+	$\beta(R_m - R_f)$
11.29%	=	4.07%	+	0.91 (12.00% - 4.07%)

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS REGARDING YOUR CAPM ANALYSIS?

A. Yes. As discussed earlier in my testimony, my recommended cost of equity is based upon my DCF analysis. I only present a CAPM analysis to the Commission as a comparison and not for recommendation purposes as the inputs are highly subjective, and other than beta, not company or industry specific.

Q. IS IT NECESSARY TO APPLY THE CAPM WITH SIMILAR WEIGHT TO THE DCF WHEN DETERMINING A SPECIFIC RETURN ON EQUITY DUE TO RECENT INFLATIONARY TRENDS?

A. No. My use of the DCF as a primary method in determining an appropriate return on equity already sufficiently takes inflationary trends into consideration. As mentioned above, the DCF includes a spot stock price in the dividend yield calculation and analysts who generate forecasted earnings growth almost certainly take inflation into consideration as well, so it contains the most up-to-date

projected information of any model. In other words, the inputs of the DCF capture all known economic factors, including inflation.

Q. DID YOU QUANTIFY THE NUMBER OF BASIS POINTS DIFFERENCE BETWEEN YOUR DCF AND CAPM RESULTS TO ILLUSTRATE THE FINANCIAL IMPACT BETWEEN USING EACH MODEL?

A. Yes. The difference between my DCF and CAPM analysis is 138 basis points (CAPM result of 11.29% - DCF result of 9.91% = 1.38% difference). As demonstrated below, relying on the results of the CAPM is unnecessary and creates undue hardship for FF PA's ratepayers.

Q. BASED ON THE COMPANY'S RATE BASE AND CAPITAL STRUCTURE CLAIMS, WHAT IS THE VALUE OF AN ADDITIONAL 138 BASIS POINTS TO THE COST OF EQUITY BASED ON THE DIFFERENCE IN RESULTS BETWEEN YOUR CAPM ANALYSIS (11.29%) AND YOUR DCF ANALYSIS (9.91%)?

A. The example below illustrates the impact of 138 additional basis points to the Company's cost of equity if the results of my CAPM analysis, rather than my DCF results were applied to the Company's total filed rate base and claimed capital structure:

FE PA's Claimed Equity Percentage of Capital Structure*	53.81%
Difference in Return on Equity between I&E's CAPM and DCF Analysis (11.29% – 9.91% = 1.38%)	1.38%
Claimed Rate Base**	$7,165,798,000
Impact Prior to Gross Up (0.5381 x 0.0138 x $7,165,798,000)	$53,211,639
Average Gross Revenue Conversion Factor***	1.478755
Total Impact to Ratepayers ($53,211,639 x 1.478755)	**$78,686,977**

*FE PA Exhibit DWD-1, p. 1.
**FE PA Exhibit PML-1, p. 1.
***FE PA Exhibit PML-1, p. 63.

In this example, an addition of 138 basis points to the cost of equity would burden ratepayers to fund an additional amount of $78,686,977 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes, uncollectibles, and assessments.

Q. DOES THE DEMONSTRATED FINANCIAL IMPACT THAT RATEPAYERS WOULD BEAR TO FUND AN ADDITIONAL $78,686,977 ANNUALLY DEMONSTRATE THAT IT IS INAPPROPRIATE TO USE THE CAPM TO ESTABLISH A "ZONE OF REASONABLENESS" IN THIS PROCEEDING?

A. Yes. In my opinion it is inappropriate to use the CAPM as the top end of a range in this proceeding as was done by the Commission in the most recent Aqua and Columbia Water base rate proceedings for determining an ROE. In this instance,

the $78,686,977 additional revenue impact is 15.62% of FE PA's total revenue increase request of $503,849,000. This would result in an additional burden on FE PA's ratepayers. In my opinion, and as demonstrated by my analysis, any amount granted above my DCF results (9.91% based on my recommendation) is not justified and places an inappropriate burden on ratepayers.

CRITIQUE OF MR. D'ASCENDIS'S PROPOSED COST OF EQUITY

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S CLAIMED COST OF EQUITY?

A. No. I disagree with Mr. D'Ascendis's proposed cost of equity for several reasons. First, I disagree with the weights given to the results of Mr. D'Ascendis's CAPM, RP, and CE analyses in his claimed cost of equity. Second, I respond to Mr. D'Ascendis's general discussion regarding business risk and financial risk. Third, I disagree with his use of the 30-year Treasury Bond in place of the 10-year Treasury Note, market risk premium, and his use of Empirical Capital Asset Pricing Model (ECAPM) results with the traditional CAPM results for the Utility Proxy Group. Finally, I disagree with his application of flotation cost adjustment to the indicated cost of equity range.

WEIGHTS GIVEN TO THE CAPM, RP, AND CE METHODS

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S RELIANCE ON THE CAPM AND RP MODELS?

A. No. While I am not opposed to providing the Commission the results of the CAPM methodology for a point of comparison to the results of the DCF calculation, I am opposed to giving the CAPM and RP considerable weight. For the reasons previously discussed in this testimony, including my reference to recent Commission orders, it is inappropriate to give the CAPM, RP, and CE models similar weight to the DCF as Mr. D'Ascendis has done in creating his recommended cost of equity. As discussed above, the CAPM measures the cost of equity indirectly and can be manipulated by the market risk premium calculation and the time period chosen. Since the RP is a simplified version of the CAPM, it suffers these same flaws.

Additionally, when asked in I&E-RR-13-D, whether Mr. D'Ascendis is aware of any instances where the Commission specially relied upon an RP analysis to determine an appropriate cost of equity in a base rate proceeding, he refers to the Columbia Water and Emporium Water Company rate case orders and mentions the relevant paragraphs of the orders. In both these cases, in my view, the Commission did not specifically note or indicate its reliance or consideration of the RP or CE analysis results in determination of the appropriate cost of equity for these water utilities. In Columbia Water rate case order, the Commission noted that "the evidence in this case supports an ROE finding in the reasonable

range of 9.25% to 10.25% using the DCF method as the foundation" (I&E Exhibit No. 2, Schedule 12, p. 1).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S USE OF THE CE METHOD?

A. No. The companies in Mr. D'Ascendis's analysis are not utilities, and therefore, they are too dissimilar to be used in a CE analysis. The companies in Mr. D'Ascendis's CE proxy group comprise of industries like Chemicals, Pharmaceuticals, Retail Stores, Financial Services, Telecom, IT Services, Industrials, Machinery, Medical Devices, Diversified Business, Trucking, Services, Aerospace/Defense, etc. (FE PA Exhibit DWD-6, p. 3). These non-utility companies with unrelated or entirely dissimilar business segments and different risks and uncertainties are simply not comparable to electric distribution utilities in terms of the business risk and financial risk profiles. Electric distribution utilities are monopolies, which are subject to very little competition, if any at all. Due to this minimal competition, utilities in general have very low business risk and can maintain higher financial risk profiles by employing more leverage. Conversely, since the companies in Mr. D'Ascendis's CE proxy group operate in an unregulated competitive environment with a higher level of business risk, they must maintain lower financial risk profiles by employing a smaller amount of leverage.

Additionally, when asked for instances where the Commission relied on the CE analysis for determination of an appropriate ROE in I&E-RR-15-D, Mr. D'Ascendis referenced his response to I&E-RR-13-D relating to the RP analysis (I&E Exhibit No. 2, Schedule 12, pp. 1-2). In short, he is not aware of any instances where the Commission specifically considered/relied or authorized CE analysis results in determination of the appropriate cost of common equity for any utilities. Therefore, I disagree with Mr. D'Ascendis's proxy group of forty-five domestic companies claimed as comparable in total risk to the Utility Proxy Group (FE PA Exhibit DWD-6) and his CE analysis and the cost of equity results (FE PA Exhibit DWD-7).

RISK ANALYSIS

Q. PLEASE SUMMARIZE MR. D'ASCENDIS'S DISCUSSION REGARDING BUSINESS RISK AND FINANCIAL RISK.

A. Mr. D'Ascendis discusses in general the business risk and financial risk faced by the utilities across the board and its importance in determining a fair rate of return. He emphasizes that consistent with the basic financial principle of risk and return, common equity investors require higher returns as compensation for bearing higher financial risk (FE PA Statement No. 10, p. 9, line 4 through p. 11, line 9).

Q. WHAT ARE YOUR COMMENTS REGARDING MR. D'ASCENDIS'S DISCUSSION?

A. Mr. D'Ascendis does not specifically claim or compare FE PA's business risk and financial risk with the Utility Proxy Group companies' risk profile. He makes a general comment that the investors see the subject company in relation to other similarly situated utility companies (i.e., the Utility Proxy Group) and investors view a company as being exposed to higher risk, the required return will increase, and vice versa (FE PA Statement No. 10, p. 10, lines 1-3). This implies that any additional consideration for the FE PA's risk profile in determination of the cost of equity is unnecessary and unwarranted.

CAPM ANALYSIS

RISK-FREE RATE OF RETURN

Q. HOW HAS MR. D'ASCENDIS CALCULATED HIS RISK-FREE RATE FOR USE IN HIS CAPM MODEL?

A. Mr. D'Ascendis's calculation of his risk-free rate is similar to mine. He considers Treasury yield estimates published by Blue Chip Financial Forecasts over the six quarters, from the time of his analysis, as well as long-range, five-year averages. However, he used the 30-year Treasury Bond while I employed the 10-year Treasury Note. Also, where I used a long-range, five-year average, future data point accounting for years 2025-29 predictions, Mr. D'Ascendis used two future data points accounting for not only years 2025-2029, but also included an estimate

for years 2030-2034. He recommends using a 4.15% risk-free rate (FE PA Exhibit DWD-5, p. 2), while I used risk-free rate of 4.07% (I&E Exhibit No. 2, Schedule 8).

Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. D'ASCENDIS'S CALCULATION OF THE RISK-FREE RATE?

A. Mr. D'Ascendis and I disagree on the method and inputs to determine the risk-free rate, However, I must reiterate my earlier statements that long-term Treasury Bonds have substantial maturity risk associated with the market risk and the risk of unexpected inflation and normally offer higher yields to compensate investors for these risks. Using the 10-year Treasury Note is more appropriate to balance the short-term volatility risk and the long-term inflation risk.

The Commission has recognized the 10-year Treasury Note as the superior measure for the risk-free rate by stating the following,[17]

> We agree with I&E and the ALJs that using the yield on the 10-year Treasury Note provides a better measure of the risk-free rate of return than using the yield on the 30-year Treasury Bond, as recommended by UGI. In our view, using the 10-year Treasury Note balances the shortcomings of the short-term T-Bill and the 30-year Treasury Bond. Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with the market risk. In addition, long-term Treasury Bonds bear the risk of unexpected inflation.

[17] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order entered October 25, 2018), p. 99. (Disposition of Capital Asset Pricing Model (CAPM)).

Additionally, the further out into the future one projects, the less reliable the information becomes. Using the projection for 2030-2034 is an unreliable measure and this should not be included in the risk-free rate. The Company's FPFTY ends December 31, 2025, and in my opinion using an estimated risk-free rate that is up to nine years beyond the FPFTY is unreasonable and unnecessary.

ECAPM

Q. WHAT IS THE ECAPM?

A. The ECAPM is a modified version of the CAPM which attempts to address the belief that the actual risk versus return correlation is flatter than what is predicted by the CAPM. The implication is that the CAPM underestimates returns with lower levels of risk and over-estimates the returns associated with higher levels of risk. ECAPM entails assigning 25% weight to the market beta (1.0) and 75% weight to the individual company (or proxy group) beta.[18]

Q. EXPLAIN YOUR DISAGREEMENT WITH MR. D'ASCENDIS'S USE OF THE ECAPM.

A. The use of the ECAPM in estimating the cost of capital does not increase the validity of the result, but instead it injects another measure of subjectivity to the CAPM in an attempt to make the Security Market Line more accurate. The

[18] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, p. 106.

ECAPM reduces the purpose of the beta, which is the only company-specific variable in the CAPM model. This additional layer of subjectivity provides an even stronger basis to rely on the DCF, as I have done, as the primary method to calculate a utility's cost of equity.

Q. WHAT IS YOUR CONCLUSION REGARDING MR. D'ASCENDIS'S CAPM ANALYSIS?

A. In the table below, I have recalculated and summarized Mr. D'Ascendis's CAPM analysis results (FE PA Exhibit DWD-5, p. 1): (a) by using my recommended 10-Year Treasury Note (risk-free rate of 4.07%) rather than 30-Year Treasury Bond as the risk-free rate (4.15%), (b) applying I&E calculated market risk premium of 7.93% (12.00% - 4.07%) rather than his use of 10.02%, which is primarily high due to his use of a higher overall market returns from 12.03% to 17.52% as shown in his calculation (FE PA Exhibit No. DWD-5, p. 2), and (c) eliminating his ECAPM analysis results used with the traditional CAPM results in determining the average indicated CAPM analysis results. This recalculation maintains Mr. D'Acendis's Value Line betas and Bloomberg betas. The overall average result of this recalculation yields a 10.52% CAPM result, which is lower than his originally calculated CAPM result of 12.48% and lower than my CAPM results of 11.29%. The following table shows the I&E Modified version of FE PA Exhibit DWD-5, p. 1:

FirstEnergy Pennsylvania Electric Company Indicated Common Equity Cost Rate Through Use of the Traditional CAPM (I&E Modified)						
	[1]	[2]	[3]	[4]	[5]	[6]
Proxy Group of Fourteen Electric Utilities	**Value Line Adj. Beta**	**Bloomberg Adj. Beta**	**Average Beta**	**Market Risk Premium %**	**Risk-free Rate %**	**CAPM Cost Rate %**
Alliant Energy Corporation	0.90	0.72	0.81	7.93	4.07	10.49
Ameren Corporation	0.90	0.72	0.81	7.93	4.07	10.49
American Electric Power Corporatic	0.80	0.67	0.74	7.93	4.07	9.94
Duke Energy Corporation	0.85	0.68	0.76	7.93	4.07	10.10
Edison International	1.00	0.87	0.93	7.93	4.07	11.44
Entergy Corporation	0.95	0.75	0.85	7.93	4.07	10.81
Evergy, Inc.	0.95	0.70	0.82	7.93	4.07	10.57
IDACORP, Inc.	0.85	0.69	0.77	7.93	4.07	10.18
NorthWestern Corporation	0.95	0.68	0.81	7.93	4.07	10.49
OGE Energy Corporation	1.05	0.74	0.90	7.93	4.07	11.21
Pinnacle West Capital Corporation	0.95	0.73	0.84	7.93	4.07	10.73
Portland General Electric Company	0.90	0.70	0.80	7.93	4.07	10.41
Southern Company	0.90	0.67	0.78	7.93	4.07	10.26
Xcel Energy Inc.	0.85	0.68	0.76	7.93	4.07	10.10
		Average	**0.81**		**Average**	**10.52**
		I&E Recalculated Average of CAPM Results: 10.52%				
[4] I&E inputed Market Risk Premium of 7.93% (12.00% - 4.07%).						
[5] I&E inputed Risk-free Rate.						
[6] I&E Recalculated CAPM Cost Rate = [5] + ([3] x [4]).						

FLOTATION COST ADJUSTMENT

Q. SUMMARIZE MR. D'ASCENDIS'S CLAIM REGARDING THE FLOTATION COST ADJUSTMENT IN THE COST OF EQUITY.

A. Mr. D'Ascendis discusses costs associated with the sale of new issuances of common stock (e.g., underwriting fees and out-of-pocket costs for printing, legal, registration, etc.) (FE PA Statement No. 10, p. 47, lines 14-16). He argues that since these expenses are charged to capital accounts and not expensed on the income statement, historical flotation costs are a permanent loss of investment to

the issuer company, and therefore, it should be accounted for in the cost of equity (FE PA Statement No. 10, p. 48, lines 15-16 and p. 49, line 1-2).

He modified his Utility Proxy Group DCF calculation to provide a dividend yield that would reimburse investors for equity issuance costs and produced a 0.21% flotation cost adjustment/adder (DCF cost adjusted for flotation cost 9.92% - DCF cost unadjusted for flotation cost 9.71%) to the cost of equity (FE PA Exhibit DWD-9). With this adjustment of 0.21%, Mr. D'Ascendis indicates the common cost of equity range of 10.01% - 13.07% and finally, he recommends 11.30% common cost of equity for FE PA (FE PA Statement No. 10, p. 50, lines 12-14 and lines 17-19).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S DISCUSSION REGARDING THE POTENTIAL IMPACT OF STOCK ISSUE FLOATATION COSTS ON THE ROE?

A. No. First, FE PA is a wholly owned subsidiary of its parent company, FirstEnergy Corporation. FE PA does not issue stocks to the general public through the capital market, but the FirstEnergy Corporation does. FirstEnergy Corporation had issued common stocks in 2003, 2018, and 2021 through private placement by entering into Common Stock Purchase Agreements and it does not have any planned new issuances of common stocks over the next five years (I&E Exhibit No. 2, Schedule 13). Second, I disagree with Mr. D'Ascendis's basis to calculate the DCF equity cost rate adjusted for flotation cost using the dividend yields and growth rates of

Utility Group companies to determine the flotation cost adjustment, which is based on an unsupported and speculative assumption that the investors require return on stock issuance costs. Third, the parent company's (FirstEnergy Corporation) stock issues are for variety of reasons and uses, and specifically not entirely issued and used for the benefit of the FE PA. Fourth, the flotation costs of the parent company/issuer company are accounted for in the books of the issuer company. Lastly, I am unaware of the Commission's specific recognition or authorization of a flotation cost adjustment for the parent company's stock issue expenses in the determination of a utility's cost of equity in a base rate proceeding.

Considering the above and the impact of this adder in the cost of common equity discussed below, it is inappropriate to seek an increase to the cost of equity for FE PA to recognize the parent company's stock issuance flotation costs; and, therefore, I recommend that the Commission reject FE PA's claim for this adjustment.

Q. BASED ON THE COMPANY'S RATE BASE AND CAPITAL STRUCTURE CLAIMS, WHAT IS THE VALUE OF THE FLOTATION COST ADJUSTMENT (ADDER) OF 0.21% TO THE COST OF EQUITY?

A. The example below illustrates the impact of 0.21% (21 basis points) to the Company's cost of equity if the flotation cost adjustment is allowed in the cost of equity when applied to the Company's total claimed rate base and capital structure:

FE PA's Claimed Equity Percentage of Capital Structure*	53.81%
Flotation Cost Adjustment	0.21%
Claimed Rate Base**	$7,165,798,000
Impact Prior to Gross Up (0.5381 x 0.0021 x $7,165,798,000)	$8,097,423
Average Gross Revenue Conversion Factor***	1.478755
Total Impact to Ratepayers ($8,097,423 x 1.478755)	**$11,974,105**

*FE PA Exhibit DWD-1, p. 1.
**FE PA Exhibit PML-1, p. 1.
***FE PA Exhibit PML-1, p. 63.

In this example, an addition of 0.21% to the cost of equity would burden ratepayers to fund an additional amount of $11,974,105 annually to cover the increase of the inflated rate of return along with the associated impact resulting from increases to income taxes, uncollectibles, and assessments.

OVERALL RATE OF RETURN RECOMMENDATION

Q. WHAT IS THE COMPANY'S PROPOSED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. The Company recommends a cost of equity of 11.30% and an overall rate of return of 8.19% (FE PA Exhibit DWD-1, p. 1).

Q. WHAT IS I&E'S RECOMMENDED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. I&E Exhibit No. 1, Schedule 1, shows the calculation of an appropriate cost of equity to be 9.91% with an overall rate of return for the Company to be 7.44%.

Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING THE COMPANY'S PROPOSED COST OF EQUITY AND OVERALL RATE OF RETURN?

A. Yes. First, a report issued by Regulatory Research Associates, a group within S&P Global Market Intelligence,[19] illustrates that FE PA's 11.30% requested return on equity is a significant 164 basis points (1.64%) higher than the average return on equity of 9.66% of all electric utility rate cases decided/approved by the state regulatory authorities in the first quarter of 2024. Additionally, the average authorized equity ratio for electric utility cases nationwide was 48.25% in the first quarter of 2024, which is lower than the FE PA's claimed equity ratio of 53.81%. It is also important to note here that Pennsylvania is a deregulated state, which would indicate less risk.

Second, when asked, Mr. D'Ascendis indicated that he is not aware of any instances where the Commission authorized a return of 11.30% or higher for the cost of common equity to any electric distribution utilities throughout the United

[19] S&P Global, RRA Regulatory Focus, "Major energy rate case decisions in US – January-March 2024, Quarterly update on decided rate cases," April 19, 2024.

States in the past three years despite the high interest rate environment since March 2022 (I&E Exhibit No. 2, Schedule 14). Additionally, it is important to note that most recently FirstEnergy Corp.'s Ohio electric distribution utilities - Ohio Edison Co., The Cleveland Electric Illuminating Co., and The Toledo Edison Co. have filed base rate cases with the Public Utilities Commission of Ohio and are requesting a total revenue increase of $93.6 million. In these base rate cases, utilities have claimed a return on equity of 10.80%, which is lower than the 11.30% claimed in this base rate case proceeding.[20]

Finally, I am aware of the rising costs of capital due to the after-effects of the pandemic and inflation, however, I believe it is equally important not to over burden ratepayers. Despite the current economic condition, FE PA is requesting a record return on equity to apply to its equity heavy capital structure and consistently expanding rate base.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

[20] S&P Global, RRA Regulatory Focus, "FirstEnergy's Ohio utilities make case for more than $90M of incremental revenue," June 4, 2024.

D. C. PATEL

PROFESSIONAL EXPERIENCE AND EDUCATION

EXPERIENCE:

- Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania
  June 2015 to present
  Fixed Utility Financial Analyst, Bureau of Investigation and Enforcement
- Pennsylvania Insurance Department, Harrisburg, Pennsylvania
  March 2013 - June 2015
  Insurance Company Financial Analyst, Bureau of Company Licensing & Financial Analysis
- Pennsylvania Department of Revenue, Harrisburg, Pennsylvania
  November 2010 - March 2013
  Accounting Assistant, Bureau of Corporation Taxes (Accounting)
- Hersha Hospitality Management, Harrisburg, Pennsylvania
  June 2007 - November 2010
  Staff Accountant (Taxes), Accounting Department
- Corporate Experience-India
  February 1987 - April 2007
  Worked as Company Secretary for three different companies during this period, which were listed on the Stock Exchanges.

EDUCATION/CERTIFICATION:

- Gujarat State University, Ahmedabad, India:
  - Bachelor of Commerce (Major concentration: Accounting)
    June 1980 - April 1983
  - Bachelor of Law
    June 1983 - December 1988

- The Institute of Company Secretaries of India, New Delhi, India:
  Post Graduate Professional Degree: Company Secretary
  June 1983 - December 1985

RATE CASE TRAINING:

- Attended SURFA – 54th Financial Forum (ROR) in April 2023
- Attended 37th Western NARUC Utility Rate School in May 2016

D. C. PATEL

PROFESSIONAL EXPERIENCE AND EDUCATION

WORKED ON THE FOLLOWING CASES (Testimony not required):

- R-2022-3032167 - Columbia Gas of Pennsylvania, Inc. (Green Path Rider)
- R-2022-3031172 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2021-3024349 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2021-3023541 - National Fuel Gas Distribution Corporation (§ 1307(f))
- A-2020-3021460 - PA American Water Co.-Upper Pottsgrove-Wastewater (1329)
- A-2020-3020178 - PA American Water Co.-Valley Township-Wastewater (1329)
- A-2020-3019859 - PA American Water Co.-Valley Township-Water (1329)
- R-2020-3019661 - FE PA Energy Co. - Gas Operations (1307(f))
- U-2020-3015258 - Pittsburgh Water and Sewer Authority
- R-2019-3008255 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2018-3001568 - FE PA Energy Co. - Gas Operations (1307(f))
- R-2018-3000253 - Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2017-2631441 - Reynolds Water Co.
- A-2017-2629534 - PPL Electric Utilities (Restructuring Plan)
- R-2017-2602611 - FE PA Energy Co. - Gas Operations (1307(f))
- R-2016-2567893 - Andreassi Gas Co.
- R-2016-2525128 - Columbia Water Co. - Marietta Division
- R-2015-2493905 - Sands, Inc.
- R-2015-2479962 - Corner Water Supply and Service Corporation
- R-2015-2479955 - Allied Utility Services, Inc.

SUBMITTED TESTIMONY IN THE FOLLOWING CASES:

- R-2023-3042804 et al. Community Utilities of Pennsylvania, Inc.
- R-2023-3043189 et al. PA American Water Co.
- R-2023-3038630 Columbia Gas of Pennsylvania, Inc. (1307(f))
- R-2023-3037933 Philadelphia Gas Works
- R-2022-3037368 UGI Electric, Inc. - Electric Division
- A-2022-3034143 Aqua Pennsylvania, Inc. - Borough of Shenandoah (Water System) (1329)
- R-2022-3031672 and R-2022-3031673 - PA American Water Co.
- R-2022-3031211 - Columbia Gas of Pennsylvania, Inc.
- R-2021-3024773 et al. - Pittsburgh Water and Sewer Authority
- A-2021-3024058- PA American Water Co. - Borough of Brentwood (Wastewater System) - 1329

D. C. PATEL

PROFESSIONAL EXPERIENCE AND EDUCATION

- A-2021-3024681 - PA American Water Co. - York City Sewer Authority/City of York (Wastewater System) (1329)
- R-2021-3024601 - FE PA Energy Co. - Electric Operations
- A-2021-3024267 - Aqua Pennsylvania Wastewater, Inc. - Lower Makefield (WW) (1329)
- A-2020-3019634 - PA American Water Co. - Royersford Wastewater (1329)
- R-2020-3018993 - Columbia Gas Pennsylvania, Inc. (1307(f))
- R-2020-3018929 - FE PA Energy Co. - Gas Operations
- R-2020-3017951 et al. - Pittsburgh Water and Sewer Authority
- A-2019-3008491 - Aqua Pennsylvania Wastewater, Inc.
- R-2019-3008212 - Citizens Electric Company of Lewisburg, PA
- R-2019-3008208 - Wellsboro Electric Company
- R-2018-3006814 - UGI Utilities, Inc. (Gas Division)
- R-2018-3002645 and 3002647 - Pittsburgh Water and Sewer Authority
- R-2018-3000834 - Suez Water Pennsylvania, Inc.
- R-2018-2647577 - Columbia Gas of Pennsylvania, Inc.
- M-2018-2640802 and M-2018-2640803 - Pittsburgh Water and Sewer Authority (Compliance Plan Stage 2)
- R-2017-2595853 - Pennsylvania American Water Co.
- R-2016-2580030 - UGI Penn Natural Gas, Inc.
- R-2016-2554150 - City of DuBois - Bureau of Water
- R-2016-2529660 - Columbia Gas of Pennsylvania, Inc.
- P-2016-2526627 - PPL Electric Utilities Corp. (DSP IV)

I&E Exhibit No. 2
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany

the

Direct Testimony

of

D. C. Patel

Bureau of Investigation & Enforcement

Concerning:

Rate of Return

I&E
Summary of Cost of Capital

Type of Capital	Ratio	Cost Rate	Weighted Cost
FirstEnergy Pennsylvania Electric Company			
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	9.91%	5.33%
Total	100.00%		7.44%

Proxy Group Capital Structure

	2023		2022		2021		2020		2019		Average
Ameren Corporation											
Long-term Debt	$ 15,121.000	57.13%	$ 13,685.000	56.57%	$ 12,562.000	56.43%	$ 11,078.000	55.35%	$ 8,944.000	52.60%	55.61%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	11,349.000	42.87%	10,508.000	43.43%	9,700.000	43.57%	8,938.000	44.65%	8,059.000	47.40%	44.39%
	26,470.000	100.00%	24,193.000	100.00%	22,262.000	100.00%	20,016.000	100.00%	17,003.000	100.00%	100.00%
American Electric Power Company Inc.											
Long-term Debt	38,312.000	60.24%	34,346.500	58.93%	31,989.600	58.73%	29,855.800	59.18%	26,110.600	57.03%	58.82%
Preferred Stock	42.500	0.07%	45.900	0.08%	43.300	0.08%	45.200	0.09%	42.900	0.09%	0.08%
Common Equity	25,246.700	39.70%	23,893.400	40.99%	22,433.200	41.19%	20,550.900	40.73%	19,632.200	42.88%	41.10%
	63,601.200	100.00%	58,285.800	100.00%	54,466.100	100.00%	50,451.900	100.00%	45,785.700	100.00%	100.00%
AVANGRID Inc.											
Long-term Debt	10,236.000	34.25%	8,464.000	30.40%	8,162.000	29.97%	10,723.000	41.35%	6,835.000	30.97%	33.39%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	19,648.000	65.75%	19,380.000	69.60%	19,076.000	70.03%	15,209.000	58.65%	15,237.000	69.03%	66.61%
	29,884.000	100.00%	27,844.000	100.00%	27,238.000	100.00%	25,932.000	100.00%	22,072.000	100.00%	100.00%
CMS Energy Corp											
Long-term Debt	14,592.000	65.92%	13,217.000	65.33%	12,115.000	64.63%	13,715.000	71.39%	12,064.000	70.62%	67.58%
Preferred Stock	224.000	1.01%	224.000	1.11%	224.000	1.19%	-	0.00%	-	0.00%	0.66%
Common Equity	7,320.000	33.07%	6,791.000	33.57%	6,407.000	34.18%	5,496.000	28.61%	5,018.000	29.38%	31.76%
	22,136.000	100.00%	20,232.000	100.00%	18,746.000	100.00%	19,211.000	100.00%	17,082.000	100.00%	100.00%
Consolidated Edison Inc.											
Long-term Debt	22,537.000	51.58%	20,625.000	49.92%	23,323.000	53.79%	21,148.000	52.88%	19,337.000	51.76%	51.99%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	21,158.000	48.42%	20,687.000	50.08%	20,037.000	46.21%	18,847.000	47.12%	18,022.000	48.24%	48.01%
	43,695.000	100.00%	41,312.000	100.00%	43,360.000	100.00%	39,995.000	100.00%	37,359.000	100.00%	100.00%
Dominion Energy Inc.											
Long-term Debt	33,858.000	55.16%	39,428.000	58.58%	37,890.000	56.71%	34,473.000	56.90%	34,266.000	51.71%	55.81%
Preferred Stock	1,783.000	2.90%	1,783.000	2.65%	3,393.000	5.08%	2,387.000	3.94%	2,387.000	3.60%	3.63%
Common Equity	25,746.000	41.94%	26,098.000	38.77%	25,525.000	38.21%	23,730.000	39.16%	29,607.000	44.68%	40.55%
	61,387.000	100.00%	67,309.000	100.00%	66,808.000	100.00%	60,590.000	100.00%	66,260.000	100.00%	100.00%
Duke Energy Corporation											
Long-term Debt	73,369.000	59.90%	67,937.000	57.94%	61,522.000	55.52%	56,965.000	54.29%	56,417.000	54.65%	56.46%
Preferred Stock	1,962.000	1.60%	1,962.000	1.67%	1,962.000	1.77%	1,962.000	1.87%	1,962.000	1.90%	1.76%
Common Equity	47,150.000	38.50%	47,360.000	40.39%	47,334.000	42.71%	46,002.000	43.84%	44,860.000	43.45%	41.78%
	122,481.000	100.00%	117,259.000	100.00%	110,818.000	100.00%	104,929.000	100.00%	103,239.000	100.00%	100.00%
Entergy Corporation											
Long-term Debt	23,227.681	61.37%	23,813.273	64.74%	25,053.255	68.28%	21,429.544	66.23%	17,313.378	62.87%	64.70%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	14,622.647	38.63%	12,966.985	35.26%	11,637.284	31.72%	10,926.142	33.77%	10,223.675	37.13%	35.30%
	37,850.328	100.00%	36,780.258	100.00%	36,690.539	100.00%	32,355.686	100.00%	27,537.053	100.00%	100.00%
Eversource Energy											
Long-term Debt	24,067.198	62.94%	20,236.586	56.67%	17,569.879	54.62%	15,726.088	52.79%	14,360.350	53.21%	56.04%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	14,173.892	37.06%	15,473.158	43.33%	14,599.844	45.38%	14,063.566	47.21%	12,629.994	46.79%	43.96%
	38,241.090	100.00%	35,709.744	100.00%	32,169.723	100.00%	29,789.654	100.00%	26,990.344	100.00%	100.00%

Exelon Corporation											
Long-term Debt	40,330.000	61.03%	35,928.000	59.22%	36,682.000	51.61%	36,572.000	52.88%	33,026.000	50.61%	55.07%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	25,755.000	38.97%	24,744.000	40.78%	34,393.000	48.39%	32,585.000	47.12%	32,224.000	49.39%	44.93%
	66,085.000	100.00%	60,672.000	100.00%	71,075.000	100.00%	69,157.000	100.00%	65,250.000	100.00%	100.00%
FirstEnergy Corp											
Long-term Debt	23,064.000	68.85%	21,450.000	67.85%	22,519.000	72.19%	22,394.000	75.58%	19,859.000	74.01%	71.69%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	10,437.000	31.15%	10,166.000	32.15%	8,675.000	27.81%	7,237.000	24.42%	6,975.000	25.99%	28.31%
	33,501.000	100.00%	31,616.000	100.00%	31,194.000	100.00%	29,631.000	100.00%	26,834.000	100.00%	100.00%
IDACORP Inc.											
Long-term Debt	2,775.790	48.84%	2,194.145	43.87%	2,000.640	42.85%	2,000.414	43.86%	1,736.659	41.34%	44.15%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	2,907.569	51.16%	2,807.239	56.13%	2,668.436	57.15%	2,559.980	56.14%	2,464.628	58.66%	55.85%
	5,683.359	100.00%	5,001.384	100.00%	4,669.076	100.00%	4,560.394	100.00%	4,201.287	100.00%	100.00%
Portland General Electric Company											
Long-term Debt	4,210.000	55.92%	3,698.000	57.09%	3,580.000	56.94%	3,051.000	53.87%	2,775.000	51.71%	55.11%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	3,319.000	44.08%	2,779.000	42.91%	2,707.000	43.06%	2,613.000	46.13%	2,591.000	48.29%	44.89%
	7,529.000	100.00%	6,477.000	100.00%	6,287.000	100.00%	5,664.000	100.00%	5,366.000	100.00%	100.00%
PPL Corporation											
Long-term Debt	14,680.000	51.31%	12,931.000	48.17%	10,713.000	43.84%	21,623.000	61.79%	20,799.000	61.55%	53.33%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	13,933.000	48.69%	13,915.000	51.83%	13,723.000	56.16%	13,373.000	38.21%	12,991.000	38.45%	46.67%
	28,613.000	100.00%	26,846.000	100.00%	24,436.000	100.00%	34,996.000	100.00%	33,790.000	100.00%	100.00%
Public Service Enterprise Group Inc.											
Long-term Debt	17,957.000	53.71%	16,664.000	54.83%	15,410.000	51.63%	14,748.000	47.99%	14,016.000	48.16%	51.26%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	15,477.000	46.29%	13,729.000	45.17%	14,438.000	48.37%	15,984.000	52.01%	15,089.000	51.84%	48.74%
	33,434.000	100.00%	30,393.000	100.00%	29,848.000	100.00%	30,732.000	100.00%	29,105.000	100.00%	100.00%
Xcel Energy Inc.											
Long-term Debt	26,013.000	59.62%	23,915.000	58.92%	22,994.000	59.56%	21,062.000	59.10%	19,033.000	58.98%	59.24%
Preferred Stock	-	0.00%	-	0.00%	-	0.00%	-	0.00%	-	0.00%	0.00%
Common Equity	17,616.000	40.38%	16,675.000	41.08%	15,612.000	40.44%	14,575.000	40.90%	13,239.000	41.02%	40.76%
	43,629.000	100.00%	40,590.000	100.00%	38,606.000	100.00%	35,637.000	100.00%	32,272.000	100.00%	100.00%

Five-Year Average Capital Structure					
Long-term Debt	55.64%	Maximum	71.69%	Minimum	33.39%
Preferred Stock	0.38%				
Common Equity	43.98%	Minimum	28.31%	Maximum	66.61%
	100.00%				

Source: Compustat ($ in millions) May 2024

I&E Exhibit No. 2
Schedule 2
Page 2 of 2

Long-Term Debt Cost

	2023		
	Interest Charges	Long-Term Debt	Debt Cost
Ameren Corporation	$ 614.00	$ 15,121.00	4.06%
American Electric Power Company Inc.	$ 1,924.20	$ 38,312.00	5.02%
AVANGRID Inc.	$ 524.00	$ 10,236.00	5.12%
CMS Energy Corp	$ 646.00	$ 14,592.00	4.43%
Consolidated Edison Inc.	$ 1,075.00	$ 22,357.00	4.81%
Dominion Energy Inc.	$ 1,833.00	$ 33,858.00	5.41%
Duke Energy Corporation	$ 3,215.00	$ 73,369.00	4.38%
Entergy Corporation	$ 1,046.16	$ 23,227.68	4.50%
Eversource Energy	$ 900.04	$ 24,067.20	3.74%
Exelon Corporation	$ 1,834.00	$ 40,330.00	4.55%
FirstEnergy Corp	$ 1,124.00	$ 23,064.00	4.87%
IDACORP Inc.	$ 134.47	$ 2,775.79	4.84%
Portland General Electric Company	$ 186.00	$ 4,210.00	4.42%
PPL Corporation	$ 678.00	$ 14,680.00	4.62%
Public Service Enterprise Group Inc.	$ 748.00	$ 17,957.00	4.17%
Xcel Energy Inc.	$ 1,055.00	$ 26,013.00	4.06%
Implied Interest Cost Rate	**Range:**	**Low**	**3.74%**
		High	**5.41%**
		Average	**4.56%**

Source: Compustat ($ in millions) May 2024

Mergent Bond Record
A-Rated Public Utility Bond Yields

Month	Yield
May-23	5.36%
Jun-23	5.38%
Jul-23	5.41%
Aug-23	5.71%
Sep-23	5.86%
Oct-23	6.34%
Nov-23	5.96%
Dec-23	5.42%
Jan-24	5.48%
Feb-24	5.56%
Mar-24	5.55%
Apr-24	5.79%
Average	**5.65%**

Source: Mergent Bond Record
May-24

Dividend Yields of the Proxy Group

Company Symbol	Ameren Corporation AEE	American Electric Power Company Inc. AEP	AVANGRID Inc. AGR	CMS Energy Corp CMS	Consolidated Edison Inc. ED
Div	2.86	3.81	1.76	2.16	3.40
52-wk low	67.03	69.38	27.46	49.87	80.46
52-wk high	88.72	92.35	41.17	63.76	100.00
Spot Price	74.40	91.61	36.85	62.93	97.70
Spot Div Yield	3.84%	4.16%	4.78%	3.43%	3.48%
52-wk Div Yield	3.67%	4.71%	5.13%	3.80%	3.77%
Average	3.76%	4.44%	4.95%	3.62%	3.62%

Company Symbol	Dominion Energy Inc. D	Duke Energy Corporation DUK	Entergy Corporation ETR	Eversource Energy ES	Exelon Corporation EXC
Div	2.67	4.22	4.70	3.03	1.62
52-wk low	39.18	83.06	87.10	52.03	33.35
52-wk high	55.41	103.83	112.71	77.53	43.53
Spot Price	53.07	102.67	111.99	61.92	37.67
Spot Div Yield	5.03%	4.11%	4.20%	4.89%	4.30%
52-wk Div Yield	5.65%	4.52%	4.70%	4.68%	4.21%
Average	5.34%	4.31%	4.45%	4.79%	4.26%

Company Symbol	FirstEnergy Corp FE	IDACORP Inc. IDA	Portland General Electric Company POR	PPL Corporation PPL	Public Service Enterprise Group Inc. PEG
Div	1.80	3.46	2.08	1.10	2.52
52-wk low	32.18	86.43	38.01	22.20	53.71
52-wk high	40.42	109.76	51.19	29.38	74.49
Spot Price	39.94	97.81	44.55	29.14	74.01
Spot Div Yield	4.51%	3.54%	4.67%	3.77%	3.40%
52-wk Div Yield	4.96%	3.53%	4.66%	4.27%	3.93%
Average	4.73%	3.53%	4.67%	4.02%	3.67%

Company Symbol	Xcel Energy Inc. XEL
Div	2.30
52-wk low	46.79
52-wk high	69.14
Spot Price	55.46
Spot Div Yield	4.15%
52-wk Div Yield	3.97%
Average	4.06%

	Average
Spot Div Yield	**4.14%**
52-wk Div Yield	**4.38%**
Average	**4.26%**

Source: Barron's May 10, 2024
Value Line March 8, 2024, April 19, 2024, and May 10, 2024

Five-Year Growth Estimate Forecast for the Proxy Group (I&E Modified)

Company	Symbol	Source			
		Yahoo	Zacks	Value Line	Average
Ameren Corporation	AEE	4.80%	6.50%	6.50%	5.93%
American Electric Power Company Inc.	AEP	6.19%	5.80%	6.50%	6.16%
AVANGRID Inc.	AGR	0.40%	6.00%	3.50%	3.30%
CMS Energy Corp	CMS	7.40%	7.40%	5.00%	6.60%
Consolidated Edison Inc.	ED	6.09%	2.00%	6.00%	4.70%
Dominion Energy Inc.	D	-	5.40%	3.00%	4.20%
Duke Energy Corporation	DUK	6.86%	6.30%	5.00%	6.05%
Entergy Corporation	ETR	6.80%	7.50%	0.50%	4.93%
Eversource Energy	ES	3.25%	4.20%	6.00%	4.48%
Exelon Corporation	EXC	4.20%	5.90%	NMF	5.05%
FirstEnergy Corp	FE	6.30%	NA	5.50%	5.90%
IDACORP Inc.	IDA	4.40%	NA	5.00%	4.70%
Portland General Electric Company	POR	12.50%	NA	6.00%	9.25%
PPL Corporation	PPL	6.80%	6.50%	7.50%	6.93%
Public Service Enterprise Group Inc.	PEG	5.25%	6.20%	5.00%	5.48%
Xcel Energy Inc.	XEL	6.73%	6.40%	7.00%	6.71%
Average:					**5.65%**

Source:
Internet
May 13, 2024, March 8, 2024, April 19, 2024, and May 10, 2024

Expected Market Cost Rate of Equity

Using Data for the Proxy Group of Electric Companies

5-Year Forecasted Growth Rates

	Time Period	Adjusted Dividend Yield (1)	Growth Rate (2)	Expected Return on Equity (3=1+2)
(1)	52-Week Average Ending: May 10, 2024	4.38%	5.65%	10.03%
(2)	Spot Price Ending: May 10, 2024	4.14%	5.65%	9.79%
(3)	**Average:**	**4.26%**	**5.65%**	**9.91%**

Sources: Value Line March 8, 2024, April 19, 2024, and May 10, 2024
Barron's May 10, 2024

Proxy Group Company	Beta
Ameren Corporation	0.90
American Electric Power Company Inc.	0.80
AVANGRID Inc.	0.95
CMS Energy Corp	0.85
Consolidated Edison Inc.	0.80
Dominion Energy Inc.	0.90
Duke Energy Corporation	0.90
Entergy Corporation	0.95
Eversource Energy	0.95
Exelon Corporation	NMF
FirstEnergy Corp	0.90
IDACORP Inc.	0.85
Portland General Electric Company	0.90
PPL Corporation	1.15
Public Service Enterprise Group Inc.	0.95
Xcel Energy Inc.	0.85
Average beta for CAPM	**0.91**

Source:
Value Line
March 8, 2024, April 19, 2024, and May 10, 2024

Risk-Free Rate

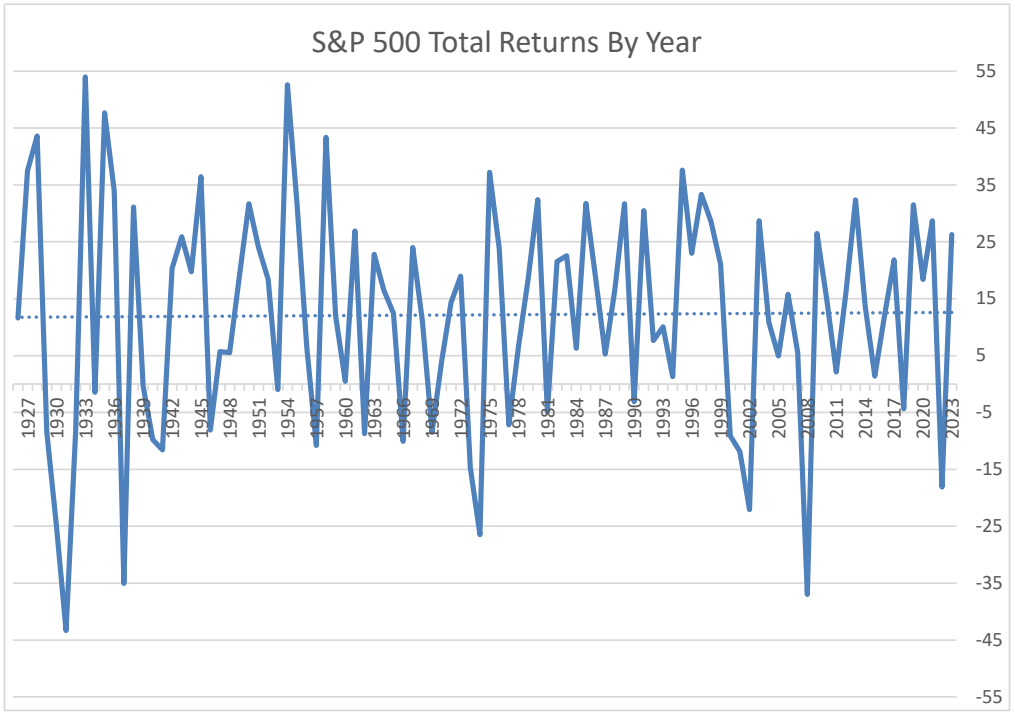
10-Year Treasury Note	Yield
3Q 2024	4.30
4Q 2024	4.20
1Q 2025	4.10
2Q 2025	4.00
3Q 2025	3.90
5-Yr (2025-2029) Average	3.90
Average	**4.07**

Source:
Blue Chip
May 1, 2024 and December 1, 2023

S&P 500 Total Return

Year	Return
2023	26.29
2022	-18.11
2021	28.71
2020	18.4
2019	31.49
2018	-4.38
2017	21.83
2016	11.96
2015	1.38
2014	13.69
2013	32.39
2012	16.00
2011	2.11
2010	15.06
2009	26.46
2008	-37
2007	5.49
2006	15.79
2005	4.91
2004	10.88
2003	28.68
2002	-22.1
2001	-11.89
2000	-9.1
1999	21.04
1998	28.58
1997	33.36
1996	22.96
1995	37.58
1994	1.32
1993	10.08
1992	7.62
1991	30.47
1990	-3.1
1989	31.69
1988	16.61
1987	5.25
1986	18.67
1985	31.73
1984	6.27
1983	22.56
1982	21.55
1981	-4.91
1980	32.42
1979	18.44
1978	6.56
1977	-7.18
1976	23.84
1975	37.2
1974	-26.47

1973	-14.66
1972	18.98
1971	14.31
1970	4.01
1969	-8.5
1968	11.06
1967	23.98
1966	-10.06
1965	12.45
1964	16.48
1963	22.8
1962	-8.73
1961	26.89
1960	0.47
1959	11.96
1958	43.36
1957	-10.78
1956	6.56
1955	31.56
1954	52.62
1953	-0.99
1952	18.37
1951	24.02
1950	31.71
1949	18.79
1948	5.5
1947	5.71
1946	-8.07
1945	36.44
1944	19.75
1943	25.9
1942	20.34
1941	-11.59
1940	-9.78
1939	-0.41
1938	31.12
1937	-35.03
1936	33.92
1935	47.67
1934	-1.44
1933	53.99
1932	-8.19
1931	-43.34
1930	-24.9
1929	-8.42
1928	43.61
1927	37.49
1926	11.62
Average	**12.16**



Source:
https://www.slickcharts.com/sp500/returns
(accessed on 5/14/2024)

Required Rate of Return on Market as a Whole Forecasted

	Dividend Yield	+	Growth Rate	=	Expected Market Return
Value Line Estimate	2.10%		9.73%	(a)	11.83%
S&P 500 Historical Return					12.16%
Average Expected Market Return					**12.00%**

(a) Value Line forecast for the 3 to 5 year index appreciation is 45% ((1+45%)^.25)-1)

Sources:

Value Line Dividend Yield	5/17/2024	2.10%
Valueline Appreciation Potential	5/17/2024	45%
S&P 500 Historical Return Tab	5/14/2024	12.16%

CAPM with forecasted return

Re		Required return on individual equity security
Rf		Risk-free rate
Rm		Required return on the market as a whole
Be		Beta on individual equity security
Re	=	Rf + Be(Rm - Rf)
Rf	=	4.07
Rm	=	12.00
Be	=	0.91
Re	=	**11.29%**

Sources: Value Line March 8, 2024, April 19, 2024, and May 10, 2024
Blue Chip May 1, 2024 and December 1, 2023

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

I&E Exhibit No. 2
Schedule 12
Page 1 of 2

BUREAU OF INVESTIGATION AND ENFORCEMENT RR, No. 13

"Reference FE PA Statement No. 10, p. 31, line 1 concerning the RP analysis results of 11.47%. State whether Mr. D'Ascendis is aware of any instances where the Commission relied upon an RP analysis to determine an appropriate cost of equity in a base rate proceeding. If so, identify the applicable cases, including the docket numbers."

RESPONSE:

In Docket No. R-2013-2360798, concerning Columbia Water Company, the Commission states in its disposition that:

> In this case, the range of ROE recommendations presented by the Parties based on the DCF methodology is 8.25% to 11.35%. Based on our review of the testimony, data, and cost models presented, we believe that the evidence in this case supports an ROE finding in the reasonable range of 9.25% to 10.25% using the DCF method as the foundation. The equity-heavy capital structure of Columbia indicates that a slightly lower ROE is appropriate. However, the small size of the Company, its management effectiveness, and the results of ROE models other than DCF are all reasons to set a higher ROE. Therefore, within our indicated range of reasonableness, we conclude that a ROE of 9.75% is appropriate for our ratemaking determinations herein.

While not specifically stated, the Risk Premium Model (or "RPM" as defined in Witness D'Ascendis' Direct Testimony) was one of the models presented in that proceeding. Furthermore, in Docket No. R-2014-2402324, concerning Emporium Water Company, in the recommended decision, Administrative Law Judge Buckley states:

> The Company witness, Dylan W. D'Ascendis, recommended that the Commission authorize Emporium the opportunity to earn an overall rate of return of 7.17% based upon a comparable industry group hypothetical capital structure which consists of 46.29% long-term debt and 53.71% common equity at an embedded or actual debt cost rate of 2.68%. He also recommended a common equity cost rate of 11.05%. Emporium Statement No. 2 at 2. While the Commission may see fit to adjust this, these recommendations are at least in the zone of reasonableness and fiscal reality.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RR, No. 15

"Reference FE PA Statement No. 10, p. 42, lines 14-18 concerning the CE analysis results of 12.95%. State whether Mr. D'Ascendis is aware of any instances where the Commission relied upon CE analysis to determine an appropriate cost of equity in a base rate proceeding. If so, identify the applicable cases, including the docket numbers."

RESPONSE:

See FE PA Response to I&E Interrogatory RR, No. 13.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

I&E Exhibit No. 2
Schedule 13

BUREAU OF INVESTIGATION AND ENFORCEMENT RR, No. 20

"Reference FE PA's filing:

A. Provide specific details for planned new issuances of common stock over the next five years (projected dates and corresponding number of shares) by FirstEnergy Corporation and FE PA.
B. State the last three times that FirstEnergy Corporation and FE PA issued common stock and state the number of shares for each issuance."

RESPONSE:

A. FirstEnergy Corp. and FE PA do not have any planned new issuances of common stock over the next five years.

B. On November 6, 2021, FirstEnergy Corp. entered into a Common Stock Purchase Agreement for the private placement of 25,588,535 shares of FirstEnergy Corp. common stock.

On January 22, 2018, FirstEnergy Corp. entered into a Common Stock Purchase Agreement for the private placement of 30,120,482 shares of FirstEnergy Corp.'s common stock.

On December 13, 2016, FirstEnergy Corp. contributed 16,097,875 newly issued shares of its common stock to its qualified pension plan in a private placement transaction.

FE PA's sole shareholder is FirstEnergy Corp. FE PA issued stock to FirstEnergy Corp. February 21, 2023.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

I&E Exhibit No. 2
Schedule 14

BUREAU OF INVESTIGATION AND ENFORCEMENT RR, No. 17

"Reference FE PA Statement No. 10, p. 50, lines 17-19 concerning Mr. D'Ascendis' opinion that his recommended 11.30% cost of common equity is reasonable:

A. State whether Mr. D'Ascendis is aware of any electric distribution utilities throughout the United States that have been granted a regulatory "Commission" authorized 11.30% or higher cost of common equity in the past three years.
B. If the answer to Part A above is yes, identify which company/companies have been authorized such cost of common equity, in what jurisdiction, and docket numbers associated with each instance."

RESPONSE:

A. Mr. D'Ascendis has not conducted an exhaustive study of all Commission orders throughout the United States, but he is not aware of any instances where a Commission approved an ROE of 11.30% or higher in a base rate proceeding.

B. N/A.

I&E Statement No. 3
Witness: Joseph Kubas
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Direct Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:

Other Revenue
Proposed Revenue
Rate Structure, Cost of Service Studies
Scaleback of Rates
Rate Base
Amortization Expense

TABLE OF CONTENTS

INTRODUCTION **1**
RATE BASE **2**
VERIZON COMPLAINT **6**
CUSTOMER COST ANALYSIS **12**
CUSTOMER CHARGE RECOMMENDATIONS **20**
REVENUE ALLOCATION **24**
SCALE BACK OF RATES **28**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Joseph Kubas, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation and Enforcement (I&E) as a Rate Case Review Specialist in an annuitant capacity. I was previously employed as the Fixed Utility Valuation Engineer Supervisor.

Q. WHAT IS YOUR EDUCATION AND PROFESSIONAL BACKGROUND?

A. My education and professional background are set forth in Appendix A, which is attached.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. The I&E analysis in this proceeding is based on its responsibility to represent the public interest. This responsibility requires balancing the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to evaluate FirstEnergy Pennsylvania Electric Company's (FE or Company) request for an annual increase in operating revenues of approximately $502,000,000 (FE PA Statement No. 1, p. 6). My testimony regarding FE's request will focus on plant addition reporting, the Verizon complaint, the customer cost analysis, customer charges, the proposed revenue allocation, and the scaleback of rates.

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3 contains schedules relating to my direct testimony.

Q. PLEASE SUMMARIZE FE'S REQUESTED INCREASE.

A. On April 2, 2024, FE filed a combined electric base rate case based on a Fully Projected Future Test Year (FPFTY) ending December 31, 2025. The total requested increase in operating revenues of approximately $502 million is comprised of an increase of $146 million for Met-Ed, $132 million for Penelec, $55 million for Penn Power, and $169 million for West Penn (FE PA Statement No. 1, p. 6).

RATE BASE

Q. WHAT IS RATE BASE?

A. Rate base is the depreciated original cost of a utility's investment in plant a utility has in place to serve customers plus other additions and deductions that the

Commission determines to be necessary in order to keep the utility operating and providing safe and reliable service to its customers.

Q. HOW IS THE DEPRECIATED ORIGINAL COST PLANT IN SERVICE AT THE END OF THE TEST YEAR DETERMINED?

A. The depreciated original cost is determined by subtracting the book reserve, which is the accumulation of all prior annual depreciation expense, and other items such as retirements and salvage value from the original cost of the plant in service at the end of the FPFTY.

Q. WHAT OTHER ADDITIONS AND DEDUCTIONS TO THE DEPRECIATED ORIGINAL COST OF UTILITY PLANT ARE ALLOWED?

A. Some of the additions to the depreciated original cost of a company's investment in utility include acquisition adjustments, materials and supplies, prepayments, and cash working capital. Some of the deductions include deferred income taxes and customer deposits. Some additions are applicable to a specific utility or utility type.

Q. WHAT AMOUNT OF PLANT IN SERVICE IS THE COMPANY CLAIMING IN THE FPFTY?

A. The Company is claiming total FPFTY plant in service of $12,550,839,000 broken down as follows: Met-Ed = $3,701,466,000; Penelec = $4,031,418,000; Penn Power = $1,052,608,000; and West Penn = $3,765,347,000 (FE PA Ex. PML-1, p. 6).

Q. DO THESE AMOUNTS REFLECT ADDITIONS, RETIREMENTS AND TRANSFERS IN THE FTY AND FPFTY?

A. Yes. The following table summarizes the FTY and FPFTY plant additions, retirements and transfers shown on FE PA Volume I, Ex. V-A-3, pp. 2-5.

Table 1
First Energy Pennsylvania Electric Company
Plant Additions, Retirements and Transfers ($ Thousands)
FTY ending December 31, 2024, and FPFTY ending December 31, 2025

Description	Met-Ed	Penelec	Penn Power	West Penn	Total
FTY Additions	$214,627	$216,583	$50,508	$223,804	$705,522
FTY Transfers	$0	$0	$0	-$743,084	-$743,084
FTY Retirements	-$33,923	-$28,593	-$7,292	-$31,175	-$100,983
Net FTY	$180,704	$187,990	$43,216	-$550,455	-$138,545
FPFTY Additions	$233,865	$241,714	$87,559	$242,554	$805,692
FPFTY Retirements	-$28,147	-$34,248	-$10,357	-$26,538	-$99,290
Net FPFTY	$205,718	$207,466	$77,202	$216,016	$904,982

Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING PLANT ADDITIONS, RETIREMENTS, AND TRANSFERS THAT THE COMPANY PLANS DURING THE FTY AND THE FPFTY?

A. Yes. I recommend that the Company be required to provide the Commission's Bureau of Investigation and Enforcement and the Office of Consumer Advocate with separate reports for Met-Ed, Penelec, Penn Power, and West Penn Power showing the actual FTY additions, retirements, and transfers, as shown on FE PA Ex. V-A-3,

pp. 2-5 no later than April 1, 2025. In addition, I recommend the Company be required to provide similar updates of FE PA Ex. V-A-3, pp. 2-5 with actual additions and retirements for the FPFTY no later than April 1, 2026.

Q. WHY DO YOU RECOMMEND THAT THE COMPANY BE REQUIRED TO PROVIDE THESE UPDATES?

A. There is value in determining how closely FE's projected investments in future plant compare to the actual investments that are made by the end of the FTY and FPFTY. Determining the correlation between FE's projected and actual results will help inform the Commission and the parties in FE's future rate cases.

The updates are important, because as previously explained, by using an FPFTY, FE is requesting that ratepayers pre-pay a return on projected investment in future plant that is not in place and providing service at the time the new rates take effect but that also are not subject to any guarantee of being completed and placed into service. While the FPFTY provides for such projections, there should be verification of the accuracy of the projections. Therefore, requiring the Company to provide updates demonstrating that actual investments align with projections made in setting rates using an FPFTY provides the Commission with actual data to gauge the accuracy of FE's forecasts.

Q. DID THE COMPANY CLAIM ANY OTHER PLANT ADDITIONS IN RATE BASE?

A. Yes. The Company is claiming additional plant additions as part of its two-year cycle of inspection and maintenance of lines and transformers. The total claim for the FPFTY is $12,008,000 of plant (FE PA Ex. PML-1, p. 7).

Q. WHAT DO YOU RECOMMEND CONCERNING THIS PROJECTED $12,008,000 OF PLANT ASSOCIATED WITH THE 2025 INSPECTION AND MAINTENANCE PROGRAM?

A. I recommend that the Company be required to provide an update for this projection by rate group and plant account by April 1, 2026.

Q. WHY DO YOU ALSO RECOMMEND THE COMPANY BE REQUIRED TO PROVIDE THIS UPDATE?

A. Similar to the reasons stated above, there is value in determining how closely FE's projected inspection and maintenance program's projected plant additions compare with the actual investments that are made by the end of the FPFTY.

VERIZON COMPLAINT

Q. PLEASE SUMMARIZE WHAT FE DESCRIBES AS THE VERIZON COMPLAINT.

A. Verizon utilizes FE's poles to attach its facilities and pays revenue to FE based upon

an agreed upon contract rate. However, Verizon filed a complaint with the Commission at Docket No. C-2020-3019347 due to an alleged excessive contract rate. The Commission ruled in favor of Verizon and ordered the rate and corresponding revenue be reduced (FE PA Statement No. 1, pp. 21-22). An appeal of this decision was filed in the Commonwealth Court of Pennsylvania at Docket No. 521 CD 2021, and FE indicates that it will update its claim depending on the outcome of the decision (FE PA Statement No. 1, p. 22).

Q. WHAT IS FIRST ENERGY CLAIMING WITH RESPECT TO THE VERIZON COMPLAINT?

A. FE is claiming two things concerning the Verizon Complaint. First, FE looked back and carved out a portion of its other revenue that it did not receive as the result of an unfavorable result of the complaint filed by Verizon. Second, FE looked forward and projected lower revenue anticipated as a result of the Verizon Complaint (FE PA Statement No. 1, pp. 21-22).

Q. WHAT AMOUNT OF VERIZON COMPLAINT REVENUE DID THE COMPANY CLAIM WAS NOT RECEIVED?

A. FE compiled the amount of revenue it claims it did not receive on FE PA Exhibit PML-1, p. 20, Adjustment RB-5, line 12. **{BEGIN PROPRIETARY}** [redacted]

[redacted]

[redacted] **{END PROPRIETARY}**

Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THESE AMOUNTS FROM RATEPAYERS?

A. FE proposes to amortize these amounts over the **{BEGIN PROPRIETARY}** [redacted] **{END PROPRIETARY}**

Q. HOW MUCH DID THE COMPANY CLAIM IN RATE BASE FOR THE UNAMORTIZED PORTION OF THE VERIZON COMPLAINT?

A. FE reduced the total compiled amounts above by the corresponding claimed FPFTY amortization expense (FE PA Exhibit PML-1, p. 20, Adjustment RB-5, lines 12-14). **{BEGIN PROPRIETARY}** [redacted] **{END PROPRIETARY}**

Q. DO YOU AGREE WITH THE COMPANY'S AMORTIZATION EXPENSE AND RATE BASE CLAIMS FOR THE VERIZON COMPLAINT AS IDENTIFIED ABOVE?

A. No.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that all claims for the Verizon Complaint, both the amortization expense and rate base amounts detailed above be rejected in their entirety.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. The Verizon Complaint revenue shortfall represents "other revenues" the Company claims it did not receive in the past. In normal ratemaking, utilities are not permitted to recover revenues anticipated but not received. While the Company may have not received all the "other revenues" it projected that it would receive in the last base rate case, carving out this revenue as one past ratemaking component constitutes single issue ratemaking for which a prospective claim should not be permitted.

Q. DID FE PETITION THE COMMISSION TO TRACK AND DEFER THIS REVENUE IT DID NOT RECEIVE?

A. No. This is the first time the Company is requesting deferral of this expense, some of which is prior to the FPFTY, and thus a prior period adjustment.

Q. DID THE COMMISSION ORDER AGREEING WITH VERIZON ALLOW OR DIRECT FIRST ENERGY TO RECOVER ANY OF THIS REVENUE IT DID NOT RECEIVE?

A. No. The Commission Order did not include any deferral or recovery recommendation (*Verizon Pennsylvania LLC and Verizon North LLC v. Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company*, Docket No. C-2020-3019347, Order entered December 18, 2020).

Q. PLEASE DESCRIBE HOW OTHER RATEMAKING COMPONENTS CHANGE AFTER A RATE CASE THAT SUPPORTS WHY ONE RATEMAKING COMPONENT SHOULD NOT BE RECOVERED PROSPECTIVELY.

A. All ratemaking components in an FPFTY are projections, and if any one of them changes significantly enough, the overall rate of return will change. For instance, after rates are established based upon the FPFTY projections, if a utility adds more customers than projected, the utility will receive more revenue than expected. Similarly, if a utility reduces expenses, net income will increase. Also, if debt costs are lower than projected, a utility will borrow at a lower cost than projected. Finally, if a utility does not make the projected plant investments, the overall rate of return will be higher than projected. Therefore, I recommend that FE not be permitted to carve out one revenue component for recovery in this case.

Q. IF THE COMMISSION ALLOWS THE COMPANY TO RECOVER ANY PORTION OF THE CLAIMS ASSOCIATED WITH THE VERIZON COMPLAINT, WHAT DO YOU RECOMMEND?

A. As stated above, I recommend a complete disallowance of the Verizon Complaint claims; however, if the Commission decides to allow amortization of a regulatory asset, the amortization period should be extended to five years to match the likely time period these rates are to be in effect based on I&E witness Christine Wilson's similar recommendations (I&E Statement No. 4). Additionally, I would recommend no rate base allowance for any portion of the Verizon Complaint claims as the Company should not be permitted to earn a return on any unamortized balances related to a revenue shortfall, which as explained above is not typical.

Q. PREVIOUSLY, YOU EXPLAINED THAT FE PROJECTED LOWER POLE ATTACHMENT REVENUE. WHAT DO YOU RECOMMEND IF A DECISION AT THE APPELLATE COURT LEVEL YIELDS DIFFERENT RESULTS?

A. If the appellate process is completed and if any of the amounts are projected to change, I recommend that FE update the projected Pole Attachment revenue before the record closes in this proceeding. This will ensure that the most accurate revenue is reflected in base rates.

CUSTOMER COST ANALYSIS

Q. DID THE COMPANY COMPILE FOUR CUSTOMER COST ANALYSES TO SUPPORT THE PROPOSED INCREASES IN THE CUSTOMER CHARGES?

A. Yes. The Company provided similar Customer Cost Analyses for each rate district as part of each cost of service study (COSS) labeled as FE PA Exhibit TSL-2. For Met-Ed, the Customer Cost Analysis is on pp. 36-37. For Penelec, the Customer Cost Analysis is on pp. 35-36. For Penn Power, the Customer Cost Analysis is on pp. 29-30. For West Penn Power, the Customer Cost Analysis is on pp. 38-39.

Q. WHAT ITEMS DID THE COMPANY CLAIM IN THE CUSTOMER COST ANALYSIS?

A. The Company claimed depreciation expense, return dollars and taxes on the following plant:

(364) Poles, Towers & Fixtures
(365) Overhead Conductors & Devices
(367) Underground Conductors & Device
(368) Line Transformers
(369) Services
(370) Meters
(371) Customer Premises
(373) Streetlight

The Company also claimed the following expenses:

(580) Operation Supervision & Engineering
(583) Overhead line expenses
(586) Meter expenses
(588) Miscellaneous distribution expenses
(589) Rents
(590) Maintenance Supervision and Engineering
(593) Maintenance of Overhead Lines
(594) Maintenance of underground lines
(595) Maintenance of line transformers
(596) Maintenance of street lighting and signal systems
(597) Maintenance of meters
(598) Maintenance of miscellaneous distribution plant
(901) Supervision
(902) Meter Reading Expenses
(903) Collections & Records
(904) Uncollectable Accounts
(905) Misc. Customer Accounts
Total Customer Accounts and Services
Total Customer Information
Total Sales

Q. DID THE COMMISSION PREVIOUSLY ADDRESS THE ITEMS THAT SHOULD BE INCLUDED AND EXCLUDED IN A CUSTOMER COST ANALYSIS?

A. Yes. The Commission has a long-standing history of what items to include and exclude in a Customer Cost Analysis. This history dictates that the Customer Cost Analysis should only include items directly related to the customers and some other indirect customer costs. In the Columbia Gas of Pennsylvania, Inc. rate case

Opinion and Order,[1] the Commission adopted the presiding ALJ's Recommended Decision. The Opinion and Order stated:

> The ALJ found that the Company's LDC proposed rate design to eliminate the volumetric distribution usage charge and force all residential ratepayers to pay a fixed monthly customer charge, which would recover all base rate costs except universal service program costs, is unreasonable, contrary to sound ratemaking principles, inconsistent with Commission precedent and contrary to the public interest. R.D. at 96. Further, the ALJ stated that Commission precedent consistently limits fixed customer charges to direct costs only, such as the cost to hook up and to maintain a customer's account. Id. Consequently, the ALJ found that the Company did not carry its burden of proof on this issue and thus recommended that Columbia's LDC rate design be rejected. Id.

Q. IS THE COLUMBIA GAS CASE THE ONLY CASE WERE THE COMMISSION ISSUED GUIDANCE ON THIS TOPIC?

A. No. In a 2014 water base rate case for Aqua Pennsylvania, Inc. (Aqua), the "Aqua method," another customer charge method, was approved by the Commission[2] This method calculated the basic customer cost as the costs for meters and services, but also included other specific indirect costs such as specific administrative and general costs, local taxes, and depreciation expense and return on general and intangible plant (portions of buildings that are used for customer-related activities, office equipment, and billing and meter data management systems).

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1 *Pa. P.U.C., et al. v. Columbia Gas of Pennsylvania, Inc*., Opinion and Order at Docket Nos. R-2010-2215623 and R-2010-2201974 (Order entered October 14, 2011), page 38.

2 *Pa. P.U.C. v. Aqua Pennsylvania, Inc.,* Opinion and Order at Docket No. R-00038805 (Order entered August 5, 2004), page 72.

Q. TURNING TO THIS CASE, WAS IT REASONABLE FOR FE TO INCLUDE ALL THE ITEMS THE COMPANY CLAIMED IN EACH CUSTOMER COST ANALYSIS?

A. No. I recommend the following plant be removed from each Customer Cost Analysis:

(364) Poles, Towers & Fixtures
(365) Overhead Conductors & Devices
(367) Underground Conductors & Device
(368) Line Transformers

I also recommend the following expenses be removed from each Customer Cost Analysis:

583) Overhead line expenses
588) Miscellaneous distribution expenses
589) Rents
590) Maintenance Supervision and Engineering
593) Maintenance of Overhead Lines
594) Maintenance of underground lines
595) Maintenance of line transformers
598) Maintenance of miscellaneous distribution plant

Q. WHY DO YOU RECOMMEND THAT POLES, TOWERS & FIXTURES, OVERHEAD CONDUCTORS & DEVICES, UNDERGROUND CONDUCTORS & DEVICES, CONDUIT, AND LINE TRANSFORMERS BE EXCLUDED FROM EACH CUSTOMER COST ANALYSIS?

A. The equivalent to these items in water would be mains, fittings, pumps, and regulators, which were not previously included in any recent water Customer Cost

Analysis approved by the Commission. Also, these items are used to deliver energy and do not change with the addition or loss of one customer. These items are not related to billing or collecting, and therefore, they are not direct customer cost items and should not be included in each Customer Cost Analysis.

Q. WHY DO YOU RECOMMEND THAT OVERHEAD LINE EXPENSE, MAINTENANCE OF OVERHEAD AND UNDERGROUND LINES, AND MAINTENANCE OF LINE TRANSFORMERS EXPENSE BE EXCLUDED FROM EACH CUSTOMER COST ANALYSIS?

A. As described above, overhead conductor and device plant should be excluded from each Customer Cost Analysis, therefore, overhead line expense, maintenance of overhead and underground lines, and maintenance of line transformers associated with this type of plant should not be included in each Customer Cost Analysis.

Q. WHY DO YOU RECOMMEND THAT MISCELLANEOUS DISTRIBUTION EXPENSE, RENTS MAINTENANCE SUPERVISION – ENGINEERING, AND MAINTENANCE OF MISCELLANEOUS DISTRIBUTION PLANT BE EXCLUDED FROM EACH CUSTOMER COST ANALYSIS?

A. There is no indication that these expenses are customer related or change with the gain or loss of one customer, therefore I excluded these expenses. Also, I believe that listing an expense as "miscellaneous" does not provide enough detail to determine if any of this miscellaneous expense would qualify as a direct or even an

indirect customer cost that merits inclusion in the Customer Cost Analyses. Finally, if the Commission does allow Rent Expense, there should be a corresponding rent revenue offset that the Company receives from pole attachments and any other rents.

Q. DID THE COMPANY CLAIM 100% OF UNCOLLECTIBLE ACCOUNTS EXPENSE IN EACH CUSTOMER COST ANALYSIS?

A. Yes. The Company claimed 100% of Uncollectible expense in each Customer Cost Analysis. For Met-Ed, the $6,627,000 of uncollectible expense is included in the $18,325,000 of Total Customer Account and Services Expense, (FE PA Exhibit TSL-1, COSS-Met-Ed, p. 20, and TSL-2, Met-Ed, p. 37). For Penelec, the $7,728,000 of uncollectible expense is included in the $19,846,000 of Total Customer Account and Services Expense, (FE PA Exhibit TSL-1, COSS Penelec, p. 20, and TSL-2, Penelec, p. 36). For Penn Power, the $1,498,000 of uncollectible expense is included in the $4,587,000 of Total Customer Account and Services Expense, (FE PA Exhibit, TSL-1, COSS Penn Power, p. 20, and TSL-2, Penn Power, p. 30). For West Penn, the $5,265,000 of uncollectible expense is included in the $17,574,000 of Total Customer Account and Services Expense, (FE PA Exhibit TSL-1, West Penn p. 20 and TSL-2, West Penn, p. 39).

Q. DID YOU REFLECT A CORRECTION TO THE ALLOCATION OF THE PENELEC UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. Yes. The Company's response to I&E-RS-11 indicates that there was an error in the

allocation of Penelec Uncollectible Expense (I&E Ex. No. 3, Sch. 5). However, since the Company did not provide the corrected allocation, I applied the same allocation factor the Company used in Met-Ed, the next largest rate district, to allocate uncollectible expense for Penelec (FE PA Exhibit TSL-1, COSS-Met-Ed, p. 151). The percentage allocated to each class are shown on I&E Ex. No. 3, Sch. 2, p. 2, line 74.

Q. IS IT REASONABLE TO REFLECT 100% OF THE UNCOLLECTIBLE ACCOUNTS EXPENSE IN EACH CUSTOMER COST ANALYSIS?

A. No. I do not believe that the Companies should be permitted to reflect 100% of uncollectible expense in each Customer Cost Analysis.

Q. WHAT PORTION OF UNCOLLECTIBLE EXPENSE DO YOU RECOMMEND BE INCLUDED IN THE CUSTOMER COST ANALYSIS?

A. I recommend that the portion of uncollectible expense included in each Customer Cost Analysis be based upon the percentage of customer charges and demand charges compared to total revenue received in each class (excluding energy costs). In other words, if the customer and demand charges equal 20% of the revenue received from a class, then 20% of the uncollectible expense from that class should be included in the customer cost analysis, and the rest recovered in usage charges.

Q. WHY DO YOU RECOMMEND THAT SOME OF THE UNCOLLECTIBLE ACCOUNTS EXPENSE BE RECOVERED IN USAGE RATES?

A. In the classes with usage charges, the Company collects some uncollectible expense on these usage charges. Therefore, it is reasonable to allocate some of the uncollectible expense to usage charges and not reflect 100% of the uncollectible expense in each customer cost analysis.

Q. DID THE COMPANY OFFSET ANY OF THE COSTS IN THE CUSTOMER COST ANALYSIS WITH REVENUE IT RECEIVES?

A. No. I believe the Company should have reflected a credit for at least some portion of the forfeited discount revenue it receives from customers as an offset to customer costs in each Customer Cost Analysis.

Q. WHAT IS YOUR JUSTIFICATION FOR INCLUDING REVENUE FROM FORFEITED DISCOUNTS AS AN OFFSET TO CUSTOMER COSTS IN YOUR CUSTOMER COST ANALYSES?

A. Since forfeited discount revenue is received when customers pay their bill after the due date, since the late bill includes a customer charge, it is reasonable to consider some of this revenue as an offset to customer costs, since the Company proposes to include uncollectible costs in the customer charge. Therefore, I included the same percentages of claimed forfeited discount revenue for each class as I recommended

to determine the appropriate amount of uncollectible expense that should be included in the customer cost analysis.

Q. PLEASE DESCRIBE THE COMPONENTS OF YOUR CUSTOMER COST ANALYSIS.

A. As shown on I&E Exhibit No. 3, Sch. 1-4, pp 1-2, which is based upon the Company's Customer Cost Analysis, I removed the plant, accumulated depreciation, and depreciation expense for plant not customer related, and I removed the expenses that are not customer related. These lines appear in red text. Then, as described above, I adjusted the uncollectible account expense on line 47 and show some of the late payment revenue as a credit to customer costs on line 64. These lines appear in blue text. These adjustments resulted in a lower customer cost by class as shown on line 67.

CUSTOMER CHARGE RECOMMENDATIONS

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE APPROPRIATE LEVEL OF CUSTOMER CHARGES FOR MET-ED?

A. My Met-Ed Customer Cost Analysis shows that all but the General Service Volunteer (GSV) present customer charges are above the corresponding customer costs in the Met-Ed Customer Cost Analysis. For this reason, except for the GSV class, there is no justification for increasing any of the Met-Ed customer or demand charges (I&E Ex. No. 3, Sch. 1, p. 3).

Q. WHAT IS THE GSV CLASS AND HOW HAVE THE RATES BEEN ESTABLISHED?

A. The GSV includes volunteer fire departments for which the Company charges the same rates as the Residential customers.

Q. DO YOU RECOMMEND THE COMPANY CONTINUE TO CHARGE THE GSV CLASS THE SAME RATES AS RESIDENTIAL CUSTOMERS?

A. Yes. This policy should continue. In addition, if the customer charges and average demand charge are added together, the Company receives on average $27.78 per month from GSV customers through customer and demand charges (I&E Ex. No. 3, Sch. 1, p. 3, line 10). This $27.78 per month is higher than the customer cost of $12.17 per month established in the I&E Customer Cost Analysis for Met-Ed (I&E Ex. No. 3, Sch. 1, p. 2, line 67, column D).

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE APPROPRIATE LEVEL OF CUSTOMER CHARGES FOR PENELEC AND PENN POWER?

A. My Penelec and Penn Power Customer Cost Analyses show that all of the present customer charges are above the corresponding customer costs in the customer cost analysis. Therefore, there is no justification for increasing any of the Penelec or Penn Power customer or demand charges (I&E Ex. No. 3, Sch. 2, p. 3, and Sch. 3, p. 3).

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE APPROPRIATE LEVEL OF CUSTOMER CHARGES FOR WEST PENN?

A. My West Penn Customer Cost Analyses show that all but the Primary Power (PP-44) and Primary Power (PP-46) present customer charges are above the corresponding customer costs in the West Penn Customer Cost Analysis. For this reason, except for the PP-44 and PP-46 classes there is no justification for increasing any of the West Penn customer or demand charges (I&E Ex. No. 3, Sch. 4, p. 3).

Q. WHAT CUSTOMER COST DID YOU DETERMINE FOR THE PP-44 CUSTOMERS?

A. According to my West Penn Customer Cost Analysis, the Company incurs $1,044.47 per month in customer costs for the PP-44 class (I&E Ex. No. 3, Sch. 4, p. 3, line 12, column E).

Q. HOW MUCH MONTHLY CUSTOMER AND DEMAND CHARGE REVENUE DOES THE COMPANY RECEIVE FROM PP-44 CUSTOMERS?

A. The Company receives $785.18 per month on average from a PP-44 customer (I&E Ex. No. 3, Sch. 4, p. 3, line 12, column B).

Q. WHAT IS THE DIFFERENCE BETWEEN THE REVENUE RECEIVED AND THE CUSTOMER COST INCURRED FOR PP-44 CUSTOMERS?

A. The difference between the monthly customer cost and average monthly customer

and demand charge revenue is $259.29 ($1,044.47 - $785.18) or approximately 33.0% (I&E Ex. No. 3, Sch. 4, p. 3, line 12).

Q. WHAT CUSTOMER AND DEMAND CHARGES DO YOU RECOMMEND FOR THE PP-44 CLASS?

A. I recommend no increase in the PP-44 customer or demand charges (I&E Ex. No. 3, Sch. 4, p. 3, lines 7 and 10).

Q. WHY DO YOU RECOMMEND NO INCREASE FOR THE PP-44 CUSTOMER OR DEMAND CHARGES?

A. Under present rates, the PP-44 class is earning 122.19% return, far in excess of the proposed rate of return of 8.19%. Therefore, there is no justification for increasing any of the PP-44 class rates (I&E Ex. No. 3, Sch. 6, p. 4, column I).

Q. WHAT CUSTOMER COST DID YOU DETERMINE FOR THE PP-46 CUSTOMERS?

A. The customer cost analysis indicates that the Company incurs $707.76 per month in customer costs for the PP-46 customers (I&E Ex. No. 3, Sch. 4, p. 3, line 13, column E).

Q. HOW MUCH MONTHLY CUSTOMER AND DEMAND REVENUE DOES THE COMPANY RECEIVE FROM PP-46 CUSTOMERS?

A. The Company receives $55,928.92 per month on average from a PP-46 customer (I&E Ex. No. 3, Sch. 4, p. 3, line 13, column B).

Q. DOES THIS LARGE MONTHLY REVENUE AMOUNT JUSTIFY INCREASING THE $4.08 PER MONTH CUSTOMER CHARGE AND THE $0.11 PER KV DEMAND CHARGE FOR PP-46 CUSTOMERS?

A. No. Therefore, the present PP-46 customer charge and demand charges should not be increased.

REVENUE ALLOCATION

Q. DID THE COMPANY PROVIDE A SUMMARY COMPARING THE PRESENT AND PROPOSED REVENUE, RATE OF RETURN, OR RELATIVE RATE OF RETURN BY CLASS?

A. No. Therefore, I asked the Company to provide a schedule in Excel that compares present and proposed revenue, the rate of return and relative rate of return by class to determine if the Company's proposed revenue by class moves the rate of return for each towards the system average rate of return. A summary of these responses is attached as I&E Ex. No. 3, Sch. 6, pp. 1.-4.

Q. WHAT DOES I&E EXHIBIT NO. 3, SCHEDULE 6 SHOW?

A. This schedule shows the present and proposed revenue by class as well as the corresponding rate of return and relative rate of return for Met-Ed on p. 1, Penelec on p. 2, Penn Power on p. 3 and West Penn on p. 4.

Q. WHAT IS THE BEST WAY TO DETERMINE IF THE PRESENT OR PROPOSED REVENUE RECEIVED FROM EACH CLASS COVERS THE COST OF PROVIDING SERVICE TO THAT CLASS?

A. The best way is to compare the relative rate of return under present rates to the relative rate of return under proposed rates. A relative rate of return below 1.00 indicates that the revenue received from that class is less than the cost of providing service to that class. A relative rate of return of 1.00 indicates that the revenue received from that class is equal to the cost of providing service to that class. A relative rate of return above 1.00 indicates that the revenue received from that class exceeds the cost of providing service to that class.

Q. DID THE COMPANY DO A REASONABLE JOB OF ALLOCATING THE RATE INCREASES TO THE VARIOUS CLASSES?

A. Yes. The Company did a reasonable job of proposing larger percentage increases to classes that have a relative rate of return below 1.00. However, as described below, I recommend small reallocations of the proposed revenue in the Penelec and West Penn Rate Districts.

Q. PLEASE DESCRIBE THE REVENUE REALLOCATION THAT YOU RECOMMEND IN THE PENELEC RATE DISTRICT.

A. I recommend that the proposed revenue for the General Service Small (GSS) be increased by $2,050,000 and the Street Lighting (STLT) class be increased $803,000. These recommendations increase proposed revenue by $2,853,000 ($2,050,000 + $803,000). To offset this $2,853,000, I reduced the proposed revenue of the General Service Large (GLS) class by $2,650,000 and the proposed revenue of the All-Electric SCH (H) class by $203,000 (I&E Ex. No. 3, Sch. 7, p. 2, line 6, columns E, G, K, and M).

.

Q. WHAT IS YOUR BASIS FOR RECOMMENDING AN ADDITIONAL $2,853,000 SHIFTED TO THE GSS AND STLT CLASSES FROM THE GSL AND H CLASSES IN THE PENELEC RATE DISTRICT?

A. The Company's COSS indicates that under the Company's proposed rates, the relative rate of return for the GSS class will be -0.13 and the relative rate of return for the STLT class will be -0.81 under proposed rates (I&E Ex. No. 3, Sch. 6, p. 2, line 11, column E and M). My recommendation will move the relative rate of return for the GSS class to 0.00 and the STLT class to -0.73, keeping the increases for these classes approximately 38% or just below twice the system average of 19.7% (I&E Sch. 7, p 2, line 14, columns E and M). Then I allocated this $2,853,000 of additional revenue to reduce the increases proposed for GSL and H classes because

under proposed rates, the relative rate of return for these classes are 2.38 and 2.96 respectively (I&E Ex. No. 3, Sch. 6, p. 2, line 11, columns G and K).

Q. PLEASE DESCRIBE THE REVENUE REALLOCATION THAT YOU RECOMMEND IN THE WEST PENN RATE DISTRICT.

A. I recommend that the proposed revenue for the GSS class be increased by $1,813,000 and the STLT class be increased by $1,198,000. These recommendations increase proposed revenue by $3,011,000 ($1,813,000 + $1,198,000). To offset the $3,011,000, I reduced the proposed revenue increase going to the GSL class by $2,100,000, the PP-44 class by $11,000 and the Outdoor Lighting (POL) class by $900,000 (I&E Ex. No. 3, Sch. 7, p. 4, line 6, columns E, G, I, K and L).

Q. WHAT IS YOUR BASIS FOR RECOMMENDING AN ADDITIONAL $3,011,000 SHIFTED TO THE GSS AND STLT CLASSES FROM THE GSL, PP-44, AND POL CLASSES IN THE WEST PENN RATE DISTRICT?

A. The Company's COSS indicates that under the Company's proposed rates, the relative rate of return for the GSS class will be -0.13 and the relative rate of return for the STLT class will be -0.22 under proposed rates (I&E Ex. No. 3, Sch. 6, p. 4, columns E and L). My recommendation will move the relative rate of return for the GSS and STLT classes to 0.00, keeping the increase to these classes to 44.2% and 48.2% respectively, which are below twice the system average increase of 27.1%

(I&E Ex. No. 3, Sch. 7, p. 4, columns E and L). Then I allocated this $3,011,000 of additional revenue to reduce the proposed increase for the GSL, PP-44 and POL classes because under proposed rates, the relative rate of returns are 2.42, 4.08 and 3.03 respectively (I&E Ex. No. 3, Sch. 6, p. 4, line 11, columns G, I and K).

SCALE BACK OF RATES

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE MET-ED RATE DISTRICT?

A. I recommend that the first $28,418,000 reduction be applied as shown on I&E Ex. No. 3, Sch. 7, p. 1, line 6. After these reductions, revenue should be reduced proportionally to the percentage increases on I&E Ex. No. 3, Sch. 7, p. 1, line 14, except for the GSS, GSM, and Transmission Power (TP), Borderline, Municipal Service (MS), and Outdoor Lighting (POL) classes.

Q. WHY DO YOU RECOMMEND THIS TARGETED SCALE BACK?

A. The first $28,418,000 reduction is proposed to reduce the proposed relative rate of return for the GSM class to 1.23 and reduce the relative rate of return for the GSL, GP, and STLT classes to 1.02, reduce the relative rate of return for the Transmission Power (TP) to 2.09, and reduce the relative rate of return for the Municipal Service (MS) to 2.22 (I&E Ex. No. 3, Sch. 7, p. 1, line 12, columns E-I and K-M). The increase for the GSM, TP and MS classes has been eliminated, therefore the present rates should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 1, line 13, columns F, I

and K). The relative rate of return for the GSS, Borderline and POL classes are below 1.00, therefore, the proposed rates in these classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 1, line 12, columns E, J and L).

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE PENELEC RATE DISTRICT?

A. I recommend that the first $25,832,000 reduction be applied as shown I&E Ex. No. 3, Sch. 7, p. 2, line 7. After these reductions, revenue should be reduced proportionally to the percentage increases on I&E Ex. No. 3, Sch. 7, p. 2, line 15, except for the GSS, and Borderline, and Street Lighting (STLT) classes.

Q. WHY DO YOU RECOMMEND THIS TARGETED SCALE BACK?

A. The first $25,832,000 reduction is proposed to reduce the proposed relative rate of return for the GSM class to 1.40, the GSL to 1.80, the Transmission Power (TP) to 1.06 and the POL class to 1.06 (I&E Ex. No. 3, Sch. 7, p. 2, line 13, columns F-I and L-M). The increase for the GSM, GSL, H classes has been eliminated, therefore the present rates in these classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 2, line 14 columns F, G and K). The relative rate of return for the GSS, Borderline and STLT classes are below 1.00, therefore, the proposed rates in these classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 2, line 13, columns E, J and M).

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE PENN POWER RATE DISTRICT?

A. I recommend that a $3,158,000 reduction be applied as shown on I&E Ex. No. 3, Sch. 7, p. 3, line 6. After this reduction, revenue should be reduced proportionally to the percentages increase on I&E Ex. No. 3, Sch. 7, p. 3, line 14, except for the GSS, GSL, GP, TP, and STLT classes.

Q. WHY DO YOU RECOMMEND THIS TARGETED SCALE BACK?

A. The $3,158,000 reduction is proposed to reduce the proposed relative rate of return for the GSL class to 1.19, the GSM and Public or NPO Rate (NP) classes to 1.02 and reduce the relative rate of return for the Transmission Power (TP) to 32.03. This recommendation eliminates the proposed increase for the GSL and TP classes therefore, the present rates in these classes should not be scaled back any further (I&E Ex. No. 3, Sch. 7, p. 3, line 13, columns G and I). The relative rate of return for the GSS, GP, STLT classes are below 1.00, therefore, the proposed rates in the classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 3, line 12, columns E, H and L).

Q. WHAT DO YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE WEST PENN RATE DISTRICT?

A. I recommend that the first $19,500,000 reduction be applied as shown on I&E Ex.

No. 3, Sch. 7, p. 4, line 7. After these reductions, revenue should be reduced proportionally to the percentages increase on I&E Ex. No. 3, Sch. 7, p. 4, line 15, except for the GSS, and GP/TP, PP-46, and the Street Lighting (STLT) classes.

Q. WHY DO YOU RECOMMEND THIS TARGETED SCALE BACK?

A. The first $19,500,000 reduction is proposed to reduce the proposed relative rate of return for the GSM class to 1.10, the GSL class to 1.36, the PP-44 class to 2.14, and the POL classes to 1.84 (I&E Ex. No. 3, Sch. 7, p. 4, line 13, columns F, G, I and K). The increase for the GSL, PP-44, and POL classes has been eliminated, therefore the present rates in these classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 4, line 14, columns G, I, and K). The relative rates of return for the GSS, GP/TP, and PP-46 are below 1.00, therefore, the proposed rates in these classes should not be scaled back (I&E Ex. No. 3, Sch. 7, p. 4, line 13, columns E, H, and J).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

JOSEPH KUBAS

PENNSYLVANIA PUBLIC UTILITY COMMISSION
COMMONWEALTH KEYSTONE BUILDING
400 NORTH STREET
HARRISBURG, PA 17120

Education: Bachelor of Science in Civil Engineering Technology, 1985, University of Pittsburgh at Johnstown, Johnstown, PA.

Continuing Education: Legal Principles and Practices of Surveying at the University of Maryland. Economics, Accounting, 33 Credit hours of accounting at the Howard County Community College and the University of Pittsburgh at Johnstown. Managing Multiple Priorities at the Pennsylvania State University. Various PA-PUC and Utility Company Seminars.

Professional: Engineer In Training, 1985,

Exams: Uniform Certified Public Accounting Exam, 1993.

Rate School: Cost of Service - Rate Structure & Rate Design instructor at Commission's Rate School - September 2010, 2012, 2014, 2016 and 2022.

Title: **RATE CASE REVIEW SPECIALIST - ANNUITANT**

July 2023 – Present
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Duties: Provide consultation and assist the Bureau of I&E in the areas of Engineering, Revenue and Rate Structure for all fixed utility types. This includes measure of value claims, rate structure and rates, revenue annualizations, depreciation claims, fuel purchasing practices and economic analyses. The types of dockets reviewed by the Bureau of I&E included applications, formal complaints, investigations, applications, petitions and rate investigations. The review includes analyzing all pertinent supporting information such as cost of service studies, bill frequency analyses, proofs of revenue schedules, depreciation studies, water quality test results and formal complaints.

Title: **FIXED UTILITY VALUATION ENGINEER SUPERVISOR**

December 2011 – June 2023
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Duties: Duties included the areas of Engineering, Revenue and Rate Structure for all fixed utility types. During the course of formal and informal investigations personnel under my direction were responsible for reviewing and presenting recommendations regarding tariff rate schedules, tariff rules and regulations, measures of value claims, revenue annualizations, depreciation claims, fuel purchasing practices and economic analyses. The types of dockets reviewed by the Bureau of I&E included: applications, formal complaints, investigations, petitions and rate investigations. The Engineering Section was also responsible for reviewing all pertinent supporting information such as cost of service studies, bill frequency analyses, proofs of revenue, depreciation studies, water quality test results and formal complaints. Duties also included reviewing default service petitions by electric distribution companies and Act 129 Filings by the seven major electric Utilities, including energy efficiency and conservation plans and Smart Meter Plans.

Title: **RATE CASE REVIEW SPECIALIST**

December 2009 - December 2011
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement and Office of Trial Staff

Duties: These duties included the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of

establishing the I&E position in formal and informal proceedings before the Commission. Provide assistance and input to I&E employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Title: **FIXED UTILITY VALUATION ENGINEER III**

December 1999 - December 2009
Pennsylvania Public Utility Commission
Office of Trial Staff

Duties: These duties included the determination of the reasonableness of claims and proposals in the areas of plant in service, rate base, depreciation expense, cost of service, quality of service, revenues, acquisitions, purchase gas expense, rate structure, and tariff proposal submitted by Water, Sewer, Telephone, Gas and Steam Heat utilities to justify utility service rates, or alternative forms of regulation. Research, analyze, and review rate case filings, tariff filings, acquisitions and investigations. Participate in on-site inspections of utility properties to determine the used and usefulness of the plant-in service and make recommendations. Prepare interrogatories in the areas of rate base, depreciation expense, purchase gas expense, amortizations, rate structure, revenue and quality of service in order to obtain additional information regarding a utility's filing. Analyze present revenue, proposed revenue, rate structure and tariff issues. Recommend adjustments to rate base, depreciation expense, revenue, rate structure and other issues concerning fixed utilities. Prepare testimony and exhibits for the purpose of establishing the OTS position in formal and informal proceedings before the Commission. Provide assistance and input to OTS employees concerning engineering and rate structure issues including input for briefs and exceptions. Participate in Commission consultative report proceedings and collaboratives undertaken by the Commission.

Title: **FIXED UTILITY VALUATION ENGINEER II**

April 1996 - December 1999
Pennsylvania Public Utility Commission
Office of Trial Staff and Bureau of Fixed Utility Services

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Office of Trail Staff (OTS) and Bureau of Fixed Utility Services.

Title: **FIXED UTILITY VALUATION ENGINEER TRAINEE, I & II**

May 1993 - March 1996
Pennsylvania Public Utility Commission
Office of Trial Staff
Telecommunications and Water Division

Duties: Perform the duties of a Fixed Utility Valuation Engineer II in the Rate Structure/Engineering Section of the Telecommunications and Water Division of the Office of Trial Staff (OTS).

Title: **CIVIL ENGINEER**

May 1985 - January 1991
Clark Finefrock & Sackett Inc.
7135 Minstrel Way
Columbia, MD 21045

Duties: Engineering, Surveying, Computer, and Field Inspection work related to land development projects in Maryland.

Testimony Before the Pennsylvania Public Utility Commission

1.	National Utilities Inc. (Water)	R-00953416
2.	Consumer Pennsylvania Water Company - Roaring Creek Division	R-00973869
3.	Philadelphia Suburban Water Company	R-00973952
4.	Bell Atlantic - Pennsylvania Inc.	P-00971307
5.	City of Bethlehem- Bureau of Water	R-00984375
6.	Pennsylvania Telephone Association - Chapter 30 Plan	P-00981425
7.	GTE North Inc. Telephone Chapter 30 Plan	P-00981449
8.	Pennsylvania American Water Co.	R-00994638
9.	Philadelphia Suburban Water Co.	R-00994868
10.	PG Energy (Gas)	R-00005119
11.	Pennsylvania American Water - Coatesville Acquisition	A-212285-F0071
12.	T. W Phillips Gas and Oil Company	R-00005459
13.	Verizon North - Chapter 30 Plan	P-00001854
14.	Philadelphia Gas Works	R-00006042

15.	PFG Gas Inc. & Penn Fuels Gas Co.	R-00013679
16.	Pennsylvania American Water Co.	R-00016339
17.	Philadelphia Suburban Water Co.	R-00016750
18.	Philadelphia Gas Works	R-00017034
19.	PFG Gas Inc. & Penn Fuels Gas Co	R-00027389
20.	Verizon - Pennsylvania, Inc.	P-00021973
21.	Verizon - Pennsylvania, Inc.	P-00937105-F0002
22.	Pennsylvania American Water Co.	R-00027982
23.	Dominion Peoples 1307(f)	R-00038170
24.	Verizon PA / Verizon North	C-20027195
25.	National Fuel Gas Distribution, Inc.	R-00038168
26.	Aqua Pennsylvania Inc.	R-00038805
27.	Dominion Peoples 1307 (f)	R-00049153
28.	PPL Electric Utilities	R-00049255
29.	National Fuel Gas Distribution, Inc.	R-00049656
30.	City of Lancaster - Sewer	R-00049862
31.	Dominion Peoples 1307(f)	R-00050267
32.	Verizon PA / Verizon North	C-20027195
33.	PPL Gas Utilities Inc. 1307(f)	R-00050540
34.	United Telephone	A-313200-F0007
35.	Aqua Pa	R-00051030
36.	T.W. Phillips 1307(f)	R-00051134
37.	City of Dubois	R-00050671
38.	T.W. Phillips	R-00051178
39.	The Peoples Natural Gas Co. 1307(f)	R-00061301
40.	Meted/Penelec	R-00061366 and R-00061367
41.	The York Water Company	R-00061322
42.	PPL Gas Utilities Corporation	R-00061398
43.	National Fuel Gas Distribution, Inc.	R-00061493
44.	Pennsylvania American Water Co.	P-00062241
45.	Philadelphia Gas Works	R-00061931
46.	PPL Electric	R-00072155
47.	Pennsylvania-American Water Co.	R-00072229
48.	Valley Energy	R-00072349
49.	City of Bethlehem	R-00072492
50.	Aqua Pennsylvania, Inc.	R-00072711
51.	T.W. Phillips 1307(f)	R-2008-2013026
52.	Columbia Gas	R-2008-2011621
53.	The Peoples Natural Gas Co. 1307(f)	R-2008-2022206
54.	PECO Energy	P-2008-2032333
55.	NRG Energy Center Harrisburg	R-2008-2028395
56.	PAWC - Coatesville Wastewater	R-2008-2032689

57.	York Water	R-2008-2023067
58.	Pike County Power and Light (Gas)	R-2008-2046520
59.	Columbia Water	R-2008-2045157
60.	T. W. Phillips Gas (1307-f)	R-2008-2075250
61.	The Peoples Natural Gas Co. (1307-f)	R-2009-2088069
62.	UGI Utilities Inc. (1307-f)	R-2009-2105911
63.	PAWC Water	R-2009-2097323
64.	UGI Utilities Inc.	R-2009-2105911
65.	Penn Estates Water	R-2009-2117532
66.	Penn Estates Sewer	R-2009-2117740
67.	AT&T Communications	C-2009-2098380
68.	Aqua Pennsylvania Inc.	R-2009-2132019
69.	T.W. Phillips Gas (1307-f)	R-2009-2145441
70.	PGW Gas	R-2009-2139884
71.	City of Bethlehem - Remand	R-00072492
72.	Dominion Peoples (1307-f)	R-2010-2155608
73.	PECO Energy - Gas Division	R-2010-2161592
74.	UGI Penn National Gas	R-2010-2172928
75.	PAWC Coatesville Operations	R-2010-2166212
76.	PAWC Northeast Operations	R-2010-2166214
77.	Duquesne Light	R-2010-2179522
78.	Peoples Natural Gas Company	R-2010-2201702
79.	T.W. Phillips - Steel River Application	A-2010-2210326
80.	Peoples Natural Gas 1307(f)	R-2011-2228694
81.	UGI Penn Natural Gas 1307(f)	R-2011-2238943
82	Pennsylvania American Water	R-2011-2232243
83.	Aqua Pennsylvania, Inc.	R-2011-2267958
84.	Borough of Quakertown	R-2011-2251181
85.	Peoples Natural Gas Company	R-2012-2285985
86.	Columbia Gas of Pennsylvania	R-2012-2321748
87.	UGI Utilities Inc.	R-2015-2518438
88.	Aqua Wastewater	A-2017-2605434
89.	Pennsylvania American Water	R-2017-2595853
90.	UGI Electric	R-2017-2640058
91.	PECO Electric	R-2018-3000164
92.	York Water Company	R-2018-3000019
93.	Penn Power	P-2019-3012628
94.	Aqua-PA -New Garden Twp	A-2019-2580061
95.	UGI Gas	R-2019-3015162
96.	Pittsburgh Water and Sewer Auth.	P-2020-3019019
97.	PAWC Wastewater	R-2020-3019371
98.	Aqua PA Wastewater	R-2021-3027386

99.	PECO Electric	R-2021-3024601
100.	Borough of Ambler	R-2022-3031704
101.	PAWC – Borough of Brentwood	A-2022-3024058
102.	PAWC – Wastewater	R-2023-3043190

I&E Exhibit No. 3
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibits to Accompany
the
Direct Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:
Other Revenue,
Proposed Revenue,
Rate Structure, Cost of Service Studies,
Scaleback of Rates,
Rate Base,
Amortization Expense.

	Met-Ed Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	Municipal Service MS	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Basic Customer Costs												
	Plant												
1	(364) Poles, Towers & Fixtures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	(365) Overhead Conductors & Devices	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	(366) Underground Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	(367) Underground Conductors & Device	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	(368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	(369) Services	$201,488	$177,591	$85	$13,932	$9,219	$135	$10	$1	$23	$19	$267	$206
7	(370) Meters	$150,008	$118,465	$135	$11,058	$15,104	$644	$4,522	$0	$36	$46	$0	$0
8	(371) Customer Premises	$4,862	$0	$0	$0	$0	$0	$0	$0	$0	$0	$4,862	$0
9	(372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
10	(373) Streetlight	$20,970	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$20,970
11	Total Customer-Related Plant	$377,328	$296,055	$220	$24,990	$24,323	$780	$4,531	$1	$59	$64	$5,129	$21,176
	Accumulated Depreciation												
12	(108-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	(108-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	(108-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	(108-367) UG Cond & Dev	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	(108-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	(108-369) Services	-$100,256	-$88,365	-$43	-$6,932	-$4,587	-$67	-$5	$0	-$11	-$9	-$133	-$103
18	(108-370) Meters	-$61,213	-$48,341	-$55	-$4,512	-$6,163	-$263	-$1,845	$0	-$15	-$19	$0	$0
19	(108-371) Install on Cust Premise	-$3,349	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$3,349	$0
20	(108-372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
21	(108-373) Street Lighting	-$6,249	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$6,249
22	Total Accumulated Depreciation	-$171,067	-$136,706	-$97	-$11,445	-$10,750	-$330	-$1,850	$0	-$26	-$28	-$3,482	-$6,352
	Net income before taxes & interest												
23	Net Plant	$206,261	$159,349	$123	$13,546	$13,572	$449	$2,681	$0	$33	$36	$1,647	$14,824
24	Net Income after taxes	$16,893	$13,051	$10	$1,109	$1,112	$37	$220	$0	$3	$3	$135	$1,214
25	Add: Income Taxes	$3,751	$2,898	$2	$246	$247	$8	$49	$0	$1	$1	$30	$270
26	Net income before taxes & interest	$20,644	$15,948	$12	$1,356	$1,358	$45	$268	$0	$3	$4	$165	$1,484

	Met-Ed Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	Municipal Service MS	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	O&M Expenses												
27	(580) Operation Supervision & Engineering	$868	$703	$1	$61	$66	$2	$32	$1	$0	$0	$0	$0
28	(581) Load Dispatching	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
29	(582) Station Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
30	(583) Overhead line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
31	(584) Underground line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
32	(586) Meter expenses	$775	$612	$1	$57	$78	$3	$23	$0	$0	$0	$0	$0
33	(588) Miscellaneous distribution expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
34	(589) Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
35	(590) Maintenance Supervision and Engineering	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
36	(591) Maintenance of Structures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
37	(592) Maintenance of Station Equipment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
38	(593) Maintenance of Overhead Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
39	(594) Maintenance of underground lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
40	(595) Maintenance of line transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
41	(596) Maintenance of street lighting and signal systems	$385	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$385
42	(597) Maintenance of meters	$2,318	$1,831	$2	$171	$233	$10	$70	$0	$1	$1	$0	$0
43	(598) Maintenance of miscellaneous distribution plant	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
44	(901) Supervision	$27	$24	$0	$2	$1	$0	$0	$0	$0	$0	$0	$0
45	(902) Meter Reading Expenses	$281	$248	$0	$19	$12	$0	$0	$0	$0	$0	$0	$0
46	(903) Collections & Records	$11,027	$9,926	$4	$645	$412	$6	$9	$1	$1	$1	$12	$10
47	(904) Uncollectables	$1,439	$1,277	$0	$27	$30	$30	$76	$0	$0	$0	$0	$0
48	(905) Misc. Customer Accounts	$363	$320	$0	$25	$16	$0	$0	$0	$0	$0	$0	$0
49	Total Customer Accounts and Services	$13,138	$11,796	$4	$718	$471	$36	$86	$1	$1	$1	$13	$10
50	Total Customer Information	$9,047	$7,824	$4	$717	$458	$7	$10	$1	$1	$1	$14	$11
51	Total Sales	$72	$63	$0	$5	$3	$0	$0	$0	$0	$0	$0	$0
52	Total O&M	$26,603	$22,830	$12	$1,729	$1,310	$59	$221	$2	$3	$3	$27	$406
	Depreciation Expense												
53	(403-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
54	(403-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
55	(403-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
56	(403-367) UG Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
57	(403-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
58	(403-369) Services	$4,022	$3,545	$2	$278	$184	$3	$0	$0	$0	$0	$5	$4
59	(403-370) Meters	$11,938	$9,428	$11	$880	$1,202	$51	$360	$0	$3	$4	$0	$0
60	(403-371) Install on Cust Premise	$80	$0	$0	$0	$0	$0	$0	$0	$0	$0	$80	$0
61	(403-372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
62	(403-373) Streetlight	$1,046	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,046
63	Total Depreciation Expense	$17,086	$12,973	$12	$1,158	$1,386	$54	$360	$0	$3	$4	$85	$1,050
64	LESS: Miscellaneus Revenue	-$1,027	-$700	$0	-$86	-$80	-$26	-$106	-$30	$0	$0	$0	$0
65	Basic customer-related costs	$63,305	$51,051	$37	$4,157	$3,974	$132	$744	-$28	$10	$11	$277	$2,940
66	Number of customers	595,801	525,508	252	41,202	26,308	399	582	33	70	55	783	610
67	**Monthly basic cost per customer**	**$8.85**	**$8.10**	**$12.17**	**$8.41**	**$12.59**	**$27.65**	**$106.56**	**-$71.88**	**$11.92**	**$16.13**	**$29.52**	**$401.67**
68	SUB Calculations												
69	Present Rate - Forfeited Discount Revenue	$4,200	$3,454	$1	$144	$417	$26	$107	$30	$0	$0	$14	$7
70	Additional Forfeited Discount Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
71	Proposed Rates - Forfeited Discount Revenue	$4,200	$3,454	$1	$144	$417	$26	$107	$30	$0	$0	$14	$7
72	Customer Charge Portion	21.72%	20.26%	14.65%	59.73%	19.20%	98.67%	98.73%	98.28%	0.00%	13.24%		
73	Miscelleous Revneue Offset to Customer Costs	$4,200	$700	$0	$86	$80	$26	$106	$30	$0	$0		

Met-Ed Rate District
Customer Charge and Cost Comparison
Test Period 12 Months Ended December 2025
Docket R-2024-3047068

	CLASS	Present	COMPANY Increase	Proposed	I&E Cost	I&E Increase	I&E Proposed	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Customer Charges							
1	Residential - R	$11.25	$3.25	$14.50	$8.10	$0.00	$11.25	0.0%
2	General Service Volunteer - GSV	$11.25	$3.25	$14.50	$12.17	$0.00	$11.25	0.0%
3	General Service Small GSS	$21.88	$7.69	$29.57	$8.41	$0.00	$21.88	0.0%
4	General Service Medium - Single GSM	$24.07	$5.98	$30.05	$12.59	$0.00	$24.07	0.0%
5	General Service Medium - Three GSM	$43.03	$10.69	$53.72	$12.59	$0.00	$43.03	0.0%
5	General Service Large - GSL	$270.09	$69.09	$339.18	$27.65	$0.00	$270.09	0.0%
6	General Service - GP	$951.53	$253.96	$1,205.49	$106.56	$0.00	$951.53	0.0%
7	Transmission Power	$5,290.68	$1,209.28	$6,499.96	-$71.88	$0.00	$5,290.68	0.0%
8	Schedule MS	$32.23	$0.00	$32.23	$16.13	$0.00	$32.23	0.0%
	Demand Charges (I&E Cost Included Above)							
9	General Service Volunteer - GSV	$2.72	$0.79	$3.51	$0.00	$0.00	$2.72	0.0%
	Customer and Demand Per Bill							
10	General Service Volunteer - GSV	$27.78	$8.05	$35.83	$12.17	$0.00	$27.78	0.0%

Penelec Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025		Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	All-Electric SCH Rate H	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Basic Customer Costs												
	Plant												
1	(364) Poles, Towers & Fixtures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	(365) Overhead Conductors & Devices	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	(366) Underground Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	(367) Underground Conductors & Device	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	(368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	(369) Services	$143,210	$121,758	$152	$12,974	$7,528	$104	$8	$0	$1	$35	$476	$175
7	(370) Meters	$151,548	$113,272	$243	$14,136	$16,405	$624	$5,195	$1,566	$8	$101	$0	$0
8	(371) Customer Premises	$28,503	$0	$0	$0	$0	$0	$0	$0	$0	$0	$28,503	$0
9	(372) Leased Property Cust. Prem.	$195	$0	$0	$0	$0	$0	$0	$0	$0	$0	$195	$0
10	(373) Streetlight	$51,507	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$51,507
11	Total Customer-Related Plant	$374,964	$235,030	$395	$27,110	$23,932	$728	$5,202	$1,566	$9	$135	$29,175	$51,682
	Accumulated Depreciation												
12	(108-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	(108-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	(108-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	(108-367) UG Cond & Dev	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	(108-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	(108-369) Services	-$60,076	-$51,077	-$64	-$5,442	-$3,158	-$44	-$3	$0	-$1	-$15	-$200	-$73
18	(108-370) Meters	-$63,032	-$47,112	-$101	-$5,879	-$6,823	-$259	-$2,160	-$651	-$3	-$42	$0	$0
19	(108-371) Install on Cust Premise	-$22,923	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$22,923	$0
20	(108-372) Leased Property Cust. Prem.	-$193	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$193	$0
21	(108-373) Street Lighting	-$13,504	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$13,504
22	Total Accumulated Depreciation	-$159,728	-$98,189	-$165	-$11,322	-$9,981	-$303	-$2,164	-$651	-$4	-$56	-$23,316	-$13,577
	Net income before taxes & interest												
23	Net Plant	$215,236	$136,841	$230	$15,788	$13,952	$425	$3,038	$914	$6	$79	$5,859	$38,104
24	Net Income after taxes	$17,628	$11,207	$19	$1,293	$1,143	$35	$249	$75	$0	$6	$480	$3,121
25	Add: Income Taxes	$3,813	$2,424	$4	$280	$247	$8	$54	$16	$0	$1	$104	$675
26	Net income before taxes & interest	$21,441	$13,631	$23	$1,573	$1,390	$42	$303	$91	$1	$8	$584	$3,796

	Penelec Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	All-Electric SCH Rate H	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	O&M Expenses												
27	(580) Operation Supervision & Engineering	$1,659	$1,325	$2	$151	$127	$4	$37	$9	$0	$1	$3	$1
28	(581) Load Dispatching	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
29	(582) Station Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
30	(583) Overhead line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
31	(584) Underground line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
32	(586) Meter expenses	$1,138	$851	$2	$106	$123	$5	$39	$12	$0	$1	$0	$0
33	(588) Miscellaneous distribution expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
34	(589) Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
35	(590) Maintenance Supervision and Engineering	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
36	(591) Maintenance of Structures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
37	(592) Maintenance of Station Equipment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
38	(593) Maintenance of Overhead Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
39	(594) Maintenance of underground lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
40	(595) Maintenance of line transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
41	(596) Maintenance of street lighting and signal systems	$1,256	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$1,256
42	(597) Maintenance of meters	$3,256	$2,434	$5	$304	$352	$13	$112	$34	$0	$2	$0	$0
43	(598) Maintenance of miscellaneous distribution plant	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
44	(901) Supervision	$27	$24	$0	$2	$1	$0	$0	$0	$0	$0	$0	$0
45	(902) Meter Reading Expenses	$375	$319	$0	$34	$20	$0	$0	$0	$0	$0	$1	$0
46	(903) Collections & Records	$10,206	$8,893	$9	$790	$458	$6	$7	$1	$0	$2	$29	$11
47	(904) Uncollectables	$1,863	$1,526	$0	$32	$180	$35	$90	$0	$0	$0	$0	$0
48	(905) Misc. Customer Accounts	$1,508	$1,281	$2	$137	$79	$1	$1	$0	$0	$0	$5	$2
49	Total Customer Accounts and Services	$13,980	$12,042	$12	$995	$738	$43	$98	$1	$0	$3	$35	$13
50	Total Customer Information	$8,018	$6,615	$10	$844	$489	$7	$7	$1	$0	$2	$31	$11
51	Total Sales	$81	$69	$0	$7	$4	$0	$0	$0	$0	$0	$0	$0
52	Total O&M	$29,388	$23,335	$31	$2,407	$1,834	$72	$293	$56	$1	$8	$69	$1,281
	Depreciation Expense												
53	(403-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
54	(403-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
55	(403-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
56	(403-367) UG Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
57	(403-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
58	(403-369) Services	$2,463	$2,094	$3	$223	$129	$2	$0	$0	$0	$1	$8	$3
59	(403-370) Meters	$12,116	$9,056	$19	$1,130	$1,312	$50	$415	$125	$1	$8	$0	$0
60	(403-371) Install on Cust Premise	$392	$0	$0	$0	$0	$0	$0	$0	$0	$0	$392	$0
61	(403-372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
62	(403-373) Streetlight	$3,767	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,767
63	Total Depreciation Expense	$18,738	$11,150	$22	$1,353	$1,441	$52	$415	$125	$1	$9	$400	$3,770
64	LESS: Miscellaneus Revenue	-$1,571	-$766	-$1	-$126	-$551	-$28	-$68	-$31	$0	$0	$0	$0
65	Basic customer-related costs	$67,996	$47,351	$75	$5,208	$4,114	$137	$943	$241	$2	$25	$1,053	$8,847
66	Number of customers	$584,383	$496,418	$622	$52,935	$30,681	$424	$450	$61	$10	$140	$1,928	$713
67	**Monthly basic cost per customer**	**$9.70**	**$7.95**	**$10.07**	**$8.20**	**$11.17**	**$26.95**	**$174.48**	**$330.39**	**$16.61**	**$14.84**	**$45.52**	**$1,034.03**
68	SUB Calculations												
69	Present Rate - Forfeited Discount Revenue	$4,644	$3,689	$4	$207	$551	$28	$68	$32	$0	$0	$61	$4
70	Additional Forfeited Discount Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
71	Proposed Rates - Forfeited Discount Revenue	$4,644	$3,689	$4	$207	$551	$28	$68	$32	$0	$0	$61	$4
72	Customer Charge Portion	24.1%	20.77%	15.58%	60.86%	100.00%	100.00%	100.00%	99.57%		6.97%		
73	Miscelleous Revneue Offset to Customer Costs	$4,644	$766	$1	$126	$551	$28	$68	$31	$0	$0		
74	Corrected Uncollectible Allocation	100.000%	95.07%	0.02%	0.69%	2.33%	0.46%	1.16%	0.00%	0.00%	0.01%	0.02%	0.25%
75	(From Met Ed COSS)												

Penelec Rate District

Customer Charge and Cost Comparison

Test Period 12 Months Ended December 2025

Docket R-2024-3047068

	CLASS	Present	COMPANY Increase	Proposed	I&E Cost	I&E Increase	I&E Proposed	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Customer Charges							
1	Residential - R	$11.25	$3.25	$14.50	$7.95	$0.00	$11.25	0.0%
2	General Service Volunteer - GSV	$11.25	$3.25	$14.50	$10.07	$0.00	$11.25	0.0%
3	General Service Small GSS	$18.33	$6.71	$25.04	$8.20	$0.00	$18.33	0.0%
4	General Service Medium - Single GSM	$19.58	$4.34	$23.92	$11.17	$0.00	$19.58	0.0%
5	General Service Medium - Three GSM	$39.38	$8.73	$48.11	$11.17	$0.00	$39.38	0.0%
5	General Service Large - GSL	$204.79	$43.33	$248.12	$26.95	$0.00	$204.79	0.0%
6	General Service - GP	$996.52	$249.67	$1,246.19	$174.48	$0.00	$996.52	0.0%
7	Transmission Power	$3,413.98	$832.84	$4,246.82	$330.39	$0.00	$3,413.98	0.0%
8	Schedule H	$35.13	$0.00	$35.13	$14.84	$0.00	$35.13	0.0%

	Penn Power Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Public or NPO Rate PNP	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
	Basic Customer Costs											
	Plant											
1	(364) Poles, Towers & Fixtures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	(365) Overhead Conductors & Devices	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	(366) Underground Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	(367) Underground Conductors & Device	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	(368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	(369) Services	$48,938	$42,873	$22	$3,264	$2,489	$40	$1	$0	$25	$201	$23
7	(370) Meters	$53,590	$41,147	$32	$3,966	$5,557	$195	$886	$1,764	$44	$0	$0
8	(371) Customer Premises	$4,092	$0	$0	$0	$0	$0	$0	$0	$0	$4,092	$0
9	(372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
10	(373) Streetlight	$9,201	$0	$0	$0	$0	$0	$0	$0	$0	$0	$9,201
11	Total Customer-Related Plant	$115,821	$84,020	$54	$7,229	$8,046	$235	$887	$1,764	$69	$4,293	$9,224
	Accumulated Depreciation											
12	(108-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	(108-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	(108-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	(108-367) UG Cond & Dev	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	(108-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	(108-369) Services	-$24,562	-$21,518	-$11	-$1,638	-$1,249	-$20	$0	$0	-$13	-$101	-$12
18	(108-370) Meters	-$26,138	-$20,068	-$16	-$1,934	-$2,710	-$95	-$432	-$860	-$21	$0	$0
19	(108-371) Install on Cust Premise	-$3,061	$0	$0	$0	$0	$0	$0	$0	$0	-$3,061	$0
20	(108-372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
21	(108-373) Street Lighting	-$3,706	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$3,706
22	Total Accumulated Depreciation	-$57,466	-$41,587	-$27	-$3,572	-$3,960	-$115	-$433	-$860	-$34	-$3,162	-$3,717
	Net income before taxes & interest											
23	Net Plant	$58,355	$42,433	$27	$3,657	$4,087	$120	$454	$904	$35	$1,132	$5,507
24	Net Income after taxes	$4,779	$3,475	$2	$300	$335	$10	$37	$74	$3	$93	$451
25	Add: Income Taxes	$996	$724	$0	$62	$70	$2	$8	$15	$1	$19	$94
26	Net income before taxes & interest	$5,775	$4,200	$3	$362	$404	$12	$45	$89	$3	$112	$545

	Penn Power Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Public or NPO Rate PNP	Outdoor Lighting POL	Street Lighting Service STLT	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	O&M Expenses												
27	(580) Operation Supervision & Engineering	$757	$646	$0	$50	$41	$1	$13	$2	$0	$3	$0	
28	(581) Load Dispatching	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
29	(582) Station Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
30	(583) Overhead line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
31	(584) Underground line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
32	(586) Meter expenses	$66	$51	$0	$5	$7	$0	$1	$2	$0	$0	$0	
33	(588) Miscellaneous distribution expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
34	(589) Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
35	(590) Maintenance Supervision and Engineering	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
36	(591) Maintenance of Structures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
37	(592) Maintenance of Station Equipment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
38	(593) Maintenance of Overhead Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
39	(594) Maintenance of underground lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
40	(595) Maintenance of line transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
41	(596) Maintenance of street lighting and signal systems	$58	$0	$0	$0	$0	$0	$0	$0	$0	$0	$58	
42	(597) Maintenance of meters	$598	$459	$0	$44	$62	$2	$10	$20	$0	$0	$0	
43	(598) Maintenance of miscellaneous distribution plant	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
44	(901) Supervision	$8	$7	$0	$0	$0	$0	$0	$0	$0	$0	$0	
45	(902) Meter Reading Expenses	$166	$145	$0	$11	$8	$0	$0	$0	$0	$1	$0	
46	(903) Collections & Records	$2,802	$2,499	$1	$161	$124	$2	$2	$1	$1	$10	$1	
47	(904) Uncollectables	$392	$279	$0	$20	$53	$16	$18	$0	$0	$2	$4	
48	(905) Misc. Customer Accounts	$113	$99	$0	$8	$6	$0	$0	$0	$0	$0	$0	
49	Total Customer Accounts and Services	$3,481	$3,030	$2	$200	$191	$19	$20	$1	$2	$13	$5	
50	Total Customer Information	$2,259	$1,936	$1	$172	$132	$2	$2	$1	$1	$11	$1	
51	Total Sales	$22	$20	$0	$1	$1	$0	$0	$0	$0	$0	$0	
52	Total O&M	$7,241	$6,141	$3	$473	$435	$24	$45	$25	$4	$27	$64	
	Depreciation Expense												
53	(403-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
54	(403-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
55	(403-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
56	(403-367) UG Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
57	(403-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
58	(403-369) Services	$619	$542	$0	$41	$31	$1	$0	$0	$0	$3	$0	
59	(403-370) Meters	$3,994	$3,067	$2	$296	$414	$15	$66	$131	$3	$0	$0	
60	(403-371) Install on Cust Premise	$72	$0	$0	$0	$0	$0	$0	$0	$0	$72	$0	
61	(403-372) Leased Property Cust. Prem.	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
62	(403-373) Streetlight	$548	$0	$0	$0	$0	$0	$0	$0	$0	$0	$548	
63	Total Depreciation Expense	$5,233	$3,609	$3	$337	$446	$15	$66	$131	$4	$74	$548	
64	LESS: Miscellaneus Revenue	-$433	-$204	$0	-$38	-$122	-$9	-$21	-$40	$0	$0	$0	
65	Basic customer-related costs	$18,250	$13,950	$9	$1,172	$1,285	$51	$156	$246	$11	$213	$1,157	
66	Number of customers	$173,652	$152,010	$78	$11,535	$8,839	$144	$126	$45	$88	$705	$82	
67	**Monthly basic cost per customer**	**$8.76**	**$7.65**	**$9.53**	**$8.46**	**$12.12**	**$29.47**	**$103.70**	**$450.40**	**$10.43**	**$25.16**	**$1,176.16**	
68	SUB Calculations												
69	Present Rate - Forfeited Discount Revenue	$1,320	$1,009	$1	$62	$167	$9	$22	$42	$0	$9	$0	
70	Additional Forfeited Discount Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
71	Proposed Rates - Forfeited Discount Revenue	$1,320	$1,009	$1	$62	$167	$9	$22	$42	$0	$9	$0	
72	Customer Charge Portion	26.20%	20.17%	12.62%	61.61%	73.25%	95.63%	95.66%	94.73%	94.70%			
73	Miscelleous Revneue Offset to Customer Costs	$1,320	$204	$0	$38	$122	$9	$21	$40	$0	$0		

Penn Power Rate District

Customer Charge and Cost Comparison

Test Period 12 Months Ended December 2025

Docket R-2024-3047068

	CLASS	COMPANY Present	COMPANY Increase	COMPANY Proposed	I&E Cost	I&E Increase	I&E Proposed	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Customer Charges							
1	Residential - R	$11.00	$3.50	$14.50	$7.65	$0.00	$11.00	0.0%
2	General Service Volunteer - GSV	$11.00	$3.50	$14.50	$9.53	$0.00	$11.00	0.0%
3	General Service Small GSS	$24.89	$11.65	$36.54	$8.46	$0.00	$24.89	0.0%
4	General Service Medium - Single GSM	$26.87	$11.30	$38.17	$12.12	$0.00	$26.87	0.0%
5	General Service Large - GSL	$130.07	$48.48	$178.55	$29.47	$0.00	$130.07	0.0%
6	General Service - GP	$114.35	$52.26	$166.61	$103.70	$0.00	$114.35	0.0%
7	Transmission Power	$324.29	$97.33	$421.62	$450.40	$0.00	$324.29	0.0%
8	Schedule PNP	$15.56	$0.00	$15.56	$10.43	$0.00	$15.56	0.0%
9	Rider L	$50.00	$20.58	$70.58	Not Provided	$0.00	$50.00	0.0%

	West Penn Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power /Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	Basic Customer Costs												
	Plant												
1	(364) Poles, Towers & Fixtures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	(365) Overhead Conductors & Devices	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
3	(366) Underground Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	(367) Underground Conductors & Device	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
5	(368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
6	(369) Services	$149,237	$128,050	$125	$12,522	$7,450	$140	$1	$0	$0	$834	$115	$0
7	(370) Meters	$216,452	$166,080	$286	$18,852	$24,782	$2,739	$3,437	$113	$98	$0	$0	$65
8	(371) Customer Premises	$10,039	$0	$0	$0	$0	$0	$0	$0	$0	$10,039	$0	$0
9	(372) Leased Property Cust. Prem.	$298	$0	$0	$0	$0	$0	$0	$0	$0	$298	$0	$0
10	(373) Streetlight	$54,120	$0	$0	$0	$0	$0	$0	$0	$0	$0	$54,120	$0
11	Total Customer-Related Plant	$430,147	$294,130	$411	$31,374	$32,233	$2,879	$3,438	$113	$98	$11,172	$54,235	$65
	Accumulated Depreciation												
12	(108-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
13	(108-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
14	(108-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
15	(108-367) UG Cond & Dev	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
16	(108-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
17	(108-369) Services	-$64,968	-$55,744	-$54	-$5,451	-$3,243	-$61	-$1	$0	$0	-$363	-$50	$0
18	(108-370) Meters	-$91,102	-$69,901	-$120	-$7,934	-$10,430	-$1,153	-$1,447	-$47	-$41	$0	$0	-$27
19	(108-371) Install on Cust Premise	-$6,460	$0	$0	$0	$0	$0	$0	$0	$0	-$6,460	$0	$0
20	(108-372) Leased Property Cust. Prem.	-$280	$0	$0	$0	$0	$0	$0	$0	$0	-$280	$0	$0
21	(108-373) Street Lighting	-$10,529	$0	$0	$0	$0	$0	$0	$0	$0	$0	-$10,529	$0
22	Total Accumulated Depreciation	-$173,338	-$125,645	-$175	-$13,386	-$13,674	-$1,214	-$1,447	-$47	-$41	-$7,103	-$10,579	-$27
	Net income before taxes & interest												
23	Net Plant	$256,809	$168,485	$236	$17,988	$18,559	$1,665	$1,991	$65	$57	$4,069	$43,656	$38
24	Net Income after taxes	$21,033	$13,799	$19	$1,473	$1,520	$136	$163	$5	$5	$333	$3,575	$3
25	Add: Income Taxes	$5,024	$3,296	$5	$352	$363	$33	$39	$1	$1	$80	$854	$1
26	Net income before taxes & interest	$26,056	$17,095	$24	$1,825	$1,883	$169	$202	$7	$6	$413	$4,429	$4

	West Penn Rate District Customer Charge Analysis Test Period 12 Months Ended December 2025	Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power / Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
	O&M Expenses												
27	(580) Operation Supervision & Engineering	$940	$763	$1	$79	$77	$9	$7	$0	$0	$3	$0	$0
28	(581) Load Dispatching	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
29	(582) Station Expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
30	(583) Overhead line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
31	(584) Underground line expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
32	(586) Meter expenses	$1,165	$894	$2	$101	$133	$15	$19	$1	$1	$0	$0	$0
33	(588) Miscellaneous distribution expenses	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
34	(589) Rents	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
35	(590) Maintenance Supervision and Engineering	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
36	(591) Maintenance of Structures	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
37	(592) Maintenance of Station Equipment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
38	(593) Maintenance of Overhead Lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
39	(594) Maintenance of underground lines	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
40	(595) Maintenance of line transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
41	(596) Maintenance of street lighting and signal syste	$656	$0	$0	$0	$0	$0	$0	$0	$0	$0	$656	$0
42	(597) Maintenance of meters	$2,492	$1,912	$3	$217	$285	$32	$40	$1	$1	$0	$0	$1
43	(598) Maintenance of miscellaneous distribution plar	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
44	(901) Supervision	$34	$30	$0	$3	$2	$0	$0	$0	$0	$0	$0	$0
45	(902) Meter Reading Expenses	$1,021	$875	$1	$86	$51	$1	$0	$0	$0	$6	$1	$0
46	(903) Collections & Records	$10,792	$9,484	$8	$770	$460	$11	$2	$0	$0	$51	$7	$0
47	(904) Uncollectables	$1,200	$892	$0	$23	$144	$76	$57	$0	$8	$0	$0	$0
48	(905) Misc. Customer Accounts	$461	$395	$0	$39	$23	$1	$0	$0	$0	$3	$0	$0
49	Total Customer Accounts and Services	$13,509	$11,676	$10	$920	$680	$89	$59	$0	$8	$59	$8	$0
50	Total Customer Information	$9,668	$8,056	$10	$949	$567	$14	$3	$0	$0	$62	$9	$0
51	Total Sales	$79	$68	$0	$7	$4	$0	$0	$0	$0	$0	$0	$0
52	Total O&M	$28,510	$23,369	$25	$2,273	$1,746	$158	$127	$2	$10	$125	$673	$1
	Depreciation Expense												
53	(403-364) Poles	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
54	(403-365) OH Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
55	(403-366) UG Conduit	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
56	(403-367) UG Conductors	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
57	(403-368) Line Transformers	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
58	(403-369) Services	$2,605	$2,235	$2	$219	$130	$2	$0	$0	$0	$15	$2	$0
59	(403-370) Meters	$16,083	$12,341	$21	$1,401	$1,841	$204	$255	$8	$7	$0	$0	$5
60	(403-371) Install on Cust Premise	$208	$0	$0	$0	$0	$0	$0	$0	$0	$208	$0	$0
61	(403-372) Leased Property Cust. Prem.	$2	$0	$0	$0	$0	$0	$0	$0	$0	$2	$0	$0
62	(403-373) Streetlight	$3,485	$0	$0	$0	$0	$0	$0	$0	$0	$0	$3,485	$0
63	Total Depreciation Expense	$22,384	$14,575	$23	$1,619	$1,971	$206	$255	$8	$7	$225	$3,487	$5
64	LESS: Miscellaneus Revenue	-$1,437	-$661	-$1	-$106	-$424	-$76	-$169	$0	$0	$0	$0	$0
65	Basic customer-related costs	$75,513	$54,378	$72	$5,612	$5,176	$458	$415	$17	$23	$763	$8,590	$10
66	Number of customers	$742,485	$636,179	$630	$62,540	$37,355	$903	$190	$1	$3	$4,112	$571	$1
67	**Monthly basic cost per customer**	**$8.48**	**$7.12**	**$9.46**	**$7.48**	**$11.55**	**$42.24**	**$181.77**	**$1,044.47**	**$707.76**	**$15.46**	**$1,253.60**	**$608.82**
68	SUB Calculations												
69	Present Rate - Forfeited Discount Revenue	$4,736	$3,590	$4	$219	$567	$77	$171	$1	$0	$104	$3	$0
70	Additional Forfeited Discount Revenue	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
71	Proposed Rates - Forfeited Discount Revenue	$4,736	$3,590	$4	$219	$567	$77	$171	$1	$0	$104	$3	$0
72	Customer Charge Portion	22.79%	18.42%	18.45%	48.26%	74.87%	98.08%	98.88%	38.94%	62.62%			99.06%
73	Miscelleous Revneue Offset to Customer Costs	$4,736	$661	$1	$106	$424	$76	$169	$0	$0			

West Penn Rate District

Customer Charge and Cost Comparison

Test Period 12 Months Ended December 2025

Docket R-2024-3047068

	CLASS	Present	COMPANY Increase	Proposed	I&E Cost	I&E Increase	I&E Proposed	Percent Increase
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	Customer Charges							
1	Residential - R	$7.44	$4.06	$11.50	$7.12	$0.00	$7.44	0.0%
2	General Service Volunteer - GSV	$7.44	$4.06	$11.50	$9.46	$0.00	$7.44	0.0%
3	General Service Small GSS	$9.52	$4.88	$14.40	$7.48	$0.00	$9.52	0.0%
4	General Service Medium - Single GSM	$18.91	$6.99	$25.90	$11.55	$0.00	$18.91	0.0%
5	General Service Large - GSL	$145.82	$50.47	$196.29	$42.24	$0.00	$145.82	0.0%
6	General Service - GP	$983.20	$416.56	$1,399.76	$181.77	$0.00	$983.20	0.0%
7	Primary Power - PP44	$4.08	$1.37	$5.45	$1,044.47	$0.00	$4.08	0.0%
8	Primary Power - PP46	$5.45	$2.35	$7.80	$707.76	$0.00	$5.45	0.0%
9	Penn State - GP	$793.00	$313.67	$1,106.67	$608.82	$0.00	$793.00	0.0%
	Demand Charges (I&E Cost Included above)							
10	Primary Power - PP44	$0.11	$0.04	$0.15	$0.00	$0.00	$0.110	0.0%
11	Primary Power - PP46	$0.52	$0.22	$0.74	$0.00	$0.00	$0.52	0.0%
	Customer and Demand Per Bill							
12	Primary Power - PP44	$785.18	$263.69	$1,048.87	$1,044.47	$0.00	$785.18	0.0%
13	Primary Power - PP46	$55,928.92	$24,077.01	$80,005.94	$707.76	$0.00	$55,928.92	0.0%

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RS, No. 11

"Reference First Energy Statement No. 7, FE-PA, TSL-2, (Met Ed), pages 36 and 37 showing the Customer Costs Analysis.

A. Describe the criteria used by the Company to include items in the Customer Charge Analysis such as if the plant is directly related to serving a customer, indirectly related to serving a customer, and/or if the item was included because its allocation in the COSS was based upon the number of customers.

B. Explain why it is appropriate to include the net plant, annual depreciation expense, return dollars and maintenance expense related to Overhead and Underground Conductors, and Devices in the customer cost analysis, that carry energy, and typically do not change with the addition or loss of a customer.

D. Explain if the Customer Cost Analysis includes uncollectible expense. If yes, how much was reflected and describe where it is reflected. If not, explain why none was reflected.

E. Explain if there is an offset to customer costs related to miscellaneous or other revenue. If yes, how much was reflected and describe where it is reflected. If not, explain why none was reflected."

RESPONSE:

This response applies to all rate districts: Met Ed, Penelec, Penn Power, and West Penn.

A. See FE PA Exhibit TSL-2, pages 36-37 for Met Ed, pages 35-36 for Penelec, pages 29-30 for Penn Power, and pages 38-39 for West Penn. The Exhibit shows two approaches to calculated monthly customer costs: fully loaded customer costs and basic customer costs.

Fully loaded customer costs reflect the portion of the revenue requirement classified as customer, as summarized on FE PA Exhibit TSL-1, pages 4-6 for all rate districts. The portion of each cost of service item classified as customer is summarized on FE PA Exhibit TSL-1, pages 7 to 29 for all rate districts.

Basic customer costs reflect the portion of the revenue requirement that varies directly with changes in the number of customers, such as meters and services plant and customer account and services expenses. Basic customer costs are summarized on FE PA Exhibit TSL-2, pages 36-37 for Met Ed, pages 35-36 for Penelec, 29-30 for Penn Power, and pages 38-39 for West Penn.

B. It is appropriate to include in the customer cost analysis net plant, annual depreciation expense, return dollars and maintenance expense related to Overhead Conductors (Account 365) and Underground Conductors (Account 367) because those distribution facilities vary with the number of customers. As noted in the National Association of Regulatory Utility Commissioners' Electric Utility Cost Allocation Manual, a widely recognized authority on electric utility rate design,

> Distribution plant Accounts 364 through 370 involve demand and customer costs. The customer component of distribution facilities is that portion of costs which varies with the number of customers. Thus, the number of poles, conductors, transformers, services, and meters are directly related to the number of customers on the utility's system.[1]

C. Yes, the customer cost analysis includes uncollectible expense within "Total Customer Accounts and Services" expenses, as shown in FE PA Exhibit TSL-2, page 37 for Met Ed, page 36 for Penelec, page 30 for Penn Power, and page 39 for West Penn. The customer cost analysis includes the full amount of uncollectible expense, as shown in FE PA Exhibit TSL-1, pages 20-21 for all rate districts.

Please note that during preparation of this response, an inadvertent formula error was discovered in allocation of uncollectible expenses for the Penelec rate district. Specifically, there was no allocation of uncollectible expenses to the Residential class. Correction to the formula results in an approximate increase in customer costs to the Residential class of $1.25 per month. No other rate districts were impacted.

D. The customer cost analysis did not include an offset related to miscellaneous or other revenues because the analysis was designed to reflect costs that vary with the number of customers.

[1] National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual* at 90 (1992) *available at* https://pubs.naruc.org/pub/53A3986F-2354-D714-51BD-23412BCFEDFD.

Met Ed Rate District
First Energy R-2024-3047068
As Filed

	Met-Ed Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	Municipal Service MS	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$78,094	$38,973	$255	($2,090)	$21,345	$4,466	$9,067	$5,244	($22)	$69	$9	$777
2	Rate Base	$2,157,612	$1,642,943	$1,201	$113,177	$199,652	$45,483	$106,192	$21,544	$436	$426	$3,471	$23,086
3	Current Rate of Return	3.62%	2.37%	21.25%	-1.85%	10.69%	9.82%	8.54%	24.34%	-4.99%	16.33%	0.27%	3.36%
4	Current Indexed Rate of Return	1.00	0.66	5.87	(0.51)	2.95	2.71	2.36	6.72	(1.38)	4.51	0.07	0.93
5	Proposed Revenues	$642,308	$475,376	$709	$24,159	$74,083	$13,904	$34,666	$9,651	$68	$201	$913	$8,579
6	Less: O&M Expenses	$426,364	$330,332	$241	$23,117	$35,719	$6,634	$19,939	$3,692	$84	$76	$726	$5,805
7	Income Before Income Taxes	$215,944	$145,044	$468	$1,042	$38,364	$7,270	$14,728	$5,959	-$16	$124	$187	$2,774
8	Income Taxes	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%
9	Net Operating Income	$176,708	$118,690	$383	$853	$31,393	$5,949	$12,052	$4,877	-$13	$102	$153	$2,270
10	Proposed Rate of Return	8.19%	7.22%	31.88%	0.75%	15.72%	13.08%	11.35%	22.64%	-3.06%	23.88%	4.42%	9.83%
11	Proposed Indexed Rate of Return	1.00	0.88	3.89	0.09	1.92	1.60	1.39	2.76	(0.37)	2.92	0.54	1.20
12	Increase	$163,408	$123,039	$142	$7,162	$17,055	$3,260	$8,301	$2,051	$23	$42	$265	$2,069
13	Percent Increase	25.4%	25.9%	20.0%	29.6%	23.0%	23.4%	23.9%	21.3%	33.8%	20.9%	29.0%	24.1%

I&E Exhibit No. 3
Schedule 6
Page 1 of 4

Penelec Rate District
First Energy R-2024-3047068
As Filed

	Penelec Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	All-Electric SCH Rate H	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$96,325	$55,505	$383	-$4,936	$28,584	$8,193	$6,220	$6,095	-$44	$393	$601	-$4,668
2	Rate Base	$2,269,068	$1,621,525	$2,693	$161,127	$241,581	$55,061	$84,854	$41,142	$535	$2,272	$9,124	$49,153
3	Current Rate of Return	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Current Indexed Rate of Retur	1.00	0.81	3.35	(0.72)	2.79	3.50	1.73	3.49	(1.92)	4.07	1.55	(2.24)
5	Proposed Revenues	$629,767	$433,934	$1,252	$27,173	$92,562	$21,698	$25,319	$11,840	$33	$1,054	$4,264	$10,638
6	Less: O&M Expenses	$403,734	$282,925	$531	$29,187	$43,157	$8,625	$15,169	$6,400	$85	$385	$2,679	$14,592
7	Income Before Income Taxes	$226,033	$151,009	$721	-$2,015	$49,405	$13,073	$10,150	$5,441	-$52	$669	$1,585	-$3,954
8	Income Taxes	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%
9	Net Operating Income	$185,837	$124,154	$593	($1,656)	$40,619	$10,748	$8,345	$4,473	($42)	$550	$1,303	($3,251)
10	Proposed Rate of Return	8.19%	7.66%	22.01%	-1.03%	16.81%	19.52%	9.83%	10.87%	-7.91%	24.21%	14.28%	-6.61%
11	Proposed Indexed Rate of Re	1.00	0.93	2.69	(0.13)	2.05	2.38	1.20	1.33	(0.97)	2.96	1.74	(0.81)
12	Increase	$150,031	104,804	250	8,186	19,555	4,347	5,758	2,654	18	203	1,004	3,254
13	Percent Increase	23.8%	24.2%	20.0%	30.1%	21.1%	20.0%	22.7%	22.4%	52.9%	19.2%	23.5%	30.6%

Penn Power Rate District
First Energy R-2024-3047068
As Filed

	Penn Power Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Public or NPO Rate PNP	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
1	Current Net Operating Income	$15,856	$8,152	$36	($505)	$3,220	$1,911	$240	$3,052	$13	$17	($282)
2	Rate Base	$644,947	$480,076	$313	$33,093	$76,648	$16,985	$27,002	$747	$413	$2,725	$6,945
3	Current Rate of Return	2.46%	1.70%	11.51%	-1.53%	4.20%	11.25%	0.89%	408.42%	3.25%	0.63%	-4.07%
4	Current Indexed Rate of Return	1.00	0.69	4.68	(0.62)	1.71	4.58	0.36	166.13	1.32	0.26	(1.65)
5	Proposed Revenues	$187,186	$141,208	$143	$7,939	$19,644	$5,649	$6,362	$3,734	$117	$847	$1,544
6	Less: O&M Expenses	$123,355	$94,965	$59	$6,761	$11,713	$2,133	$4,975	$551	$73	$608	$1,518
7	Income Before Income Taxes	$63,831	$46,244	$83	$1,178	$7,931	$3,516	$1,386	$3,183	$44	$239	$27
8	Income Taxes	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%
9	Net Operating Income	$52,821	$38,267	$69	$975	$6,563	$2,910	$1,147	$2,634	$37	$198	$22
10	Proposed Rate of Return	8.19%	7.97%	21.96%	2.95%	8.56%	17.13%	4.25%	352.43%	8.91%	7.26%	0.32%
11	Proposed Indexed Rate of Return	1.00	0.97	2.68	0.36	1.05	2.09	0.52	43.03	1.09	0.89	0.04
12	Increase	$59,555	$45,008	$40	$2,709	$6,276	$1,622	$2,113	$931	$36	$279	$541
13	Percent Increase	31.8%	31.9%	28.4%	34.1%	31.9%	28.7%	33.2%	24.9%	31.2%	32.9%	35.0%

West Penn Rate District
First Energy R-2024-3047068
As Filed

	West Penn Rate District Current and Proposed ROR	- Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power / Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$56,811	$34,725	$319	($5,497)	$14,922	$8,695	$3,679	$70	$592	$1,717	($2,683)	$270
2	Rate Base	$2,094,173	$1,520,788	$2,030	$133,474	$223,023	$66,311	$62,657	$58	$15,938	$11,955	$53,234	$4,705
3	Current Rate of Return	2.71%	2.28%	15.72%	-4.12%	6.69%	13.11%	5.87%	122.19%	3.71%	14.36%	-5.04%	5.75%
4	Current Indexed Rate of Return	1.00	0.84	5.80	(1.52)	2.47	4.83	2.16	45.04	1.37	5.29	(1.86)	2.12
5	Proposed Revenues	$614,232	$443,603	$1,095	$22,876	$78,833	$29,512	$17,305	$46	$4,201	$5,956	$9,359	$1,445
6	Less: O&M Expenses	$401,752	$288,871	$404	$24,696	$43,308	$13,221	$13,936	$22	$3,493	$2,276	$10,555	$969
7	Income Before Income Taxes	$212,480	$154,732	$691	($1,819)	$35,525	$16,292	$3,368	$24	$709	$3,679	($1,196)	$476
8	Income Taxes	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
9	Net Operating Income	$171,513	$124,899	$558	($1,468)	$28,675	$13,150	$2,719	$19	$572	$2,970	($966)	$384
10	Proposed Rate of Return	8.19%	8.21%	27.48%	-1.10%	12.86%	19.83%	4.34%	33.40%	3.59%	24.84%	-1.81%	8.17%
11	Proposed Indexed Rate of Return	1.00	1.00	3.36	(0.13)	1.57	2.42	0.53	4.08	0.44	3.03	(0.22)	1.00
12	Increase	$185,723	$134,178	$285	$8,289	$22,724	$7,959	$5,556	$13	$1,325	$1,651	$3,316	$428
13	Percent Increase	30.2%	30.2%	26.0%	36.2%	28.8%	27.0%	32.1%	27.3%	31.5%	27.7%	35.4%	29.6%

I&E Exhibit No. 3
Schedule 6
Page 4 of 4

Met Ed Rate District
First Energy R-2024-3047068
I&E Scale Back

	Met-Ed Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	Municipal Service MS	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$78,094	$38,973	$255	($2,090)	$21,345	$4,466	$9,067	$5,244	($22)	$69	$9	$777
2	Rate Base	$2,157,612	$1,642,943	$1,201	$113,177	$199,652	$45,483	$106,192	$21,544	$436	$426	$3,471	$23,086
3	Current Rate of Return	3.62%	2.37%	21.25%	-1.85%	10.69%	9.82%	8.54%	24.34%	-4.99%	16.33%	0.27%	3.36%
4	Current Indexed Rate of Retur	1.00	0.66	5.87	(0.51)	2.95	2.71	2.36	6.72	(1.38)	4.51	0.07	0.93
5	Proposed Revenues	$642,308	$475,376	$709	$24,159	$74,083	$13,904	$34,666	$9,651	$68	$201	$913	$8,579
6	**First Dollar Relief**	**-$28,418**	**$0**	**$0**	**$0**	**-$17,055**	**-$3,250**	**-$5,300**	**-$2,051**	**$0**	**-$42**	**$0**	**-$720**
7	Less: O&M Expenses	$426,364	$330,332	$241	$23,117	$35,719	$6,634	$19,939	$3,692	$84	$76	$726	$5,805
8	Income Before Income Taxes	$187,526	$145,044	$468	$1,042	$21,309	$4,020	$9,428	$3,908	-$16	$82	$187	$2,054
9	Income Taxes	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%	18.17%
10	Net Operating Income	$153,454	$118,690	$383	$853	$17,437	$3,289	$7,715	$3,198	-$13	$67	$153	$1,681
11	Proposed Rate of Return	7.11%	7.22%	31.88%	0.75%	8.73%	7.23%	7.26%	14.84%	-3.06%	15.81%	4.42%	7.28%
12	Proposed Indexed ROR	1.00	1.02	4.48	0.11	1.23	1.02	1.02	2.09	(0.43)	2.22	0.62	1.02
13	Increase	$134,990	$123,039	$142	$7,162	$0	$10	$3,001	$0	$23	($0)	$265	$1,349
14	Percent Increase	21.0%	25.9%	20.0%	29.6%	0.0%	0.1%	8.7%	0.0%	33.8%	0.0%	29.0%	15.7%

I&E Exhibit No. 3
Schedule 7
Page 1 of 4

Penelec Rate District
First Energy R-2024-3047068
I&E Reallocation and Scale Back

	Penelec Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Borderline Service BRD	All-Electric SCH Rate H	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$96,325	$55,505	$383	-$4,936	$28,584	$8,193	$6,220	$6,095	-$44	$393	$601	-$4,668
2	Rate Base	$2,269,068	$1,621,525	$2,693	$161,127	$241,581	$55,061	$84,854	$41,142	$535	$2,272	$9,124	$49,153
3	Current Rate of Return	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
4	Current Indexed Rate of Return	1.00	0.81	3.35	(0.72)	2.79	3.50	1.73	3.49	(1.92)	4.07	1.55	(2.24)
5	Proposed Revenues	$629,767	$433,934	$1,252	$27,173	$92,562	$21,698	$25,319	$11,840	$33	$1,054	$4,264	$10,638
6	**Revenue Reallocation**	**$0**	**$0**	**$0**	**$2,050**	**$0**	**-$2,650**	**$0**	**$0**	**$0**	**-$203**	**$0**	**$803**
7	**First Dollar Relief**	**-$25,832**	**$0**	**$0**	**$0**	**-$19,555**	**-$1,697**	**-$2,250**	**-$1,600**	**$0**	**$0**	**-$730**	**$0**
8	Less: O&M Expenses	$403,734	$282,925	$531	$29,187	$43,157	$8,625	$15,169	$6,400	$85	$385	$2,679	$14,592
9	Income Before Income Taxes	$603,935	$151,009	$721	$35	$29,850	$8,726	$7,900	$3,841	-$52	$466	$855	-$3,151
10	Income Taxes	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%	17.8%
11	Net Operating Income	$164,598	$124,154	$593	$29	$24,542	$7,174	$6,495	$3,158	($42)	$383	$703	($2,591)
12	Proposed Rate of Return	7.25%	7.66%	22.01%	0.02%	10.16%	13.03%	7.65%	7.67%	-7.91%	16.87%	7.70%	-5.27%
13	Proposed Indexed ROR	1.00	1.06	3.03	0.00	1.40	1.80	1.06	1.06	(1.09)	2.33	1.06	(0.73)
14	Increase	$124,199	$104,804	$250	$10,236	($0)	($0)	$3,508	$1,054	$18	($0)	$274	$4,057
15	Percent Increase	19.7%	24.2%	20.0%	37.7%	0.0%	0.0%	13.9%	8.9%	52.9%	0.0%	6.4%	38.1%

Penn Power Rate District
First Energy R-2024-3047068
I&E Scale Back

	Penn Power Rate District Current and Proposed ROR	Total Company	Residential Service R	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Service Primary GP	Transmission Power TP	Public or NPO Rate PNP	Outdoor Lighting POL	Street Lighting Service STLT
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
1	Current Net Operating Income	$15,856	$8,152	$36	($505)	$3,220	$1,911	$240	$3,052	$13	$17	($282)
2	Rate Base	$644,947	$480,076	$313	$33,093	$76,648	$16,985	$27,002	$747	$413	$2,725	$6,945
3	Current Rate of Return	2.46%	1.70%	11.51%	-1.53%	4.20%	11.25%	0.89%	408.42%	3.25%	0.63%	-4.07%
4	Current Indexed Rate of Return	1.00	0.69	4.68	(0.62)	1.71	4.58	0.36	166.13	1.32	0.26	(1.65)
5	Proposed Revenues	$187,186	$141,208	$143	$7,939	$19,644	$5,649	$6,362	$3,734	$117	$847	$1,544
6	**First Dollar Relief**	**-$3,158**	**$0**	**$0**	**$0**	**-$600**	**-$1,622**	**$0**	**-$931**	**-$5**	**$0**	**$0**
7	Less: O&M Expenses	$123,355	$94,965	$59	$6,761	$11,713	$2,133	$4,975	$551	$73	$608	$1,518
8	Income Before Income Taxes	$60,673	$46,244	$83	$1,178	$7,331	$1,894	$1,386	$2,252	$39	$239	$27
9	Income Taxes	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%
10	Net Operating Income	$50,208	$38,267	$69	$975	$6,066	$1,567	$1,147	$1,863	$33	$198	$22
11	Proposed Rate of Return	7.78%	7.97%	21.96%	2.95%	7.91%	9.23%	4.25%	249.34%	7.91%	7.26%	0.32%
12	Proposed Indexed ROR	1.00	1.02	2.82	0.38	1.02	1.19	0.55	32.03	1.02	0.93	0.04
13	Increase	$56,397	$45,008	$40	$2,709	$5,676	$0	$2,113	$0	$31	$279	$541
14	Percent Increase	30.1%	31.9%	28.4%	34.1%	28.9%	0.0%	33.2%	0.0%	26.9%	32.9%	35.0%

I&E Exhibit No. 3
Schedule 7
Page 3 of 4

West Penn Rate District
First Energy R-2024-3047068
I&E Reallocaiton and Scale Back

	West Penn Rate District Current and Proposed ROR	- Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power / Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	$56,811	$34,725	$319	($5,497)	$14,922	$8,695	$3,679	$70	$592	$1,717	($2,683)	$270
2	Rate Base	$2,094,173	$1,520,788	$2,030	$133,474	$223,023	$66,311	$62,657	$58	$15,938	$11,955	$53,234	$4,705
3	Current Rate of Return	2.71%	2.28%	15.72%	-4.12%	6.69%	13.11%	5.87%	122.19%	3.71%	14.36%	-5.04%	5.75%
4	Current Indexed Rate of Return	1.00	0.84	5.80	(1.52)	2.47	4.83	2.16	45.04	1.37	5.29	(1.86)	2.12
5	Proposed Revenues	$614,232	$443,603	$1,095	$22,876	$78,833	$29,512	$17,305	$46	$4,201	$5,956	$9,359	$1,445
6	**Revenue Reallocation**	**$0**	**$0**	**$0**	**$1,813**	**$0**	**-$2,100**	**$0**	**-$11**	**$0**	**-$900**	**$1,198**	**$0**
7	**First Dollar Relief**	**-$19,500**	**$0**	**$0**	**$0**	**-$12,888**	**-$5,859**	**$0**	**-$2**	**$0**	**-$751**	**$0**	**$0**
8	Less: O&M Expenses	$401,752	$288,871	$404	$24,696	$43,308	$13,221	$13,936	$22	$3,493	$2,276	$10,555	$969
9	Income Before Income Taxes	$192,980	$154,732	$691	($7)	$22,637	$8,333	$3,368	$11	$709	$2,028	$2	$476
10	Income Taxes	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
11	Net Operating Income	$155,772	$124,899	$558	($5)	$18,272	$6,726	$2,719	$9	$572	$1,637	$1	$384
12	Proposed Rate of Return	7.44%	8.21%	27.48%	0.00%	8.19%	10.14%	4.34%	15.88%	3.59%	13.69%	0.00%	8.17%
13	Proposed Indexed ROR	1.00	1.10	3.69	(0.00)	1.10	1.36	0.58	2.14	0.48	1.84	0.00	1.10
14	Increase	$166,223	$134,178	$285	$10,102	$9,836	$0	$5,556	$0	$1,325	$0	$4,514	$428
15	Percent Increase	27.1%	30.2%	26.0%	44.2%	12.5%	0.0%	32.1%	0.3%	31.5%	0.0%	48.2%	29.6%

I&E Statement No. 4
Witness: Christine Wilson

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Direct Testimony

of

Christine Wilson

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

RATE BASE

TABLE OF CONTENTS

INTRODUCTION **1**

SUMMARY OF RECOMMENDED ADJUSTMENTS **3**

RATE CASE EXPENSE **6**

PENSION AND OPEB EXPENSE AND RATE BASE CLAIMS **15**

PROPOSED MECHANISM TO NORMALIZE PENSION/OPEB EXPENSE **27**

ROUTINE STORM EXPENSE **33**

STORM RESERVE ACCOUNT **35**

EXTRAORDINARY STORM DEFERRALS **40**

COVID-19 REGULATORY ASSET AMORTIZATION **44**

VEGETATION MANAGEMENT EXPENSE **49**

ELECTRIC VEHICLE PILOT **51**

REFUND TO CUSTOMERS **56**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christine Wilson, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst Supervisor.

Q. WHAT IS YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND?

A. An outline of my education and employment background is set forth in the attached Appendix A.

Q. PLEASE DESCRIBE THE ROLE OF I&E IN RATE PROCEEDINGS.

A. I&E is responsible for protecting the public interest in proceedings before the Commission. I&E's analysis in the proceeding is based on its responsibility to represent the public interest. This responsibility requires the balancing of the interests of ratepayers, the regulated utility, and the regulated community as a whole.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to review the base rate filing of FirstEnergy Pennsylvania Electric Company (FirstEnergy, FE PA, or Company), including the rate-related requests for the Metropolitan Edison (Met-Ed), Pennsylvania Electric (Penelec), Pennsylvania Power (Penn Power), and West Penn Power (West Penn) Rate Districts, and make recommended adjustments to the Company's proposed operating and maintenance (O&M) expenses and rate base claims for the fully projected future test year (FPFTY) ending December 31, 2025.

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 4 contains schedules that support my direct testimony.

Q. WHAT TEST YEARS IS FIRSTENERGY USING IN THIS PROCEEDING?

A. The Company is using the year ended December 31, 2023, as the historic test year (HTY), the year ending December 31, 2024, as the future test year (FTY), and the year ending December 31, 2025, as the FPFTY in this proceeding.[1]

Q. WHAT IS THE COMPANY'S REQUESTED REVENUE INCREASE?

A. FirstEnergy is requesting an annual total revenue increase of $503,849,000 for its distribution operations of all four rate districts combined.[2]

[1] FE PA Statement No. 3, p. 2.
[2] FE PA Exhibit PML-1, p. 1.

SUMMARY OF RECOMMENDED ADJUSTMENTS

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS.

A. The following table summarizes my recommended adjustments:

Met-Ed Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Rate Case Expense	$234,000	$142,576	($91,424)
Pension Expense	$11,460,000	$4,644,000	($6,816,000)
OPEB Expense	$4,050,504	$10,686	($4,039,818)
Storm Reserve Account	$33,282,000	$0	($33,282,000)
Extraordinary Storm Deferrals	$11,191,000	$6,714,000	($4,477,000)
COVID-19 Expense	$2,108,000	$1,264,085	($843,915)
Vegetation Management Expense	$54,449,000	$25,830,000	($28,619,000)
EV Pilot	$1,924,000	$1,327,000	($597,000)
Total O&M Adjustments			**($78,766,157)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($7,844,000)	$0	$7,844,000
Unamortized Storm Reserve Account	$66,565,000	$0	($66,565,000)
Unamortized Extraordinary Storm Deferrals	$22,381,000	$0	($22,381,000)
Unamortized COVID-19 Regulatory Asset	$4,216,000	$0	($4,216,000)
Total Rate Base Adjustments			**($85,318,000)**

Penelec Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Rate Case Expense	$234,000	$142,983	($91,017)
Pension Expense	$14,672,000	$5,651,000	($9,021,000)
OPEB Expense	($6,381,898)	$16,137	$6,398,035
Storm Reserve Account	$15,093,000	$0	($15,093,000)
Extraordinary Storm Deferrals	$2,725,000	$1,635,000	($1,090,000)
COVID-19 Expense	$3,518,000	$2,110,234	($1,407,766)
Vegetation Management Expense	$59,625,000	$34,260,000	($25,365,000)
EV Pilot	$2,292,000	$1,581,000	($711,000)
Total O&M Adjustments			**($46,380,748)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	$6,057,000	$0	($6,057,000)
Storm Reserve Account	$30,186,000	$0	($30,186,000)
Extraordinary Storm Deferrals	$5,451,000	$0	($5,451,000)
Unamortized COVID-19 Regulatory Asset	$7,036,000	$0	($7,036,000)
Total Rate Base Adjustments			**($48,730,000)**

1

Penn Power Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Rate Case Expense	$77,000	$47,186	($29,814)
Pension Expense	$3,980,000	3,041,000	($939,000)
OPEB Expense	$425,792	$1,660	($424,132)
Storm Reserve Account	$6,861,000	$0	($6,861,000)
Extraordinary Storm Deferrals	$6,650,000	$3,990,000	($2,660,000)
COVID-19 Expense	$1,193,000	$715,864	($477,136)
Vegetation Management Expense	$20,627,000	$10,190,000	($10,437,000)
EV Pilot	$545,000	$376,000	($169,000)
Total O&M Adjustments			**($21,997,082)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($4,345,000)	$0	$4,345,000
Storm Reserve Account	$13,721,000	$0	($13,721,000)
Extraordinary Storm Deferrals	$13,300,000	$0	($13,300,000)
Unamortized COVID-19 Regulatory Asset	$2,387,000	$0	($2,387,000)
Total Rate Base Adjustments			**($25,063,000)**

1

West Penn Rate District	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Rate Case Expense	$288,000	$175,932	($112,068)
Pension Expense	($1,823,000)	$6,321,000	$8,144,000
OPEB Expense	$936,598	$11,211	($925,387)
Storm Reserve Account	$14,241,000	$0	($14,241,000)
Extraordinary Storm Deferrals	$7,799,000	$4,679,000	($3,120,000)
COVID-19 Expense	$3,308,000	$1,984,432	($1,323,568)
Vegetation Management Expense	$71,395,000	$42,970,000	($28,425,000)
EV Pilot	$2,719,000	$1,876,000	($843,000)
Total O&M Adjustments			**($40,846,032)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($4,030,000)	$0	$4,030,000
Storm Reserve Account	$28,483,000	$0	($28,483,000)
Extraordinary Storm Deferrals	$15,597,000	$0	($15,597,000)
Unamortized COVID-19 Regulatory Asset	$6,616,000	$0	($6,616,000)
Total Rate Base Adjustments			**($46,666,000)**

RATE CASE EXPENSE

Q. BRIEFLY DESCRIBE THE NATURE AND TYPES OF EXPENDITURES TYPICALLY ALLOWED AS A PART OF A REGULATED UTILITY'S OVERALL RATE CASE EXPENSE.

A. The nature and types of individual expenditures that comprise a utility's allowable claim for rate case expense are those directly incurred to compile, present, and defend a utility's request for a base rate increase before the Commission. The actual expenditures and estimated costs typically found in an allowable rate case

expense claim include legal fees for outside counsel, fees to outside consultants, and the cost of printing, document assembly, and postage.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED RATE CASE EXPENSE FOR RATEMAKING PURPOSES?

A. The Commission has historically stated that it considers prudently incurred rate case expense as an ongoing expense, occurring at irregular intervals, related to the rendering of utility service. The Commission has also cited the importance of considering the involved utility's history regarding the frequency of rate case filings as an essential element to determine the normalized level of rate case expense for ratemaking purposes.

Q. HOW IS THE FREQUENCY OF RATE CASE FILINGS DETERMINED?

A. The frequency is determined by calculating the average number of months between the utility's recent base rate filings.

Q. WHAT IS THE COMPANY'S CLAIM FOR RATE CASE EXPENSE?

A. The Company's total FPFTY claim for rate case expense is $833,000.[3] It is further broken down among the rate districts as follows: Met-Ed = $234,000; Penelec = $234,000; Penn Power = $77,000; and West Penn = $288,000.

[3] FE PA Exhibit PML-1, p. 49, Adjustment IS-8 – Supporting Schedule 2.

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company has estimated its total rate case expense of $2,500,000 and is requesting an amortization period of three years (36 months).[4] In response to I&E-RE-3-D, the Company states that it anticipates filing rate cases every three years going forward.[5]

Q. IN THE FILING, THE COMPANY REFERENCES ITS CLAIM AS AN AMORTIZED EXPENSE. BRIEFLY DISCUSS THE CONCEPT OF AMORTIZATION.

A. Amortization is an accounting procedure that extinguishes an atypical, nonrecurring expense over a predetermined number of years by charging to operations a pro-rata share based on the selected amortization period. An amortized expense could be claimed in succeeding rate cases if there is a remaining unamortized balance. However, when normalizing an expense, a claim for an unrecovered normalized expense would be disallowed if requested in a subsequent rate case.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED AMORTIZATION TREATMENT FOR RATE CASE EXPENSE?

A. No. Rate case expense should be normalized for ratemaking purposes.

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4 FE PA Exhibit PML-1, p. 49, Adjustment IS-8 – Supporting Schedule 2.
5 I&E Exhibit No. 4, Schedule 1, p. 1.

Q. WHAT IS NORMALIZATION?

A. Normalization is a ratemaking concept that describes the transformation of an operating expense that recurs at irregular intervals into a "normal" annual test year allowance. Normalization specifically addresses the prospective recovery of an ongoing expense that recurs sporadically. Normalized expenses are no different than any other O&M expense in that the Company is given the opportunity to achieve full recovery.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT IS YOUR RECOMMENDATION FOR RATE CASE EXPENSE?

A. I recommend that the Company's total rate case expense be normalized over a period of 59 months resulting in a FPFTY allowance of $508,677. My recommendation is further broken down for the rate districts as follows: Met-Ed = $142,576, or a reduction of $91,424 ($234,000 - $142,576); Penelec = $142,983 or a reduction of $91,017 ($234,000 - $142,983); Penn Power = $47,186 or a reduction of $29,814 ($77,000 - $47,186); and West Penn = $175,932 or a reduction of $112,068 ($288,000 - $175,932).

Q. HOW DID YOU CALCULATE THE RECOMMENDATIONS BY RATE DISTRICT?

A. I applied the Company's total claimed rate case expense for each division[6] to the 59-month normalization period as follows:

Met-Ed: $701,000 ÷ 59 months x 12 months = $142,576

Penelec: $703,000 ÷ 59 months x 12 months = $142,983

Penn Power: $232,000 ÷ 59 months x 12 months = $47,186

West Penn: $865,000 ÷ 59 months x 12 months = $175,932

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. First, as discussed above, I recommend normalization of rate case expense in contrast to the Company's claimed amortization of rate case expense.

Second, I disagree with the Company's claimed 36-month amortization period, because it is not supported by FirstEnergy's historic filing frequency. The Company's proposed amortization period fails to properly rely upon the historical data and is speculative in nature. In contrast to the Company's claimed 36-month amortization period, I recommend a 59-month normalization period, which is reasonable and validated by the Company's recent filing history. The filing details for First Energy's most recent three base rate case filings as shown in the table below:[7]

[6] FE PA Exhibit PML-3, p. 49, Adjustment IS-8, Supporting Schedule 2.
[7] I&E Exhibit No. 4, Schedule 1, pp. 2-3.

Docket No.	Filing Date	Filing Interval in Months	Average of Two Intervals in Months
R-2024-3047068	04/02/2024	96	59
R-2016-2537349 / 7352 / 7355 / 7359	04/28/2016	21	
R-2014-2428745 / 8743 / 8744 / 8742	08/04/2014		

That information along with the details for the current rate case produce an average historic filing frequency of 59 months [(96 + 21) ÷ 2], which supports my recommended normalization period of 59 months. FirstEnergy's rate case expense normalization of 36 months is speculative and should be disallowed.

Q. WHY DID YOU NOT REFLECT THREE PRIOR RATE FILINGS IN THE AVERAGE HISTORIC FILING FREQUENCY CALCULATION AS I&E NORMALLY DOES?

A. All FirstEnergy's Pennsylvania predecessor companies did not file together in the third most recent historic filing in 2006.[8] To reflect a more appropriate historic average, it is more reasonable in this instance to go back only two cases where all four entities filed together.

[8] *Id.*

Q. HAVE OTHER UTILITIES BEEN GRANTED A NORMALIZATION PERIOD BASED ON SPECULATION OF FUTURE FILINGS, AND IF SO, WHAT WAS THE RESULT?

A. Yes. In 2012, the Commission granted PPL Electric Utilities Corporation (PPL) permission to normalize its rate case expense over a 24-month period based on the expected timing of future base rate case filings.[9] That base rate case was filed on March 30, 2012; however, PPL did not file its next rate case until March 31, 2015, which was 36 months after the 2012 rate case filing. It should be noted that I&E's recommended normalization period in the 2012 PPL proceeding was a 32-month interval based on the Company's historic filing frequency.[10] I&E's recommendation in that instance produced a much more accurate result than the Company's stated future intention to file a rate case.

Q. ARE THERE ANY RECENT COMMISSION DECISIONS THAT SUPPORT YOUR RECOMMENDATION FOR A RATE CASE FILING INTERVAL BASED ON HISTORIC FILING FREQUENCY?

A. Yes. The following six cases resulted in the Commission using each company's historic average filing frequency.

First, in a base rate case filed by Emporium Water Company, the Commission adopted I&E's recommended historic filing frequency finding in

[9] *PA PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, Opinion and Order, pp. 47-48 (Order Entered December 28, 2012).

[10] I&E Statement No. 2, pp. 13-14 at Docket No. R-2012-2290597.

favor of I&E's recommended five-year normalization period based on a historic average filing frequency that was rounded down from 64 months.[11]

Second, in a base rate case filed by the City of DuBois, the Commission agreed with I&E's recommendation to use an historic filing frequency finding in favor of I&E's recommended 64-month normalization period which matched the actual historic filing frequency.[12]

Third, in a base rate case filed by Columbia Gas of Pennsylvania, Inc., the Commission held that the normalization period should align with the historic data rather than the Company's intent to file its next base rate case.[13]

Fourth, in a base rate case filed by PECO Energy Company - Gas Division (PECO Gas), the Commission granted I&E's recommended five-year normalization period rather than PECO Gas' claimed based on a three-year period because the Commission determined a normalization period based on actual historic filing frequency is more reliable than future speculation.[14]

Fifth, in a base rate case filed by Philadelphia Gas Works (PGW), the Commission agreed with I&E's recommended 53-month normalization period rather than PGW's claim based on a three-year period because the Commission

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[11] *PA PUC v. Emporium Water Company*, Docket No. R-2014-2402324, Opinion and Order, p. 50 (Order Entered January 28, 2015).

[12] *PA PUC v. City of DuBois - Bureau of Water*, Docket No. R-2016-2554150, Opinion and Order, pp. 65-66 (Order Entered March 28, 2017) and PA PUC v. City of DuBois - Bureau of Water, Docket No. R-2016-2554150, Opinion and Order, p. 13 (Order Entered May 18, 2017).

[13] *PA PUC v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, Opinion and Order, pp. 78-79 (Order Entered February 19, 2021).

[14] *PA PUC v. PECO Energy Company (Gas Division)*, Docket No. R-2020-3018929, Opinion and Order, p. 119 (Order Entered June 22, 2021).

granted a normalization period based on actual historic filing frequency and not based on PGW's future intention to file a rate case.[15]

Finally, in the most recent base rate case filed by the Columbia Water Company, the Commission held that the normalization period should align with the historic filing frequency rather than that company's intent to file its next rate case, and that the intent to file a base rate case does not justify deviating from the Commission's practice of relying on historic filing frequency.[16]

Q. GIVEN THESE COMMISSION ORDERS AND THE COMPANY'S FILING HISTORY, IS THE COMPANY'S PROPOSED 36-MONTH RECOVERY PERIOD REASONABLE?

A. No. The Company has not demonstrated that it will file its next base rate within 36 months of this rate case. My recommended 59-month normalization period is in the public interest as it moderates the Company's historic filing intervals between rate case filings while also being long enough to protect customers from paying an unreasonable rate case expense amount in rates.

[15] *PA PUC v. Philadelphia Gas Works*, Docket No. R-2023-3037933, Opinion and Order, pp. 65-66 (Order Entered November 9, 2023).

[16] *PA PUC v. Columbia Water Company*, Docket No. R-2023-3040258, Opinion and Order, p. 34 (Order Entered January 18, 2024).

PENSION AND OPEB EXPENSE AND RATE BASE CLAIMS

Q. TO WHAT DOES THE COMPANY'S PENSION AND OPEB CLAIMS RELATE?

A. FirstEnergy offers its employees a defined benefit pension retirement benefit and a claim for other post-employment benefits that are included in this claim. The Company has made several related claims: expense claims, rate base claims, and a proposed mechanism to normalize pension and other post-employment benefits (OPEB) expense[17] explained in a separate section below.

Q. WHAT IS THE COMPANY'S CLAIM FOR PENSION EXPENSE?

A. The Company is claiming total pension expense of $28,289,000, which is further broken down between the rate districts as follows: Met-Ed = $11,460,000; Penelec = $14,672,000; Penn Power = $3,980,000; and West Penn = ($1,823,000).[18]

Q. WHAT IS THE COMPANY'S CLAIM FOR OPEB EXPENSE?

A. The Company is claiming total OPEB expense (an overall reduction) of ($969,004), which is further broken down between the rate districts as follows: Met-Ed = $4,050,504; Penelec = ($6,381,898); Penn Power = $425,792; and West Penn = $936,598.[19]

[17] FE PA Statement No. 4, pp. 11-25.
[18] FE PA Statement No. 4, p. 12 and FE PA Exhibit No. TMA-1.
[19] FE PA Statement No. 4, p. 12 and FE PA Exhibit No. TMA-2.

Q. WHAT IS THE COMPANY CLAIMING FOR CAPITALIZED PENSION AND OPEB COSTS?

A. The Company is claiming a total capitalized pension and OPEB cost (a net reduction) of ($10,162,000) in rate base, which is further broken down among the rate districts as: Met-Ed = ($7,844,000); Penelec = $6,057,000; Penn Power = ($4,345,000); and West Penn = ($4,030,000).[20]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIMS?

A. The Company has proposed to switch its method for ratemaking from the prior methods: (1) a prior ten-year average of cash contributions for its pension;[21] and (2) a recovery of the service cost component for OPEBs[22] to a method that amortizes net accumulated losses over future periods for both pension and OPEBs.[23] As explained in the filing, under FirstEnergy witness Tracy Ashton's direction the Company's actuary calculated an amortization amount of the accumulated net actuarial loss that would have been included in pension and OPEB expense under the newly proposed delayed recognition methodology. Then a corresponding adjustment was made for the amortization of the accumulated net actuarial loss calculated using this method.[24] FE witness Ashton asserts that ratepayers benefit because higher cash contributions result in a higher expense for

[20] FE PA Exhibit PML-1, p. 24, Adjustment RB-9 and FE PA Exhibit No. TMA-3, Attachment A.
[21] FE PA Statement No. 4, p. 9.
[22] I&E Exhibit No. 4, Schedule 2, p. 1.
[23] FE Statement No. 4, pp. 11-12.
[24] *Id.*

ratemaking, and the proposed method would better align book costs with rate recovery, and the income benefits the Company enjoys would supposedly benefit ratepayers.[25] Additionally, FE witness Ashton asserts that the reduction in pension expense resulting from cash contributions do not immediately reduce rates but they would under the proposed new method.[26] Witness Ashton states that in this filing the difference between this new method and a cash contribution method for claims is negligible. In the as-filed claim, FirstEnergy has amortized the pension mark-to-market expense over a period of approximately 12 years, which is stated to have a beneficial impact on ratepayers by reducing the volatility of actuarial gains and losses.[27]

Q. PLEASE CONTINUE.

A. FirstEnergy has also proposed rate base adjustments for capitalized pension and OPEB costs in the year the expense occurred using the proposed immediate recognition method to properly reflect these expenses in the income statement and to eliminate timing differences between the recognition of pension and OPEB costs in rate base and the recognition of pension and OPEB expense in the income statement.[28] FE witness Ashton asserts that the rate base adjustments follow the

[25] FE Statement No. 4, p. 13.
[26] FE Statement No. 4, pp. 14-15.
[27] *Id.*
[28] FE Statement No. 4, pp. 15-16.

Financial Accounting Standards Board (FASB) Accounting of Net Periodic Pension Cost and Net Periodic Post-Retirement [*sic*].[29]

Finally, FE witness Ashton explains a second adjustment, which is an accounting adjustment made by FE to reallocate certain OPEB assets as of December 31, 2022, among subsidiaries.[30]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIMS?

A. No. I disagree entirely with this switch in pension and OPEB methods for ratemaking purposes. The switch in methods overly complicates the determination of proper allowances for ratemaking and makes resulting future claim determinations subject to manipulation if any variables, including but not limited to the future period over which any future net gains or losses are amortized, are changed in the actuarial calculations.

Q. WHY IS THE CASH PENSION CONTRIBUTION METHOD GENERALLY MORE APPROPRIATE FOR DEVELOPING RATEMAKING ALLOWANCES FOR PENSION EXPENSE?

A. Actuarial funding methods are generally designed with a target of 100% funding, and if the funded ratio is less than 100%, cash contribution patterns are structured with the objective of attaining a funded ratio of 100% over a reasonable period of

[29] FE Statement No. 4, p. 16.
[30] FE Statement No. 4, pp. 19-21.

time.[31] Therefore, in my opinion, those actuarially determined cash contributions are a better match for what a company will need to pay out in a test year. Furthermore, the method is more simplistic from a regulator's perspective and more manageable to verify. In short, the cash contributions are a more reliable indicator of what is needed to fund the benefits as opposed to the expense amount based on an amortization of net gains or losses.

Q. WHAT IS THE COMPANY'S EXPLANATION FOR WHY A CASH CONTRIBUTION METHOD FOR PENSIONS IS NOT THE BEST METHOD FOR RATEMAKING?

A. The Company indicates that cash contribution method does not align with the entire cost of providing this benefit to employees,[32] which I take to mean it does not align with accrual basis accounting or other accrual-based methods (as proposed in this proceeding).

Q. DO YOU AGREE THAT A PENSION EXPENSE ALLOWANCE GRANTED FOR RATEMAKING NEEDS TO MATCH ACCOUNTING COSTS FOR FINANCIAL STATEMENT PURPOSES OR OTHER ACCRUAL BASIS METHODS?

A. No. The amount of pension expense approved for ratemaking, in my opinion,

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[31] American Academy of Actuaries Issue Brief, July 2012, p. 2, https://www.actuary.org/sites/default/files/files/80_Percent_Funding_IB_071912.pdf (accessed July 10, 2020).

[32] I&E Exhibit No. 4, Schedule 2, p. 3.

should match the cash contribution needs for the FPFTY. There is no rule that indicates expense claims for ratemaking should mirror what a utility records for financial statement purposes or some other accrual-based method, and I recommend that an allowance should more closely match the cash expenditures for pension expense.

Q. WHAT IS YOUR RECOMMENDATION FOR PENSION EXPENSE?

A. I recommend a total allowance of $19,657,000 for pension expense, broken down as follows: Met-Ed = $4,644,000, or a reduction of $6,816,000 ($11,460,000 - $4,644,000); Penelec = $5,651,000, or a reduction of $9,021,000 ($14,672,000 - $5,651,000); Penn Power = $3,041,000, or a reduction of $939,000 ($3,980,000 - $3,041,000); and West Penn = $6,321,000 or an increase of $8,144,000 ($1,823,000 + $6,321,000).

Q. WHAT IS YOUR RECOMMENDATION FOR OPEB EXPENSE?

A. I recommend an allowance of $39,694 for OPEB expense, or a total increase of $1,008,698, broken down as follows: Met-Ed = $10,686, or a decrease of $4,039,818 ($4,050,504 - $10,686); Penelec = $16,137 or an increase of $6,398,035 ($6,381,898 + $16,137); Penn Power = $1,660 or a decrease of $424,132 ($425,792 - $1,660); and West Penn = $11,211 or a decrease of $925,387 ($936,598 - $11,211).

Q. WHAT IS YOUR RECOMMENDATION FOR CAPITALIZED PENSION AND OPEB COSTS?

A. I recommend a complete disallowance of the capitalized pension and OPEB claims which would eliminate the following claims: a total capitalized pension and OPEB cost (reduction) of ($10,162,000) in rate base, further broken down among the rate districts as: Met-Ed = ($7,844,000); Penelec = $6,057,000; Penn Power = ($4,345,000); and West Penn = ($4,030,000).[33]

Q. WHAT IS THE BASIS FOR YOUR PENSION EXPENSE RECOMMENDATION?

A. My recommendation for pension expense is based on a five-year historic average of cash contributions similar to prior FirstEnergy claims in historic rate filings but with a shortened duration of the average,[34] since the Company is reasonably expected to file more frequently than every ten years. As stated by FE witness Ashton, the change in methods for pensions and OPEBs for ratemaking have resulted in what they characterize as negligible differences between the two methods.[35] Furthermore, it is unnecessary to amortize any net accumulated gains or losses over some future period for ratemaking, because while the areas of investment of funds may be subject to variability, the intent of continuing a cash contribution method is to avoid unnecessary complications for ratemaking in the

[33] FE PA Exhibit PML-1, p. 24, Adjustment RB-9 and FE PA Exhibit No. TMA-3, Attachment A.
[34] I&E Exhibit No. 4, Schedule 2, p. 4.
[35] FE PA Statement No. 4, p. 15.

method, that is, not moving to a method that is difficult for regulators to verify. Additionally, my understanding is that actuarially determined cash contributions are set with the goal of striving toward or maintaining a fully funded status. Thus, there is no need to complicate the method used to devise a claim for ratemaking, and the amortization of net gains and losses in a rate filing is unnecessary. FE witness Ashton has not demonstrated that a cash contribution method for pensions would result in materially higher or lower amounts compared to this newly devised method, and regardless, cash contributions are more representative of FirstEnergy's needs for funding in the FPFTY. Finally, there is nothing stopping FirstEnergy from changing its proposed method for determining a pension claim in future rate filings,[36] thus, it is not appropriate to allow this change. It is the continuity of a specific method that allows for only the amount necessary in rates to fund a plan.

In contrast, it could be argued that the Company should not be allowed any amount for pension expense claims due to the recent 102% funded status[37] and the fact that the Company has made no cash contributions whatsoever since 2019.[38]

Q. ARE THERE ANY OTHER REASONS THE COMPANY'S PENSION EXPENSE CLAIM SHOULD BE DISALLOWED?

A. Yes. The Company has created a proposed third method separate from Generally

[36] I&E Exhibit No. 4, Schedule 2, p. 5.
[37] FE PA Statement No. 4, p. 21.
[38] I&E Exhibit No. 4, Schedule 2, pp. 6-7.

Accepted Accounting Principles (GAAP) for financial statement purposes and its previously used cash contribution method for ratemaking purposes.[39] The Company has made no commitment to deposit any such claim amount to its actual pension fund.[40]

Q. WHAT IS THE BASIS FOR YOUR OPEB EXPENSE RECOMMENDATION?

A. The Company should not deviate from its method used in prior rate cases which is based on recovery of the service cost component.[41] It should also be noted that the Company has not made any cash payments to the OPEB plans from 2014 to 2023[42] thus an allowance of $39,694 for the service cost component is more than reasonable.

Q. DOES THIS COMPANY'S CLAIM DEVIATE FROM ANY PRIOR COMMISSION REQUIREMENTS?

A. Yes. In the early 1990s, the Commission moved that jurisdictional utilities should switch to SFAS 106 accrual accounting for ratemaking purposes within approximately five years of its 1993 policy statement and it allowed the recovery in base rates of deferred amounts in approximately 20 years, to the extent that

[39] I&E Exhibit No. 4, Schedule 2, p. 8.
[40] *Id.*
[41] I&E Exhibit No. 4, Schedule 2, p. 1.
[42] I&E Exhibit No. 4, Schedule 2, p. 9.

OPEB costs were prudently incurred and examined for reasonableness in a base rate proceeding prior to rate recognition.[43] The Company is proposing a new method for pensions and OPEBs that to my knowledge is not used by any other regulated utility in Pennsylvania.

Q. DOES THE COMPANY ATTEMPT TO MAKE ITS PROPOSED PENSION CLAIM METHODOLOGY SOUND SIMILAR TO ANY METHOD APPROVED PREVIOUSLY FOR A PENNSYLVANIA UTILITY?

A. Yes. While the Company states that it received approval for this exact proposed method in other states, it also opines that PPL Electric Utilities Corporation (PPL) received approval for an accrual-based method that differs from using cash contributions.[44]

Q. DO YOU AGREE THAT WHAT WAS APPROVED FOR PPL IS THE SAME AS THE COMPANY'S PROPOSED METHOD IN THE INSTANT PROCEEDING?

A. No. My understanding is that the method approved for PPL was an accrual-based method in line with what that company uses for financial statement purposes.[45] While generally, I do not agree with that method for ratemaking despite the

[43] § 69.351. Implementation of Statement of Financial Accounting Standards for Rule No. 106 (SFAS 106)—statement of policy.
[44] I&E Exhibit No. 4, Schedule 2, pp. 10-11.
[45] *Pennsylvania Public Utility Commission et al. v. Pennsylvania Power & Light Co.*, Docket No. R-00943271, Opinion and Order, p. 45 (Order Entered September 26, 1995).

Commission's prior approval, that is not the same as what FirstEnergy is proposing in this proceeding. In this proceeding, FirstEnergy is proposing something different from what it uses for financial statement purposes, and the newly proposed method would only be used for ratemaking and nothing else.[46]

Q. DO YOU AGREE THAT BECAUSE THE COMPANY RECEIVED APPROVAL FOR USING THIS PROPOSED METHOD IN OTHER STATES THAT THE COMMISSION SHOULD APPROVE THE USE OF THIS METHOD IN PENNSYLVANIA?

A. No. For the reasons explained herein, I strongly recommend that the Commission not approve the Company's proposed method. There is nothing binding the Commission to allow FirstEnergy to use the proposed method for ratemaking simply because other state commissions have allowed it.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDED COMPLETE DISALLOWANCE OF CAPITALIZED PENSION AND OPEB COSTS?

A. While FE witness Ashton indicates that this newly proposed method and the corresponding rate base adjustments eliminate timing differences between the recognition of pension and OPEB costs in rate base and the recognition of pension and OPEB expense in the income statement,[47] it is important to note that gains and

[46] I&E Exhibit No. 4, Schedule 2, p. 8.
[47] FE Statement No. 4, pp. 15-16.

losses in a pension or OPEB plan are not necessary to record for ratemaking purposes in determining an appropriate allowance. It is also important to keep in mind that the Commission is not bound by the FASB when determining an appropriate allowance for either pensions or OPEBs, thus the fact that FE witness Ashton's recommended rate base adjustments follow FASB guidance or rules is irrelevant. Furthermore, routine O&M expenses such as pensions and OPEBs do not belong in rate base, other than amounts specifically identified as components of cash working capital.

Q. ARE THERE ANY RECENT CASES WHERE THE COMMISSION DECIDED AGAINST RATE BASE ADJUSTMENTS FOR PENSIONS AND OPEBs?

A. Yes. In a recent PECO Energy Company – Gas Division (PECO Gas) base rate case, the Commission ruled that PECO Gas should not be afforded rate base treatment of a similar type of rate base treatment as follows,[48]

> We noted that while pension assets and accrued pension liabilities calculated under GAAP rules and ASC 715 fluctuate from year to year, they are intended to equal the employer's contributions over the life of the pension.

In summary, based on my recommendation to continue FirstEnergy's pension and OPEB methods consistent with prior rate cases, no rate base treatment should be

[48] Pennsylvania Public Utility Commission, et al. v. PECO Energy Company – Gas Division at Docket Nos. R-2020-3018929, C-2020-3022400, C-2020-3022414, and C-2020-3022745, Opinion and Order, p. 35 (Order Entered August 26, 2021).

allowed.

Q. DO YOU HAVE ANY FINAL COMMENTS ABOUT THE REQUESTED CHANGES FOR PENSION AND OPEB EXPENSE CLAIMS?

A. Yes. FirstEnergy has indicated that its pension plan has a funding ratio of approximately 102% and its OPEB plan funded ratio was 101% at the end of 2023.[49] Thus, there is no cause for alarm.

PROPOSED PENSION AND OPEB NORMALIZATION MECHANISM

Q. WHAT IS THE PROPOSED PENSION AND OPEB NORMALIZATION MECHANISM (PON MECHANISM)?

A. The Company is proposing regulatory asset/liability treatment for over or under-recovery of pension and OPEB expenses developed using the newly proposed delayed recognition method. The "approved pension/OPEB expense" from the recent base rate case would be used to determine any over or under-recoveries. If the Company's "annual expense" is higher or lower than the amount included in base rates, FirstEnergy would record either a regulatory asset or liability for 90% of the difference for a regulatory asset or 100% of the difference for a regulatory liability. The accumulation of such yearly over or under-recoveries would be recorded and claimed in the next base rate filing where the Company would propose an appropriate amortization period for the balance. In short, the Company

[49] FE PA Statement No. 4, p. 21.

opines that this PON Mechanism provides the benefit of an automatic adjustment for variances.[50]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. FE witness Tracy Ashton has emphasized fluctuations in market performance and the related impact on the Company's financial statements while mentioning the risk that rates may not be representative of future costs or credits, and the fact that interest rates, asset returns, and employee mortality are outside the Company's control, stating that these considerations may cause pension and OPEB claims in rates to be either too high or too low.[51] Thus, FE witness Ashton proposes a PON Mechanism to moderate the impact on rates for these impacts outside of the Company's control that could be material variances due to the size of the funds.[52]

Q. DO YOU AGREE THAT THE COMPANY SHOULD RECEIVE PERMISSION TO SET UP THE PROPOSED PON MECHANISM?

A. No. I recommend that the proposed PON Mechanism be disallowed entirely.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. While FE witness Ashton indicates this PON Mechanism would help to adjust for fluctuations in pension and OPEB costs, they admit that it is more specifically

[50] FE PA Statement No. 4, pp. 22-23.
[51] FE PA Statement No. 4, pp. 21-22.
[52] FE PA Statement No. 4, p. 24.

addressing short-term market trends.[53] This is inappropriate given the long-term nature of investments associated with pension and OPEB plans. Additionally, if the Company is not allowed to switch to the newly proposed method which records the amortization of net gains and losses, this PON Mechanism would be entirely unnecessary. Finally, I feel confident that yearly cash contributions as determined by an actuary for the Company's pension would take into consideration yearly amounts necessary to address any potential future highs or lows in investments.

This proposed PON Mechanism, if approved, would allow guaranteed retroactive recovery of any variances in routine operating expenses, which is not appropriate.

Q. ARE THERE ANY OTHER CONCERNS ABOUT THE POTENTIAL APPROVAL OF THE REQUESTED PON MECHANISM?

A. Yes. It is possible that approval of the requested regulatory asset/liability treatment for over or under-recovery of pension and OPEB expenses may lessen the regulatory scrutiny of evaluating the prudence of related costs. When reviewing expenses already incurred in prior year, the statutory parties may be inclined to view amounts as already approved since they are a part of an approved over or under-recovery mechanism, and the parties will likely focus more attention on the "next big thing" being proposed by those companies rather than scrutinizing

[53] FE PA Statement No. 4, p. 23.

such historic costs in the level of detail necessary to determine prudency and relevance to the provision of safe and reliable service. Also, it is possible that a company with such approvals could modify the related benefit plans and begin tracking new costs when the actual costs of the previously approved benefits may be reducing over time.

Q. DO YOU HAVE OTHER CONCERNS ABOUT THE IMPLEMENTATION OF THE PROPOSED PON MECHANISM?

A. Yes. This mechanism would require that even settled cases outline a term for pension and OPEB allowances in every settlement agreement and/or Commission order in every base rate case. Generally, since the Commission favors settlements, I believe it is inappropriate to continue to bring non-extraordinary, routine operating expenses outside of the "black box" for settlement purposes. It is important to note that the amounts recorded as over or under-recoveries would not represent actual cash expended but shorter-term market volatility.

Q. DO YOU AGREE THAT BECAUSE THE PROPOSED MECHANISM WOULD ALLOW A 10% BREAK IN DEFERRED AMOUNTS DUE FROM RATEPAYERS THAT IT SHOULD BE APPROVED?

A. No. I tend to doubt that if the Company thought future over/under-recoveries would continue to net out in ratepayers' favor year after year that such a mechanism would have ever been proposed. However, even if the net impact is in

favor of ratepayers over future years, I believe that a PON Mechanism for routine operating expenses such as pension and OPEB expenses should be disallowed most importantly due to the routine, non-extraordinary nature of the expenses and due to the fact that the Company is basing this mechanism on a method that amortizes net accumulated losses over future periods and not monies actually paid out.

Q. DO YOU BELIEVE SINCE PENSION AND OPEBs ARE "NOT IN THE COMPANY'S CONTROL" AND SINCE THEY ARE VOLATILE THAT THE COMPANY SHOULD BE GRANTED APPROVAL OF THE PROPOSED PON MECHANISM?

A. No. A method of determining an appropriate expense based on the normalization of multiple historic years to smooth out fluctuations in the claimed expense amounts is preferrable. This method is more reasonable than the proposed PON Mechanism and presents more of an opportunity for advocates to verify accuracy and prudency of claims prior to any related rate changes going into effect.

A multi-year historic average is a simpler method that provides transparency and the ability of regulators and statutory parties to easily determine the reasonableness (or lack thereof) of such expense claims. This approach also allows for meeting the FPFTY cash needs for the FPFTY for associated expenses.

Q. WERE THERE ANY CASES WHERE THE COMMISSION ISSUED A DECISION ON THE REQUESTED USE OF A PENSION TRACKER BY A UTILITY WHICH IS SIMILAR TO FIRSTENERGY'S PROPOSED PON MECHANISM?

A. Yes. Aqua Pennsylvania Inc. (AP) attempted to obtain permission for a pension tracker due to fluctuating cash pension contribution amounts from year to year.[54] In the Commission's Order it stated that,

> …pension expense is a standard ratemaking item and, accordingly, ongoing pension liabilities are neither extraordinary nor nonrecurring, and thus should not be the subject of AP's proposed reconciliation through a "true-up" mechanism. Approval of this item would clearly violate the rule against single issue ratemaking, and would connote the propriety of future claims for "true-ups" of virtually any traditional base ratemaking expense.[55]

Q. WHAT IS YOUR UNDERSTANDING OF THE GENERAL REQUIREMENTS THAT NEED TO BE MET FOR REGULATORY ASSET/LIABILITY TREATMENT?

A. The Company's pension and OPEB expenses do not meet the requirements for regulatory asset/liability treatment. Specifically, the Commission has previously ruled that deferred accounting treatment may be granted if the expense is:

[54] PA Public Utility Commission Opinion and Order at Docket No. R-00038805, Order entered August 5, 2004, pp. 36-39.

[55] PA Public Utility Commission Opinion and Order at Docket No. R-00038805, Order entered August 5, 2004, p. 39.

(1) extraordinary; (2) unanticipated; (3) nonrecurring; and (4) substantial.[56] However, pension and OPEBs are not extraordinary, unanticipated, or nonrecurring.

Q. DO YOU HAVE ANY FINAL COMMENTS ABOUT THE COMPANY'S PROPOSED REGULATORY ASSET/LIABILITY TREATMENT FOR PENSIONS AND OPEBs?

A. Yes. Neither the Company nor I are aware of any other Pennsylvania regulated utility that has been granted such treatment for pensions or OPEBs for ratemaking purposes.[57]

ROUTINE STORM EXPENSE

Q. WHAT IS THE COMPANY CLAIMING RELATED TO STORM EXPENSE?

A. The Company has included claims for what I refer to herein as claims related to routine storm damage expense, claims related to a storm reserve account, and claims related to deferral of extraordinary storm costs.[58] In this section I am addressing the routine storm expense claim and will address the latter two issues in sections directly below.

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[56] *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order Entered December 5, 2012).

[57] I&E Exhibit No. 4, Schedule 3.

[58] FE PA Exhibit PML-1, p. 20, Adjustment RB-5, Unamortized Deferrals; p. 41, Adjustment IS-5, Supporting Schedule 1, Storm Expense; and p. 56, Adjustment IS-10, Amortization Expense.

Q. WHAT IS THE COMPANY'S CLAIM FOR ROUTINE STORM EXPENSE?

A. The Company's claim for routine storm expense is $52,802,000, which is further broken down among the rate districts as: Met-Ed = $25,319,000; Penelec = $10,954,000; Penn Power = $3,215,000; and West Penn = $13,315,000.[59]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company averaged five historic years of storm expense from 2019 through 2023 to determine its FPFTY claim for routine storm expense like what was done in the 2014 base rate cases.[60]

Q. DO YOU ACCEPT THE COMPANY'S CLAIM?

A. Yes. The Company's storm expense fluctuates from year to year due to unpredictable weather conditions. Therefore, I accept the proposed five-year historic average of actual expenses which normalizes wide fluctuations and produces a reasonable FPFTY allowance for this expense. As noted by the Company, this five-year average excludes extraordinary storms[61] which ensures no double-recovery of those costs in rates.

[59] FE PA Exhibit PML-1, p. 41, Adjustment IS-5, Supporting Schedule 1.
[60] I&E Exhibit No. 4, Schedule 4.
[61] FE PA Exhibit PML-1, p. 41, Adjustment IS-5, Supporting Schedule 1.

STORM RESERVE ACCOUNT

Q. PLEASE EXPLAIN HOW THE STORM RESERVE ACCOUNT WAS INITIATED.

A. In the 2014 base rate case the Joint Petitions for Partial Settlement of Rate Investigation, Term No. A.5, stated that a storm reserve account would be established and maintained on the Company's balance sheet beginning on the date that settlement rates became effective and that the five-year historic average of storm expenses formed the baseline to determine over- or under-recovery and used to establish a deferral. The Company's response to I&E-RE-12-D also summarizes the history surrounding this topic.[62] The purpose of the reserve treatment was to eliminate any impact of such expenses on the Company's income statement. Additionally, it was stated that extraordinary storm costs would be kept separate and that revenues received, and costs incurred by the Company in support of other utilities for assisting during storm events would be reflected in the reserve account.[63]

[62] I&E Exhibit No. 4, Schedule 5, p. 1.

[63] *Pennsylvania Public Utility Commission v. Metropolitan Edison Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745 and M-2013-2341990, p. 8. *Pennsylvania Public Utility Commission v. Pennsylvania Electric Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428743 and M-2013-2341994, p. 8. *Pennsylvania Public Utility Commission v. Pennsylvania Power Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428744 and M-2013-2341993, p. 8. *Pennsylvania Public Utility Commission v. West Penn Power Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428742 and M-2013-2341991, p. 8.

Q. DID THE PARTIES IN THE SUBSEQUENT BASE RATE PROCEEDING AGREE TO CONTINUE THE COMPANY'S USE OF THE STORM RESERVE ACCOUNT?

A. Yes. The 2016 Joint Petitions for Partial Settlement indicated that storm reserve account treatment would continue, and that Met-Ed's routine storm expense claim was $13 million, Penelec's routine storm expense claim was $7 million, Penn Power's routine storm expense claim was $1 million, and West Penn's routine storm expense claim was $9 million. [64]

Q. WHAT IS THE COMPANY'S CLAIM IN THIS PROCEEDING RELATED TO ITS STORM RESERVE ACCOUNT?

A. The Company is claiming an expense component for the annual expense and a rate base component for the unamortized balance. The total storm reserve expense is $69,477,000. This is further broken down among the rate districts as follows: Met-Ed = $33,282,000; Penelec = $15,093,000; Penn Power = $6,861,000; and West Penn = $14,241,000.[65]

The total unamortized balance included in the Company's rate base claim is $138,955,000. This rate base claim is further broken down between the rate

[64] *Pennsylvania Public Utility Commission v. Metropolitan Edison Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket No. R-2016-2537349, p. 8. *Pennsylvania Public Utility Commission v. Pennsylvania Electric Company*, Joint Petition for Partial Settlement of Rate Investigation at Docket No. R-2016-2537352, p. 8. *Pennsylvania Public Utility Commission v. Pennsylvania Power*, Joint Petition for Partial Settlement of Rate Investigation at Docket No. R-2016-2537355, p. 7. *Pennsylvania Public Utility Commission v. Pennsylvania Power*, Joint Petition for Partial Settlement of Rate Investigation at Docket No. R-2016-2537359, p. 8.

[65] FE PA Exhibit PML-1, p. 56, Adjustment IS-10.

districts as follows: Met-Ed = $66,565,000; Penelec = $30,186,000; Penn Power = $13,721,000; and West Penn = $28,483,000.[66]

Q. WHAT IS THE BASIS FOR THE COMPANY STORM RESERVE EXPENSE CLAIM?

A. The Company is proposing to amortize the storm reserve balance over three years which produces the expense claims shown above. This is in line with its claimed frequency for rate case expense.[67]

Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED RATE BASE TREATEMENT OF THE UNAMORTIZED STORM DEFERRAL BALANCE?

A. The Company is proposing to claim the unamortized balances for Year 2 and Year 3 in rate base to earn a return on prior storm expenses.[68]

Q. DO YOU AGREE WITH THE COMPANY'S CONTINUED USE OF A STORM RESERVE ACCOUNT?

A. No.

[66] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.
[67] I&E Exhibit No. 4, Schedule 5, p. 3.
[68] *Id.*

Q. DOES THE METHOD USED BY FIRSTENERGY IN DEVELOPING ITS ROUTINE STORM EXPENSE CLAIMS ONLY ALLOW RECOVERY FOR "NORMAL" STORM EXPENSE?

A. No. The Company's five-year historic average allows for smoothing out of high and low years and this average minimizes large variability of the Company's income statement over time. The Company only excludes extraordinary storm expense from its historic five-year average related to specific petitions filed with and approved by the Commission. Using a consistent method of capturing five years of historic expense amounts by year, FirstEnergy allows for a storm expense claim that would capture a reasonable claim level in rates.

Q. DOES USING A FIVE-YEAR AVERAGE OF ACTUAL STORM EXPENSE ALLOW THE COMPANY TO CAPTURE YEARLY VOLATILITY WITHOUT THE NEED FOR A STORM RESERVE ACCOUNT?

A. Yes.

Q. IF THERE IS A SEVERE, EXTRAORDINARY STORM THAT IS EXCEEDINGLY HIGHER IN COST THAN ANY AMOUNT CLAIMED OR APPROVED IN BASE RATES, ARE YOU OPPOSED TO THE COMPANY FILING A PETITION WITH THE COMMISSION TO REQUEST DEFERRAL TREATMENT FOR AN ISOLATED STORM?

A. No. Filing a petition with the Commission to request deferral treatment for an

isolated storm is preferrable treatment over allowing for dollar-for-dollar recovery of all storm expenses incurred.

Q. WHAT IS YOUR CONCERN ABOUT GRANTING DOLLAR-FOR-DOLLAR RECOVERY AS WOULD BE PROVIDED BY ALLOWING RATE RECOVERY OF RESERVE BALANCES?

A. FirstEnergy has not filed frequent rate cases in the past. Delaying recovery of storm-related O&M expenses for many years is inappropriate as that money has been spent long ago. Earning a return on any unamortized balances is also inappropriate. I believe that granting dollar-for-dollar recovery of this expense discourages a company from controlling costs, and if there are instances where a company was required to refund unspent claim dollars via the storm reserve in a subsequent case, it could encourage that utility to simply spend more money to use up the excess funding in a given time period.

Q. DO YOU AGREE THAT ALL STORM EXPENSES ARE EXTRAORDINARY OR NONRECURRING FOR AN ELECTRIC DISTRIBUTION COMPANY?

A. Generally, no; however, if there is a storm of severe magnitude, as stated above, I am not opposed to the Company filing a petition to request deferral treatment of storm costs for a specific storm.

Q. IF THE COMMISSION DECIDES TO ALLOW THE PROPOSED STORM RESERVE CLAIM, DO YOU AGREE WITH A THREE-YEAR AMORTIZATION OF ANY OVER- OR UNDER-RECOVERIES?

A. No. If the Commission decides to allow the Company's claim for storm reserve expense, the total amount should be amortized over five years which is closely in line with the FirstEnergy's historic rate case filing frequency and thus aligns with a subsequent base rate filing.

Q. IN SUMMARY, DO YOU AGREE WITH THE COMPANY'S CONTINUED USE OF A STORM RESERVE ACCOUNT?

A. No. I recommend the Commission: (1) disallow all storm reserve expense claims in O&M and in rate base in this proceeding; and (2) require the Company to cease using this mechanism, because a five-year average of routine storm expense is sufficient in minimizing any yearly impact on the Company's income statement. Furthermore, with the Company's rate case filing frequency, this account could accrue a very large balance, as it has here, which would place an unnecessary burden on ratepayers at the eventual filing.

<u>EXTRAORDINARY STORM DEFERRALS</u>

Q. EXPLAIN WHAT IS COVERED IN THIS STORM EXPENSE CATEGORY.

A. The Company has included claims for extraordinary storms (in O&M expense and in rate base) where petitions were filed with the Commission and permission was

granted to defer such costs for specific storms.[69]

Q. WHAT IS THE COMPANY'S CLAIM FOR EXTRAORDINARY STORM DAMAGE?

A. The Company is claiming an expense component for the annual expense and a rate base component for the unamortized balance. The total extraordinary storm damage expense claim is $28,365,000. This is further broken down among the rate districts as follows: Met-Ed = $11,191,000; Penelec = $2,725,000; Penn Power = $6,650,000; and West Penn = $7,799,000.[70]

The total unamortized balance included in the Company's rate base claim is $56,729,000. This rate base claim is further broken down between the rate districts as follows: Met-Ed = $22,381,000; Penelec = $5,451,000; Penn Power = $13,300,000; and West Penn = $15,597,000.[71]

Q. WHAT IS THE BASIS FOR THE COMPANY EXTRAORDINARY STORM DAMAGE EXPENSE CLAIM?

A. The Company is proposing to amortize the extraordinary storm damage balance over three years which produces the expense claims shown above. This is in line with its claimed frequency for rate case expense.[72]

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69 FE PA Exhibit PML-1, p. 20 and p. 56, Adjustments RB-5 and IS-10.
70 FE PA Exhibit PML-1, p. 56, Adjustment IS-10.
71 FE PA Exhibit PML-1, p. 20, Adjustment RB-5.
72 I&E Exhibit No. 4, Schedule 5, pp. 4-5.

Q. WHAT IS THE BASIS FOR THE COMPANY'S RATE BASE TREATEMENT OF THE UNAMORTIZED EXTRAORDINARY STORM DEFERRAL BALANCE?

A. The Company is proposing to claim the unamortized balance for Year 2 and Year 3 in rate base to earn a return on that balance.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR EXTRAORDINARY STORM DAMAGE?

A. I recommend a total extraordinary storm damage expense allowance of $17,019,000. This is further broken down among the rate districts as follows: Met-Ed = $6,714,000 or a reduction of $4,477,000 ($11,191,000 - $6,714,000); Penelec = $1,635,000 or a reduction of $1,090,000 ($2,725,000 - $1,635,000); Penn Power = $3,990,000 or a reduction of $2,660,000 ($6,650,000 - $3,990,000); and West Penn = $4,679,000 or a reduction of $3,120,000 ($7,799,000 - $4,679,000).

Additionally, I recommend a complete disallowance of the total unamortized balance included in the Company's rate base claim of $56,729,000, which was further broken down between the rate districts as follows: Met-Ed =

$22,381,000; Penelec = $5,451,000; Penn Power = $13,300,000; and West Penn = $15,597,000.[73]

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. I recommend a five-year amortization period that closely aligns with the Company's recent historic filing frequency. However, I recommend disallowance of any rate base treatment for the unamortized balance as this would be inappropriate for an O&M-related expense.

Q. AS ALREADY ASKED ABOVE IN THE PON MECHANISM SECTION, WHAT IS YOUR UNDERSTANDING OF THE GENERAL REQUIREMENTS THAT NEED TO BE MET FOR REGULATORY ASSET/LIABILITY TREATMENT?

A. Specifically, the Commission has previously ruled that deferred accounting treatment may be granted if the expense is: (1) extraordinary; (2) unanticipated; (3) nonrecurring; and (4) substantial.[74] While extraordinary storm expense generally qualifies for regulatory asset/liability treatment when Commission approvals are sought and obtained prior to claims being made in a base rate case

[73] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.

[74] *Petition of Columbia Gas of Pa., Inc. for Authority to Defer for Accounting and Financial Purposes Certain Start Up Expenses Assoc. with the Redesign of Upgrade of Financial Processes and Info. Systems*, Docket No. P-2012-2319920 (Order Entered December 5, 2012).

by meeting these criteria, such claims should not be afforded rate of return treatment for unamortized balances of these previously incurred expenses.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?

A. I divided all the total beginning extraordinary storm balances by five years as follows:

Met-Ed: $33,572,000 ÷ 5 years = $6,714,000

Penelec: $8,176,000 ÷ 5 years = $1,635,000

Penn Power: $19,950,000 ÷ 5 years = $3,990,000

West Penn: $23,396,000 ÷ 5 years = $4,679,000

COVID-19 REGULATORY ASSET AMORTIZATION

Q. WHAT IS INCLUDED IN THE COMPANY'S CLAIMED COVID-19 REGULATORY ASSET?

A. The Company is including deferred costs associated with incremental uncollectibles, late payment charge waivers, reconnection charge waivers, a bill assistance media campaign, postage, customer mailings, and outbound dialing campaigns.[75]

[75] FE PA Exhibit PML-1, p. 57, Adjustment IS-10, Supporting Schedule 1.

Q. WHAT IS THE COMPANY'S CLAIM FOR THE COVID-19 REGULATORY ASSET?

A. The Company is claiming an expense component for the annual expense and a rate base component for the unamortized balance. The total COVID-19 expense claim is $10,128,000. This is further broken down among the rate districts as follows: Met-Ed = $2,108,000; Penelec = $3,518,000; Penn Power = $1,193,000; and West Penn = $3,308,000.[76]

The total unamortized balance included in the Company's rate base claim is $20,255,000. This rate base claim is further broken down between the rate districts as follows: Met-Ed = $4,216,000; Penelec = $7,036,000; Penn Power = $2,387,000; and West Penn = $6,616,000.[77]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company is proposing to amortize the COVID-19 deferred balance over three years which produces the expense claims shown above. The Company claims that this proposed three-year recovery period is in line with recovery periods set in other utilities' rate cases.[78]

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[76] *Id.*
[77] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.
[78] I&E Exhibit No. 4, Schedule 6, pp. 1-2.

Q. WHAT IS THE BASIS FOR THE COMPANY'S RATE BASE TREATEMENT OF THE UNAMORTIZED COVID-19 DEFERRED BALANCE?

A. The Company is proposing to claim the unamortized balance for Year 2 and Year 3 in rate base to earn a return on actual COVID-19 expenses incurred.[79]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR THE COVID-19 DEFERRAL?

A. I recommend a total COVID-19 deferred expense allowance of $6,074,814. This is further broken down among the rate districts as follows: Met-Ed = $1,264,085 or a reduction of $843,915 ($2,108,000 - $1,264,085); Penelec = $2,110,234 or a reduction of $1,407,766 ($3,518,000 - $2,110,234); Penn Power = $715,864 or a reduction of $477,136 ($1,193,000 - $715,864); and West Penn = $1,984,432 or a reduction of $1,323,568 ($3,308,000 - $1,984,432).

Additionally, I recommend a complete disallowance of the total unamortized balance included in the Company's rate base claim of $20,255,000, which is further broken down between the rate districts as follows: Met-Ed =

[79] I&E Exhibit No. 4, Schedule 6, p. 3.

$4,216,000; Penelec = $7,036,000; Penn Power = $2,387,000; and West Penn = $6,616,000.[80]

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. In line with my recommended amortization for extraordinary storm deferrals, I am recommending a five-year amortization period that closely aligns with the Company's recent historic filing frequency. However, I recommend disallowance of any rate base treatment for the unamortized balance as this would be inappropriate for an O&M-related expense.

Additionally, I am recommending disallowance of the Company's request to defer late payment charge waivers and reconnect charge waivers.

Q. WHY DO YOU RECOMMEND EXCLUDING THE LATE PAYMENT CHARGE WAIVERS AND RECONNECT CHARGE WAIVERS FROM THE COMPANY'S COVID-19 EXPENSE?

A. In the 2020 Pennsylvania-American Water Company (PAWC) petition, where PAWC requested authorization to defer for future recovery, among other items, the lost revenues associated with forgone late payment charges and forgone reconnection fees (lost revenues), the Commission denied tracking and deferral of these lost revenues, stating,

[80] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.

> Upon review, we find that the Company has failed to satisfy its burden of showing that the tracking and deferral of forgone revenue related to voluntarily waived late payment charges and reconnection fees falls within the scope of the type of items that the Commission has allowed as an exception to the general rule against retroactive recovery of past expenses.[81]

Considering the Commission's Order, the inclusion of forgone reconnection fees and forgone late payment charges, which represent foregone revenues, in the Company's COVID-19 deferral is in direct contradiction to the precedent set in the corresponding PAWC petition proceeding; therefore, the deferral of the lost revenues should be disallowed and removed entirely from the calculation.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?

A. I divided all the I&E-adjusted total beginning COVID-19 amounts by five years as follows:

	Met-Ed	Penelec	Penn Power	West Penn	Total FE PA
Total COVID-19 Deferral Claim (Ref. FE PA Exhibit PML-1, p. 57, Adj. IS-10)	$ 6,323,000	$10,554,000	$ 3,580,000	$ 9,925,000	$30,383,000
I&E-Remove Late Payment Charge Waivers	$ (2,568)	$ (2,828)	$ (676)	$ (2,831)	$ (8,903)
I&E-Remove Reconnect Charge Waivers	$ (9)	$ (4)	$ (3)	$ (11)	$ (27)
I&E-Adjusted Totals	$ 6,320,423	$10,551,168	$ 3,579,321	$ 9,922,158	$30,374,070
Amortized over Five Years	$ 1,264,085	$ 2,110,234	$ 715,864	$ 1,984,432	$ 6,074,814
Company Claim based on Three Years	$ 2,108,000	$ 3,518,000	$ 1,193,000	$ 3,308,000	$10,128,000
I&E Recommended Adjustment	$ (843,915)	$ (1,407,766)	$ (477,136)	$ (1,323,568)	$ (4,052,386)
I&E-Recommended Total Disallowance of Rate Base Claim (Ref. FE PA Exhibit PML-1, p. 20, Adj. RB-5)	$ 4,216,000	$ 7,036,000	$ 2,387,000	$ 6,616,000	$20,255,000

[81] *Pa. PUC v. Pennsylvania-American Water Company*, Docket No. P-2020-3022426, pp. 20-21 (Order entered September 15, 2021).

VEGETATION MANAGEMENT EXPENSE

Q. WHAT IS INCLUDED IN VEGETATION MANAGEMENT EXPENSE?

A. The Company has included the minimum regulatory required budget plus a proposed incremental cost of an enhanced program.[82]

Q. WHAT IS THE COMPANY'S CLAIM FOR VEGETATION MANAGEMENT EXPENSE?

A. The Company is claiming total vegetation management expense of $92,846,000, further broken down as follows: Met-Ed = $54,449,000; Penelec = $59,625,000; Penn Power = $20,627,000; and West Penn = $71,395,000.[83]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. The Company's claim is based on the minimum regulatory required total budget of $113,250,000 plus the incremental total cost of its proposed enhanced program[84] as explained by FE witness Wade Smith related to focusing on the removing of priority trees, removal of on-corridor incompatible trees and brush, and the removal of vegetation overhanging the corridor.[85]

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82 I&E Exhibit No. 4, Schedule 7, p. 3.
83 *Id.*
84 I&E Exhibit No. 4, Schedule 7, p. 3.
85 FE PA Statement No. 2, pp. 18-22.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR VEGETATION MANAGEMENT EXPENSE?

A. I recommend a total allowance of $113,250,000 broken down as follows: Met-Ed = $25,830,000, or a reduction of $28,619,000 ($54,449,000 - $25,830,000); Penelec = $34,260,000, or a reduction of $25,365,000 ($59,625,000 - $34,260,000); Penn Power = $10,190,000, or a reduction of $10,437,000 ($20,627,000 - $10,190,000); and West Penn = $42,970,000, or a reduction of $28,425,000 ($71,395,000 - $42,970,000).

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation is based on the minimum regulatory required budget as provided by the Company.[86] Even accepting this budget amount allows for a 16% increase over the most recent two-year historic average of 2022 and 2023 expenses.[87] A total allowance of $113,250,000 is more in line with the Company's recent demonstrated experience compared to the claim which represents a 111% increase over the most recent two-year historic average of 2022 and 2023.[88] In my opinion, the Company has not demonstrated that its minimum regulatory required

[86] I&E Exhibit No. 4, Schedule 7, p. 3.
[87] I&E Exhibit No. 4, Schedule 7, pp. 4-5.
[88] *Id.*

budget could not focus on areas that would allow for the most efficient use of resources while addressing the most critical areas. Doubling the Company's budget for vegetation management is imprudent and should not be allowed.

Q. IS THERE ANY DATA PROVIDED BY THE COMPANY THAT SUPPORTS YOUR RECOMMENDATION?

A. Yes. Data provided in response to OCA-III-20, indicates that most tree-related service interruptions were caused by trees outside of the Company's right of way. For example, for 2023, the following percentages were labeled as off-row tree instances: Met-Ed = 96.9%; Penelec = 99.6%; Penn Power = 99.0%; and West Penn = 98.6%.[89]

Q. WHAT ARE OFF-ROW TREES FOR A UTILITY?

A. My understanding is that off-row trees are typically outside of a utility's right of way.

ELECTRIC VEHICLE PILOT

Q. WHAT IS INCLUDED IN THE PROPOSED ELECTRIC VEHICLE (EV) PILOT PROGRAM?

A. The Company has included an EV pilot program that includes customer education costs and incentives/rebates due to the significant role electric vehicles will play in

[89] I&E Exhibit No. 4, Schedule 7, pp. 6-9.

the future of transportation.[90] In direct testimony, FE PA witness Mark A. Jones describes the main components of the education and awareness program as an online EV platform; a grant assistance component for governmental entities, school boards, transit authorities, and qualifying nonprofit organizations; a fleet advisory program; and a dealership toolkit program.[91]

Mr. Jones describes the incentive/rebate program as containing a residential component (installation of level 2 electric vehicle supply equipment), a nonresidential component (available to government agencies, nonprofits, workplaces, multiunit dwellings, and commercial publicly available locations), and a DC fast charger component as further described by Mr. Jones.[92]

Q. WHAT IS THE COMPANY'S CLAIM FOR THE EV PILOT PROGRAM?

A. The Company is claiming a total of $7,480,000 as a part of customer service and information expense in base rates for the proposed EV rebate program broken down as follows: Met-Ed = $1,924,000; Penelec = $2,292,000; Penn Power = $545,000; and West Penn = $2,719,000.[93]

Q. WHAT IS THE BASIS FOR THE COMPANY'S CLAIM?

A. As stated above, the Company is proposing this pilot program due to the

[90] FE PA Statement No. 8, pp. 13-15.
[91] FE PA Statement No. 8, pp. 14-15.
[92] FE PA Statement No. 8, pp. 15-16.
[93] FE PA Exhibit PML-1, p. 46, Adjustment IS-7.

significant role electric vehicles will play in the future of transportation.[94] The Company's total claim of $7,480,000 is broken down between education and awareness (e.g., the EV education platform, grant assistance, fleet advisory service, and the dealership toolkit program) of $3,480,000; residential rebates of $2,000,000; and $2,000,000 for the combined nonresidential and DC fast charging rebate components.[95]

Q. WHY DOES THE COMPANY STATE THAT RATEPAYERS SHOULD FUND THIS PILOT PROGRAM?

A. Mr. Jones indicates that many of the program elements are designed to benefit the public by expanding public charging infrastructure, assisting public service entities, and he opines that even the online education platform and dealership toolkits can directly benefit customers who do not purchase EVs by helping them understand the technology and whether EVs are the right choice for them.[96]

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No.

Q. WHAT DO YOU RECOMMEND FOR THE EV PILOT PROGRAM?

A. I recommend a total allowance of $5,160,000 broken down as follows: Met-Ed =

[94] FE PA Statement No. 8, p. 13.
[95] FE PA Statement No. 8, pp. 15-16.
[96] FE PA Statement No. 8, p. 17.

$1,327,000 or a reduction of $597,000 ($1,924,000 - $1,327,000); Penelec = $1,581,000 or a reduction of $711,000 ($2,292,000 - $1,581,000); Penn Power = $376,000 or a reduction of $169,000 ($545,000 - $376,000); and West Penn = $1,876,000 or a reduction of $843,000 ($2,719,000 - $1,876,000).

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. My recommendation accepts the assertion that it is beneficial for the community to expand public charging infrastructure and aid governmental and nonprofit agencies especially where public transportation is concerned,[97] but I disagree that with the recovery of costs for the proposed dealership EV toolkit of $320,000[98] and the EV residential rebates of $2,000,000. I feel confident that car dealerships need no help marketing electric vehicles. I recommend disallowance of the residential rebates because the related installation of EV supply equipment (e.g., related in-home plug/wiring for charging) would be taken advantage of by only a subset of ratepayers, and those rebates would be paid for in part by FirstEnergy low- and moderate-income customers who do not need an ad campaign for EVs to determine they cannot purchase such vehicle due to even slightly higher prices than gasoline fired engines. Ratepayers should not be required to fund such rebates as it is akin to the argument generally made for charitable contributions in that ratepayers should not be required to fund something that they do not

[97] This acceptance is made despite that many ratepayers will not make use of or benefit from such equipment.
[98] I&E Exhibit No. 4, Schedule 8, p. 1.

necessarily agree with. Some ratepayers would likely have a strong aversion to EVs and should not have to pay a part of the rebates for (generally) their more urban and/or "well-off" neighbors.

Finally, the Company provided a map of EV registrations in Pennsylvania that clearly shows concentrations in limited areas. Given FirstEnergy's expansive service territory, this supports my recommendation, since it subsidizes the cost of such vehicles' wiring, most likely in those areas where EVs are shown to be more popular (i.e., Pittsburgh, State College, York, etc.).[99]

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?

A. I allocated the total identified costs for the residential rebates and dealer toolkits using the same percentage breakdown that the Company identified in the total EV pilot program as follows:

EV Pilot						
Ref: FE PA Exhibit PML-1, p. 46, Adjustment IS-7						
$ in 000's						
			I&E	I&E	I&E	
		Company	Calculated	Removal of	Removal of	I&E
		Claim	% of Total	Res. Rebates	Dealer Toolkits	Recommendation
Met-Ed		$ 1,924	25.7%	$ 514	$ 82	$ 1,327
Penelec		2,292	30.6%	613	98	1,581
Penn Power		545	7.3%	146	23	376
West Penn		2,719	36.4%	727	116	1,876
Total		$ 7,480		$ 2,000	$ 320	$ 5,160

[99] I&E Exhibit No. 4, Schedule 8, pp. 2-5.

Q. DO YOU HAVE ANY FINAL COMMENTS ABOUT YOUR EV PILOT RECOMMENDATION?

A. Yes. Given the extensive nature of this pilot program, my lack of comment on any given component should not be construed as agreement with the specific proposal. Furthermore, if the Commission decides to allow any part of this pilot program, the Company should be required to submit yearly breakdowns of costs compared to budgeted component amounts as approved by the Commission by year, starting with 2025 and beyond. Since this would be included in base rates, it is important for the Company to be held accountable to show how the program is working so that in the subsequently filed rate case, the involved parties can make an informed recommendation about the potential continuance of the program or modification to it.

REFUND TO CUSTOMERS

Q. WHAT IS THE PROPOSED REFUND TO CUSTOMERS?

A. The Company is proposing to refund to customers, via a one-time bill credit, expenses that were improperly allocated in prior years with interest.[100] The Company has proposed a one-time bill credit to return the money to ratepayers as quickly as possible after the conclusion of this instant proceeding.[101]

[100] FE PA Statement No. 1, p. 19.
[101] FE PA Statement No. 1, p. 21.

Q. WHAT CAUSED THESE CHARGES TO COME TO LIGHT AND WHAT TYPES OF EXPENSES ARE ADDRESSED?

A. Following the Ohio House Bill 6 investigation, the Company's Board of Directors identified costs that may have lacked proper documentation or been improperly classified or allocated.[102] Additionally, during a Federal Energy Regulatory Commission audit, the Company identified expenses that were improperly recovered in rates, such as advertising, sports sponsorships, competitive services, and lobbying.[103] Finally, the Company hired an outside consulting firm to review certain costs deemed non-operating or non-recoverable, resulting in a final report to FirstEnergy in early 2023.[104]

Q. OVER WHAT TIME PERIOD WAS THIS AMOUNT COLLECTED FROM RATEPAYERS?

A. Documentation provided by the Company shows principal amounts starting back in 2007.[105]

Q. WHAT IS THE TOTAL AMOUNT PROPOSED TO REFUND AND THE RELATED INTEREST RATE IS THE COMPANY PROPOSING?

A. The Company is proposing to refund a total of $13,596,184 that was previously

[102] FE PA Statement No. 4, p. 37.
[103] *Id.*
[104] FE PA Statement No. 4, pp. 37-78.
[105] FE PA Exhibit JMS-1, p. 2.

collected from ratepayers, after applying compounded interest at a 6% rate.[106]

Q. WHAT IS THE BASIS FOR THE COMPANY'S PROPOSED INTEREST RATE?

A. The Company states that 6% is the legal statutory interest rate per 41 P.S. § 202.[107]

Q. DO YOU AGREE WITH THE PROPOSED 6% INTEREST RATE?

A. No. I recommend that the Company be required to compute compounded interest at 8% consistent with the interest rate used in calculating interest on customer deposits,[108] and consistent with the most recently issued Interest Rate Notice published by the Pennsylvania Department of Revenue on December 23, 2023.[109]

Q. WHAT IS YOUR RECOMMENDATION FOR THE TOTAL REFUND TO CUSTOMERS?

A. I recommend a total of $14,622,703 or an increase of $1,026,519 ($14,622,703 - $13,596,184) to the Company's claim based on the 8% interest rate mentioned above.

[106] FE PA Statement No. 1, pp. 19-20 and FE PA Exhibit JMS-1, p. 2.
[107] FE PA Statement No. 1, p. 20.
[108] FE PA Exhibit PML-1, p. 45, Adjustment IS-6.
[109] I&E Exhibit No. 4, Schedule 9, p. 1.

Q. HOW DID YOU CALCULATE YOUR RECOMMENDATION?

A. I used the Company's confidential workpapers to recalculate the recommendation[110] by changing the interest rate as recommended above.

Q. IS THERE ANYTHING ELSE THAT REQUIRES CLARITY RELATED TO THE PROPOSED ONE-TIME BILL CREDIT?

A. Yes. The Company suggests that an informational filing will be submitted to the Commission reporting the actual refunds distributed to customers not more than 30 days after the completion of the refund distribution.[111] However, I recommend that the Commission require the Company to supply such informational filing to all parties in this proceeding within that 30-day period. Simply sending it to "the Commission" will not ensure that all concerned parties receive the necessary information.

Q. HAS THE COMPANY AGREED IN DISCOVERY TO SUBMIT THE INFORMATION TO ALL PARTIES IN THE CURRENT PROCEEDING?

A. Not exactly. The Company has stated that it will submit the filing on the docket for this rate case and that all parties will have access to the information in the filing.[112] However, I recommend the Company be required to send such reports

[110] I&E Exhibit No. 4, Schedule 9, pp. 2-6 – PROPRIETARY.
[111] FE PA Statement No. 1, p. 21.
[112] I&E Exhibit No. 4, Schedule 9, p. 7.

directly to the parties in the instant proceeding so that they do not have to go looking for it on the Commission's website.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Christine S. Wilson
Professional and Educational Background

Experience:

Pennsylvania Public Utility Commission, Harrisburg, Pennsylvania
August 2013 to Present:
Fixed Utility Financial Analyst Supervisor, Bureau of Investigation and Enforcement
Responsible for supervising a team of fixed utility financial analysts and engineers in the analysis and preparation of written and oral testimony in base rate case proceedings, purchased gas cost proceedings, and other proceedings as required.

February 2008 to August 2013:
Fixed Utility Financial Analyst, Bureau of Investigation & Enforcement
Review of operating and maintenance expenses for regulated utilities as a part of the evaluation and recommendation process for utility base rate and purchased gas cost filings, preparing written testimony for cases, and testifying as an expert witness.

Prior Accounting Employment: Approximately fifteen years performing public, corporate, and nonprofit accounting, in addition to eight years of full-time administrative work.

Education/Certification:

Certified Public Accountant in Pennsylvania, 2000 to 2023 (inactive status as of January 1, 2024)

Green Mountain College, Poultney, Vermont
Sustainable MBA Program, four credits earned, 2009 to 2010

Pennsylvania State University, Middletown, Pennsylvania
Bachelor of Science, Professional Accountancy, 1995
(Graduated with distinction)

Utility-Related Trainings & Other Courses/Webinars:

PA Public Utility Commission Rate School, Presenter, January 2022 & February 2024

NARUC Staff Subcommittee on Accounting & Finance, Fall 2021 webinar, October 5-7, 2021

Institute of Public Utilities Accounting and Ratemaking Course (Online)
Michigan State University, East Lansing, Michigan, September 14-16, 2021 (not for credit)

NARUC Staff Subcommittee on Accounting & Finance, Spring 2021 webinar, April 6-8, 2021

NARUC Staff Subcommittee on Accounting & Finance, Fall 2020 webinar, October 21-22, 2020

Christine S. Wilson
Professional and Educational Background

Utility-Related Trainings & Other Courses/Webinars (continued):

S&P Global Essentials of Regulatory Finance, Georgetown University, Washington, DC, October 15-16, 2019

Taxation of Business Entities I: Corporations by University of Illinois, coursera.com, completed October 2019 (not for credit)

Federal Taxation II: Property Transactions of Business Owners and Shareholders by University of Illinois, coursera.com, completed August 2019 (not for credit)

Federal Taxation I: Individuals, Employees, and Sole Proprietorships by University of Illinois, coursera.com, completed July 2019 (not for credit)

Positive Psychology Specialization by University of Pennsylvania, coursera.com, completed May 2019 (not for credit)

Institute of Public Utilities Advanced Regulatory Studies Program
Michigan State University, East Lansing, Michigan, October 1-5, 2018 (not for credit)

Financial Markets (with Honors) by Yale University, coursera.com, completed November 2017 (not for credit)

PA Public Utility Commission Rate Case Training, March 5-6, 2010; October 4-5, 2012

Institute of Public Utilities Advanced Regulatory Studies Program
Michigan State University, East Lansing, Michigan, October 7-10, 2008

NARUC Utility Rate School (conducted by NARUC's Committee on Water and the Institute of Public Utilities, Michigan State University), San Diego, May 11-16, 2008

Testimony Submitted:

R-2023-3040153	Greater Hazleton Community Area New Development Organization, Inc. (CAN DO, Inc.)
R-2022-3032764	Leatherstocking Gas Company of PA, LLC
R-2022-3031704	Borough of Ambler – Water Department
R-2021-3027385	Aqua Pennsylvania, Inc. base rate case (Water)
R-2021-3027386	Aqua Pennsylvania Wastewater, Inc. base rate case
R-2021-3024750	Duquesne Light Company

Christine S. Wilson
Professional and Educational Background

Testimony Submitted (continued):

P-2020-3022426	PAWC Response to COVID-19 Emergency and Financial Impacts
R-2020-3019369 / 9371	PAWC base rate case (Water/Wastewater)
R-2018-3000164	PECO Energy Company – Electric Division
R-2017-2640058	UGI Utilities, Inc. – Electric Division
R-2014-2428745	Metropolitan Edison Company (Met-Ed)
R-2014-2428744	Pennsylvania Power Company (Penn Power)
R-2014-2428743	Pennsylvania Electric Company (Penelec)
R-2014-2428742	West Penn Power Company
R-2014-2402324	Emporium Water Company
R-2014-2406274	Columbia Gas of Pennsylvania, Inc.
R-2013-2397353	Pike County Power & Light (Gas)
R-2013-2372129	Duquesne Light Company
R-2013-2360798	Columbia Water Company
R-2012-2336379	York Water Company
R-2012-2321748	Columbia Gas of Pennsylvania, Inc.
R-2012-2292082	Peoples Natural Gas Company, LLC (1307(f))
R-2012-2285985	Peoples Natural Gas Company, LLC
R-2011-2267958	Aqua Pennsylvania, Inc.
R-2010-2214415	UGI Central Penn Gas, Inc.
R-2010-2201702	Peoples Natural Gas Company, LLC
R-2010-2166214	PAWC Northeast Wastewater Operations
R-2010-2166212	PAWC Coatesville Wastewater Operations
R-2010-2166210	PAWC Claysville Wastewater Operations
R-2010-2166208	PAWC Clarion Wastewater Operations
R-2010-2161694	PPL Electric Utilities Corporation
R-2009-2132019	Aqua Pennsylvania, Inc.
R-2009-2117740 / 7532	Penn Estates Utilities Inc. (Sewer) / (Water)

Christine S. Wilson
Professional and Educational Background

Testimony Submitted (continued):

M-2009-2123945	PPL Electric Utility Company (Smart Meter Plan)
M-2009-2123944	PECO Energy Company (Smart Meter Plan)
M-2009-2093216	PPL Electric Utility Corporation (EE&C Plan)
M-2009-2093215	PECO Energy Company (EE&C Plan)
R-2008-2079675	UGI Central Penn Gas, Inc.
R-2008-2046518	Pike County Light & Power Company (Electric)
R-2008-2042293	Newtown Artesian Water Company
R-2008-2032689	PAWC Coatesville Wastewater Operations

I&E Exhibit No. 4
Witness: Christine Wilson
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany

the

Direct Testimony

of

Christine Wilson

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

RATE BASE

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 3

"Reference FE PA Exhibit No. PML-1, Adjustment IS-8, Supporting Schedule 2 concerning rate case expense. Provide the following:

A. Supporting documentation in the form of invoices or contracts.

B. Justification for the Company's claimed three-year amortization period.

C. Indicate whether amounts from previous rate cases are being claimed in the FPFTY in either rate base or expense claims.

D. Indicate any amounts related to the current rate case that have already been spent and in which year those expenses are being claimed."

RESPONSE:

A. See FE PA Response to I&E Interrogatory RE, No. 3, HIGHLY CONFIDENTIAL Attachment A. FE PA will supplement this response with the engagement letter with Post & Schell, P.C. as soon as practicable.

B. FE PA anticipates filing rate cases on a regular basis going forward and selected the three-year amortization period to line up with that expected frequency of rate case filings.

C. Amounts from previous rates case are not being claimed in the FPFTY in either rate base or expense claims.

D. FE PA incurred rate case expense of $613,000 through April 30, 2024. One-third of the estimated total expense is being claimed in the FPFTY ending December 31, 2025.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 4

"Reference FE PA Exhibit No. PML-1, Adjustment IS-8, Supporting Schedule 2 concerning rate case expense. Provide the following details for the last three base rate cases filed with the Commission:

A. Docket number and date of filing.

B. Amount requested for total rate case expense for each case.

C. Actual amount incurred for total rate case expense for each.

D. Indicate whether each case was fully litigated or settled.

E. The effective date of each rate increase."

RESPONSE:

A. - E. The table below summarizes the requested information from FE PA's last three base rate case proceedings. The amounts shown reflect the combined requested rate case expenses, as well as the combined actual rate case expenses, for the Predecessor Companies.

Rate Districts	Met-Ed Penelec Penn Power West Penn	Met-Ed Penelec Penn Power West Penn	Met-Ed Penelec
Docket Nos.	R-2016-2537349 R-2016-2537352 R-2016-2537355 R-2016-2537359	R-2014-2428745 R-2014-2428743 R-2014-2428744 R-2014-2428742	R-0006136 R-0006137
Filing Date	4/28/2016	8/4/2014	4/10/2006
Amount Requested	$1,985,000	$1,800,000	$5,000,000[1]
Actual Expenses	$1,534,000	$1,372,000	$4,661,000[2]

[1] Docket Nos. R-0006136 and R-0006137 were for Transition Rate Plans. The amount requested and the actual expenses for these matters were atypical as it was for the combined expenses for the transmission, distribution, and generation related rates, which relied upon the utilization of many expert witnesses.
[2] *Id.*

Litigated or Settled	Settled	Settled	Fully Litigated
Effective Date	1/27/2017	5/3/2015	1/11/2007

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 28

"Reference FE PA Statement No. 4, concerning OPEBs:

A. State the method used prior to this rate case to calculate the OPEB expense claim.

B. State what the FPFTY 2025 claim amount would be using the method identified in response to Part A above."

RESPONSE:

A. Prior to this rate case, FE PA only recovered the service cost component of OPEB expense from ratepayers in its base rates.

B. For FPFTY 2025, see Response to I&E Interrogatory RE, No. 28, Attachment A.

2025 OPEB Fully Projected Future Test Year

	ME Dr/(Cr)	PN Dr/(Cr)	PP Dr/(Cr)	WP Dr/(Cr)	FE PA Dr/(Cr)
Total OPEB Service Cost	$ 10,686	$ 16,137	$ 1,660	$ 11,211	$ 39,694

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 23

"Reference FE PA Statement No. 4, p. 11 concerning pension expense. Explain why an average of historic cash contributions would not be more representative of actual cash expenditure needs each year as opposed to a method based on actuarial gains or losses calculated under the proposed delayed recognition methodology."

RESPONSE:

Contributions are calculated using IRS prescribed funding rates (25-year average rates) and rolling seven year funding periods, both of which are different from the rates and single year period in which the accounting costs are calculated. Therefore, historic cash contributions are not representative of the entire cost of providing this benefit to employees. Rather, the service cost, or the cost of the benefit that the employees earn for working this year, along with the carrying cost of the interest expense for the accrued benefits already earned, offset by asset performance are the true costs of the plan, which are captured using the delayed recognition methodology.

Pension Expense - Historic Cash Pension Contributions - I&E Assembled Information
Based on I&E-RE-24-D
'000's

	Met-Ed	Penelec	Penn Power	West Penn	FE PA Total
2014	$ -	$ -	$ -	$ -	$ -
2015	23,000	-	-	60,000	83,000
2016	50,887	193,320	18,132	21,231	283,570
2017	-	-	-	-	-
2018	69,356	113,544	24,832	59,607	267,339
2019	23,219	28,255	15,204	31,606	98,284
2020	-	-	-	-	-
2021	-	-	-	-	-
2022	-	-	-	-	-
2023	-	-	-	-	-
5-Year Historic Average-Recommended	$ 4,644	$ 5,651	$ 3,041	$ 6,321	$ 19,657
Pension Expense Claim	$ 11,460	$ 14,672	$ 3,980	$ (1,823)	$ 28,289
Recommended Adjustment	$ (6,816)	$ (9,021)	$ (939)	$ 8,144	$ (8,632)

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 30

"Reference FE PA Statement No. 4, p. 25, concerning the proposed delayed recognition methodology for pensions and OPEB claims, state whether there is anything stopping the Company proposing a new methodology in future rate cases."

RESPONSE:

FE PA's affiliates in New Jersey, Maryland and West Virginia have used the proposed delayed recognition for pension and OPEB costs for many years. Although there is nothing that prohibits the Company from proposing a new methodology in future rate cases, the Company has no intent to do so.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 24

"Reference FE PA Statement No. 4 and FE PA Exhibit PML-1, p. 48, Adjustment IS-8 concerning pension expense, provide actual historic cash contributions to the pension plan(s) by rate district by year for the ten years 2014 through 2023."

RESPONSE:

See Response to I&E Interrogatory RE, No. 24, Attachment A, for the actual historic cash contributions by rate district by year for the ten years 2014 through 2023. For years not presented in the attachment, the cash contribution for that particular year is $0.

Cash Contribution to the Pension Plan

		ME	PN	PP	WP	FE PA
	2015	23,000,000	-	-	60,000,000	83,000,000
	2016	50,887,000	193,319,500	18,132,400	21,230,800	283,569,700
	2018	69,355,500	113,544,400	24,831,800	59,607,000	267,338,700
	2019	23,219,000	28,255,200	15,204,400	31,606,000	98,284,600
Cash Contribution		166,461,500	335,119,100	58,168,600	172,443,800	732,193,000

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 27

"Reference FE PA Statement No. 4, p. 10 concerning the newly proposed immediate recognition method for pensions and OPEBs:

A. State whether the Company is proposing to use this new method for GAAP financial statement purposes as well as for ratemaking purposes.
B. State whether the Company commits to depositing the full amount set for ratemaking into the corresponding fund if the proposed method is adopted."

RESPONSE:

A. FE PA has been using the immediate recognition methodology for GAAP financial reporting purposes since January 1, 2011, and will continue to use this methodology for GAAP financial reporting purposes. The proposed delayed recognition methodology will only be used for ratemaking purposes.

B. FirstEnergy's pension funding is based upon actuarial computations in order to determine minimum required contributions in accordance with the Employee Retirement Income Security Act, which is separate from and independent of the ratemaking treatment of pension costs.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 25

"Reference FE PA Statement No. 4 and FE PA Exhibit PML-1, p. 48, Adjustment IS-8 concerning OPEB costs, provide actual historic cash payments to OPEB plan(s) by rate district by year for the ten years 2014 through 2023."

RESPONSE:

FE PA made no cash payments to the OPEB plans for the ten years 2014 through 2023.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 26

"Reference FE PA Statement No. 4, p. 10 concerning the proposed method for pension and OPEBs based on actuarial gains or losses calculated under the proposed delayed recognition methodology:

A. Provide the docket numbers by state for the New Jersey, Maryland, and West Virginia cases where approval of this method was granted along with website links to respective commission orders and/or related documentation.
B. List other Pennsylvania regulated utilities that have been approved to use this method, along with related docket numbers where approval was granted.

C. Provide the pension and OPEB funded status by year for 2021, 2022, 2023, and any future projected funded statuses that may be available for the FTY and FPFTY.

D. Provide the three most recently available full actuarial reports for pensions.

E. Provide the three most recently available full actuarial reports for OPEBs.

F. Provide all electronic workpapers in Excel used to determine the FPFTY amounts by rate division using: (1) the mark-to-market method; (2) the newly proposed immediate recognition method; and (3) what the claim would be using a cash contribution method.

G. Provide all communications from the Company's actuary used to determine any of the above outcomes shown in response to Part F above, most importantly, all communications related to the new method."

RESPONSE:

A. Please see the following for the most recent base rate case dockets and links to rulings:

- Maryland Case No. 9695 available at https://webpsc.psc.state.md.us/DMS/
- WV Case No. 23-0460-E-42T available at https://www.psc.state.wv.us/WebDocket/default.htm
- New Jersey Case No. ER20020146, available at https://publicaccess.bpu.state.nj.us/

B. It is our understanding that PPL Electric Utilities Corporation has calculated and recovers pension expenses on an accrual basis, beginning with its 1995 base rate proceeding

(Docket Nos. R-00943271C001-C0145) and reaffirmed in its 2004 base rate proceeding (Docket Nos. R-00049255, *et al*.), which is in contrast to the use of cash contributions.

C. See FE PA Response to I&E Interrogatory RE, No. 026, Attachment A for 2021-2023 Pension/OPEB funded status.

D. See the following attachments for the three most recently available full actuarial reports for pensions:
   - FE PA Response to I&E Interrogatory RE, No. 026, CONFIDENTIAL Attachment B for 2021 Qualified Pension report
   - FE PA Response to I&E Interrogatory RE No. 026, CONFIDENTIAL Attachment C for 2022 Qualified Pension report
   - RE PA Response to I&E Interrogatory RE No. 026, CONFIDENTIAL Attachment D for 2023 Qualified Pension report

E. See the following attachments for the three most recently available full actuarial reports for OPEBs:
   - FE PA Response to I&E Interrogatory RE, No. 026, CONFIDENTIAL Attachment E for 2021 OPEB report
   - FE PA Response to I&E Interrogatory RE, No. 026, CONFIDENTIAL Attachment F for 2022 OPEB report
   - FE PA Response to I&E Interrogatory RE, No. 026, CONFIDENTIAL Attachment G for 2023 OPEB report

F. See FE PA Response to I&E Interrogatory RE, No. 026, CONFIDENTIAL Attachment H for Excel workpapers detailing the components of Schedule TMA-1 and TMA-2.

G. Communications with the actuary are incorporated in the qualified pension and OPEB reports noted in parts D and E above.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 29

"Reference FE PA Statement No. 4, pp. 21-25 concern the proposed pension and OPEB normalization mechanism (PON Mechanism):

A. Explain why a regulatory asset/liability for tracking over or under-recovery is appropriate for a routine operating expense, particularly considering both funds are recently over 100% fully funded.

B. Identify any other Pennsylvania regulated utility that has been granted such treatment.

C. Explain how this PON Mechanism does not represent a request for a tracker when it is clearly indicated that the Company may wish to request refund or future recovery of any "over or under" amounts in a subsequent rate case.

D. Explain how a PON Mechanism would not reduce incentive for the Company to control costs."

RESPONSE:

A. There is volatility inherent in the amount of annual pension/OPEB expense which creates a risk that customer rates may not be representative of future costs or credits. Pension/OPEB expense is driven by macroeconomic and other factors, such as interest rates, asset returns, and employee mortality. This could result in the level of expense embedded in rates being too high or too low, given how those factors change and impact pension/OPEB expense annually. Because pension and OPEB expense is reset only during a base rate case proceeding, it does not capture fluctuations in pension/OPEB expense between cases. The purpose of the PON Mechanism is to moderate the income statement volatility from the impacts of the investment performance of pension/OPEB assets due to market fluctuations, which are outside of the Company's control.

B. The Company is not aware of any other Pennsylvania regulated utility that has been granted such treatment.

C. The term 'tracker' was referring to a mechanism that guarantees recovery. However, this is simply a request for authorization to establish an accounting

mechanism to record over-collected amounts as a regulatory liability and under-collected amounts as a regulatory asset. The Commission retains full authority to determine the prudency of any future pension/OPEB expenses. The cumulative amount will be presented by the Company in the subsequent base rate proceeding as a request for a rate adjustment to return to customers (in the case of a cumulative over collection) or collect from customers (in the case of a cumulative under collection). In that proceeding, all intervening parties will be afforded the opportunity to closely examine and evaluate the request and pension/OPEB expenses.

D. As described in section A above, there are many components to pension/OPEB expense that are outside of the Company's control that will be impacted by macroeconomic factors, such as interest rates, asset returns and employee mortality. However, FirstEnergy's goal is to minimize volatility for factors that can be controlled, with the biggest factor being the investment strategy of the plan. Assets are invested in order to preserve the funded ratio of the plans and provide benefits to plan participants and beneficiaries. FirstEnergy's Investment Committee is responsible for the safekeeping and management of the Plans' assets. FirstEnergy also engages an external investment consultant to research strategic asset allocation, which is evaluated by FirstEnergy's Investment Management Department. This diligence is in place and will remain regardless of the implementation of a PON mechanism.

Additionally, FirstEnergy complies with The Employee Retirement Income Security Act of 1974 ("ERISA"), which is a federal law that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals of these plans. ERISA requires plans to provide participants with important information about the plan features and funding, sets minimum standards for participation, vesting, benefit accruals and funding, requires accountability of plan fiduciaries, gives participants the right to sue for benefits and breaches of fiduciary duty, and guarantees payment of certain benefits if a plan is terminated.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 15

"Reference FE PA Exhibit No. PML-1, p. 41, Adjustment IS-5 concerning storm expense. Explain why a five-year average is appropriate."

RESPONSE:

As explained in the Direct Testimony of Patricia M. Larkin, FE PA Statement No. 3, pages 24 and 25, the Commission approved the use of a five-year average of historical storm expenses, excluding extraordinary storm damage expenses, for the FE PA Predecessor Companies at Docket Nos. R-2014-2428745, et al. FE PA proposes to continue using the five-year average previously relied upon in its calculation of storm damage expenses.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 12

"Reference FE PA Statement No. 3, p. 24 concerning the storm reserve account. State whether the Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745, et al. guaranteed subsequent recovery of historic amounts associated with the reserve account."

RESPONSE:

The Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745, *et al*. ("Joint Petition") provides that the Predecessor Companies will establish and maintain a Storm Reserve Account on the Company's balance sheet. "Expenses related to storm damage, excluding those expenses related to damage from extraordinary storm events, will be recorded in the Storm Reserve Account in order to eliminate any impact of such expenses on the Company's income statement. Expenses related to damage from extraordinary storm events will be accounted for separately in accordance with the current practice of petitioning the Commission for approval to defer such expenses. Both revenues received and costs incurred by the Company in support of other regulated utilities, including other jurisdictional and non-jurisdictional affiliated companies, for assisting during storm events will be reflected in the reserve account."[1] In accordance with the Joint Petition, the Predecessor Companies recorded their storm damage related expenses in their Storm Reserve Accounts. The Predecessor Companies did not seek to modify the amounts recovered in the storm reserve account in their 2016 base rate cases as the storm reserve accounts were in place for less than one year and appeared to be working as the parties intended in the Joint Petition. Therefore, since this is the Rate Districts' first available opportunity since then to seek recovery for the Rate Districts' storm damage related expenses, FE PA is requesting recovery of such in this instant case.

[1] *See* Pa. PUC v. Metropolitan Edison Company, et al., *Joint Petition for Partial Settlement of Rate Investigation,* Docket Nos. R-2014-2428745, et al., p. 8 (February 3, 2015).

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 13

"Reference FE PA Exhibit PML-1, p. 20, Adjustments RB-5 and IS-10 concerning unamortized storm reserve deferrals:

A. Explain precisely where the Company received permission from the Commission for rate base treatment of unamortized storm reserve balances for 2023 and 2024 activity.

B. Explain the basis for a three-year recovery period.

C. Provide a full accounting of storm costs by rate district by year as claimed in the reserve account since the reserve account's inception in the 2016 case by rate district. In the response show the additions by storm, reduction by base rate share, and provide an accounting of any revenues received for assistance services provided to other companies, affiliated or otherwise, and whether those revenues are used to reduce storm reserve claims.

D. Explain how assistance for and from other affiliated and nonaffiliated regulated utilities is handled, meaning, are costs associated with helping other companies with storm restoration charged to First Energy rate districts' ratepayers, and are costs associated with other companies helping First Energy rate districts to perform restoration work included for ratemaking.

E. Explain how the Company ensures that salaries, wages, and benefits are not double counted in the storm reserve and routine salaries, wages, and benefits claims.

F. Provide a breakdown similar to the response to Part C above that breaks down costs between labor related employee costs and all other costs."

RESPONSE:

A. The Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745, *et al*. ("Joint Petition") provides that the Predecessor Companies will establish and maintain a Storm Reserve Account on the Company's balance sheet. "Expenses related to storm damage, excluding those expenses related to damage from extraordinary storm events, will be recorded in the Storm Reserve Account in order to eliminate any impact of such expenses on the Company's income statement. Expenses related to damage from extraordinary storm events will be accounted for separately in accordance with the current

practice of petitioning the Commission for approval to defer such expenses. Both revenues received and costs incurred by the Company in support of other regulated utilities, including other jurisdictional and non-jurisdictional affiliated companies, for assisting during storm events will be reflected in the reserve account."[1] In accordance with the Joint Petition, the Predecessor Companies recorded their storm damage related expenses in their Storm Reserve Accounts. The Predecessor Companies did not seek to modify the amounts recovered in the storm reserve account in their 2016 base rate cases as the storm reserve accounts were in place for less than one year and appeared to be working as the parties intended in the Joint Petition. Therefore, since this is the Rate Districts' first available opportunity since then to seek recovery for the Rate Districts' storm damage related expenses, FE PA is requesting recovery of such in this instant case. However, the ratemaking treatment of the unamortized storm reserve account balances has not yet been addressed by the Commission. FE PA is requesting the authority for rate base treatment of unamortized storm reserve accounts in this instant case. The inclusion of storm reserve accounts in rate base is necessary to earn a return on prior storm expense actually paid for by FE PA.

B. FE PA anticipates filing rate cases on a regular basis going forward and selected the three-year amortization period to line up with that expected frequency of rate case filings.

C. See FE PA Response to I&E Interrogatory RE, No. 13, Attachment A for an accounting of the storm reserve beginning January 1, 2017.

D. Per the Joint Petition, "[b]oth revenues received and costs incurred by the Company in support of other regulated utilities, including other jurisdictional and non-jurisdictional affiliated companies, for assisting during storm events will be reflected in the reserve account."[2]

E. The FPFTY assumes a forecasted level of labor and associated benefits included in the storm expenses, thereby lowering the amount of non-storm O&M and eliminating the potential double counting labor.

F. See FE PA Response to I&E Interrogatory RE, No. 13, Attachment B for the breakdown of annual storm costs between labor and all other costs.

[1] *See* Pa. PUC v. Metropolitan Edison Company, et al., *Joint Petition for Partial Settlement of Rate Investigation,* Docket Nos. R-2014-2428745, et al., p. 8 (February 3, 2015).
[2] *Id.*

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 14

"Reference FE PA Exhibit PML-1, p. 20 and p. 56, Adjustments RB-5 and IS-10 concerning unamortized extraordinary storm damage deferrals:

A. Explain precisely where the Company received permission from the Commission for rate base treatment of unamortized extraordinary storm damage deferrals.

B. List all petitions filed by First Energy rate districts for extraordinary storm damage deferrals since 2014 along with the corresponding docket numbers and a breakdown by year showing when amortization first started for each individual storm.

C. Explain the basis for a three-year recovery period.

D. Explain why the Company would not begin amortizing 2018 and 2019 extraordinary storms approved for deferral treatment at the earliest opportunity, meaning in 2019/2020 timeframe."

RESPONSE:

A. The Commission's Orders approving the FE PA's Predecessor Companies' extraordinary storm damage petitions require that the deferred losses be claimed at the first available opportunity.[1] FE PA maintains the balances of the extraordinary storm damage deferrals on the balance sheet until such time it claims the deferred losses. Since this is the Rate Districts' first opportunity to claim the deferred losses, FE PA is requesting the authority for rate base treatment of unamortized extraordinary storm damage deferrals in this instant case. The inclusion of the unamortized extraordinary storm damage deferral in rate base is necessary to earn a return on prior storm expense actually paid for by FE PA.

B. See FE PA Response to I&E Interrogatory RS, No. 3, CONFIDENTIAL Attachment A, tab SWP p56 IS-10 Storms, Excel rows 13 through 25 for the docket numbers for all petitions filed by the Predecessor Companies since 2014 and the amounts related to each Predecessor

[1] *See Petition of Pennsylvania Electric Company for Authorization to Defer, for Regulatory Accounting and Reporting Purposes, Certain Losses from Extraordinary Storm Damage*, Docket No. P-2023-3044150, p. 6 (Opinion and Order entered Dec. 21, 2023*); Petition of Pennsylvania Power Company for Authorization to Defer, for Regulatory Accounting and Reporting Purposes, Certain Losses from Extraordinary Storm Damage*, Docket No. P-2023-3043073, p. 6 (Opinion and Order entered Dec. 7, 2023); *Petition of West Penn Power Company for Authorization to Defer, for Regulatory Accounting and Reporting Purposes, Certain Losses from Extraordinary Storm Damage*, Docket No. P-2023-3043394, p. 6 (Opinion and Order entered Nov. 9, 2023*).*

Company's extraordinary storm costs. FE PA is requesting recovery of the extraordinary storm damage deferrals in this instant case and, as such, has not amortized the balances.

C. FE PA anticipates filing rate cases on a regular basis going forward and selected the three-year amortization period to line up with that expected frequency of rate case filings.

D. The Commission's Orders approving the FE PA's Predecessor Companies' extraordinary storm damage deferral petitions require that the deferred losses be claimed at the first available opportunity.[2][3] FE PA maintains the balances of the extraordinary storm damage deferrals on the balance sheet until such time it claims the deferred losses. Since this is the Rate Districts' first opportunity to claim the deferred losses, FE PA is requesting recovery of such in this instant case.

[2] *Id.*
[3] The Commission has not yet issued an Order for the Petition at Docket No. P-2023-3044479, which was filed on November 29, 2023.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 17

"Reference FE Volume II, FE PA Exhibit PML-1, p. 57 concerning COVID-19 expenses:

A. Explain why it is appropriate to include late payment charge waivers in the calculations.

B. Explain why it is appropriate to include reconnect charge waivers in the calculations.

C. Explain why a three-year recovery period is appropriate, as claimed in FE PA Statement No. 3, p. 27, simply because it mirrors a time period granted for other utilities.

D. Identify any amount of unamortized COVID-19 expense reflected in the Company's rate base claim."

RESPONSE:

A., B. The Commission's Emergency Order prohibited utilities from terminating service and requested that utilities service be restored to customers whose service had previously been terminated.[1] Recognizing that complying with its Emergency Order would increase uncollectible expenses for utilities, the Commission, by Secretarial Letter, authorized utilities to create a regulatory asset for "any incremental uncollectible expenses incurred above those embedded in rates since the issuance of the Emergency Order."[2] Utilities were directed that they must claim their deferred expenses "at their first available opportunity."[3] In order to comply with the Emergency Order, FE PA waived late payment charges and reconnect charges for protected customers and recorded a regulatory asset for these uncollectible expenses. As this is FE PA's first available opportunity since the Emergency Order and subsequent Secretarial Letter to seek recovery for the deferred COVID-19 costs, it is appropriate to include both the late payment charge and reconnect charge waivers in its COVID-19 expenses at FE Volume II, FE PA Exhibit PML-1, pg. 57.

C. FE PA followed the three-year precedent for COVID-19 recovery set by the Commission in other utilities' rate cases.[4] Additionally, FE PA anticipates filing rate cases on a regular basis

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[1] *Public Utility Service Termination Moratorium Proclamation of Disaster Emergency – COVID-19*, Docket No. M-2020-3019244 (Emergency Order dated March 13, 2020, ratified March 26, 2020) (*Emergency Order*).
[2] *COVID-19 Cost Tracking and Creation of Regulatory Asset*, Docket No. M-2020-3019775 (Issued May 13, 2020) ("*Secretarial Letter*").
[3] *Id.*
[4] *See* FA PA Statement No. 3, p. 27.

going forward and selected the three-year amortization period to line up with that expected frequency of rate case filings.

D. See FE PA Exhibit PML-1 page 20, line 11 for the unamortized COVID-19 amounts reflected in rate base.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 16

"Reference FE PA Exhibit PML-1, p. 20, Adjustments RB-5 and IS-10 concerning COVID-19 related deferrals, explain precisely where the Company received permission from the Commission for rate base treatment of unamortized COVID-19 related deferred expenses."

RESPONSE:

FE PA is requesting the authority for rate base treatment of unamortized COVID-19 related deferrals in this instant case. The inclusion of the COVID-19 related deferrals in rate base is necessary to earn a return on prior COVID-19 expense actually paid for by FE PA.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

OFFICE OF CONSUMER ADVOCATE Set IV, No. 10

"Refer to Statement No. 2 page 8. Please provide five-years (2019-2023) of actual capitalized and expense costs related to vegetation management, by Company territory. (FE-PA Exhibit PML-1 page 40 of 63). Please also provide the following:

a. How does the Company determine which costs related to vegetation management is capitalized and which costs are expensed?
b. Provide all Contractor Agreements related to vegetation management and tree-trimming.
c. Please provide the Company's annual work plan related to vegetation management and tree-trimming.
d. Please identify any safety or reliability issues in need of immediate response related to pruning and removal.
e. Please provide the level of vegetation management currently included in the Company's O&M Expenses, and the incremental costs the Company is proposing to include."

RESPONSE:

The table below provides the actual capitalized and expense (Operating & Maintenance, or "O&M") costs for 2019 through 2023.

Rate District	Actual Costs	2019	2020	2021	2022	2023
Met-Ed	Capital	$22,836,001	$16,399,484	$12,035,555	($2,496)	$1,565
	O&M	$8,363,146	$8,870,288	$14,567,764	$32,331,232	$18,017,473
Penelec	Capital	$30,745,178	$15,773,466	$13,137,128	($1,921)	$0
	O&M	$10,895,315	$11,773,557	$16,523,117	$35,640,469	$19,696,234
Penn Power	Capital	$2,579,517	$2,493,133	$2,343,903	($866)	$0
	O&M	$5,641,910	$6,213,685	$5,822,760	$11,341,997	$6,618,802
West Penn	Capital	$32,374,017	$20,852,623	$18,044,969	$418	$0
	O&M	$13,555,318	$17,389,335	$22,897,640	$45,985,116	$25,264,858
Total PA	**Capital**	**$88,534,713**	**$55,518,706**	**$45,561,556**	**($4,864)**	**$1,565**
	O&M	**$38,455,690**	**$44,246,865**	**$59,811,281**	**$125,298,815**	**$69,597,367**

a. As a result of a change in FirstEnergy's accounting practices, which went into effect June 16, 2021, all standard maintenance activities are now accounted for as O&M.

b. See FE PA Response to OCA Interrogatory Set IV, No. 10 CONFIDENTIAL, Attachments A through J.

c. Under the Company's current vegetation management program, FE PA performs appropriate vegetation maintenance to obtain clearance along the distribution clearing zone for the entire cycle. The distribution clearing zone is a corridor measured at fifteen feet on either side of the pole line or to the established large tree edge. Vertically, the corridor is measured to fifteen feet above the highest conductor attached to the pole or structure. The Company's goal is to obtain clearance for the entire cycle, that is, until that corridor is next scheduled for vegetation maintenance. However, if cycle clearance is not attainable, the Company must ensure twelve feet of clearance around the distribution conductors. Each tree is evaluated based on species and growth rates to determine the necessary clearance to be obtained for the cycle.

d. The Company utilizes the imminent threat procedure when any safety or reliability issues requiring immediate response are identified. When identified, the contractor shall notify the FE PA representative and contractor supervision immediately upon becoming aware of vegetation conditions that present an imminent threat to FE PA electric facilities. An imminent threat is a vegetation condition that is likely to cause a fault at any moment. The contractor is to establish a work zone perimeter to protect the public and remain in a safe position at the site of the condition while a course of action is decided. Imminent threats are remediated as they are identified.

e. The table below provides the minimum regulatory required budget needed to achieve the regulatory requirements as set forth in 52 Pa. Code § 57.198(n)(1) and as defined in the Company's approved Biennial Inspection, Maintenance, Repair and Replacement Plan. The proposed incremental costs of the enhanced program are identified, as well as the cumulative total budget that includes the minimum regulatory required budget plus the incremental cost of the enhanced program ("Enhanced Program Total Budget"), broken down by Rate District for Year 1 followed by a table providing a breakdown by year, over the ten-year program.

Rate District	Minimum Regulatory Required Budget	Incremental Cost of Enhanced Program	Enhanced Program Total Budget
Met-Ed	$25,830,000	$28,619,360	$54,449,360
Penelec	$34,260,000	$25,365,382	$59,625,382
Penn Power	$10,190,000	$10,437,209	$20,627,209
West Penn	$42,970,000	$28,424,516	$71,394,516
FE PA Total	**$113,250,000**	**$92,846,466**	**$206,096,466**

Year of Program	Minimum Regulatory Required Budget	Incremental Cost of Enhanced Program	Enhanced Program Total Budget
Year 1	$113,250,000	$92,846,466	$206,096,466
Year 2	$116,647,500	$96,560,325	$213,207,825
Year 3	$120,146,925	$100,422,738	$220,569,663
Year 4	$123,751,333	$104,439,647	$228,190,980
Year 5	$127,463,873	$107,621,694	$235,085,567
Year 6	$131,287,789	$109,824,040	$241,111,829
Year 7	$135,226,423	$114,217,002	$249,443,425
Year 8	$139,283,215	$118,785,682	$258,068,897
Year 9	$143,461,712	$71,250,139	$214,711,851
Year 10	$147,765,563	$74,100,145	$221,865,708

Vegetation Management
'000

Based on I&E-RE-20-D	Met-Ed			Penelec			Penn Power			West Penn			Total Capital	Total Expense
	Capital	Expense	Total	Capital	Expense	Total	Capital	Expense	Total	Capital	Expense	Total		
2021	$12,036	$ 14,568	$26,604	$13,137	$ 16,523	$29,660	$2,344	$ 5,823	$8,167	$18,045	$ 22,898	$40,943	$ 45,562	$ 59,812
2022	(2)	32,331	32,329	(2)	35,640	35,638	(1)	11,342	11,341	-	45,985	45,985	(5)	125,298
2023	2	18,017	18,019	-	19,696	19,696	-	6,619	6,619	-	25,265	25,265	2	69,597
2024	-	27,702	27,702	-	34,381	34,381	-	10,535	10,535	-	43,180	43,180	-	115,798
historic averages														
2021-2023		21,639			23,953			7,928			31,383			84,902
2022-2023******		25,174			27,668			8,981			35,625			97,448

OCA-IV-10 Regulatory Required Budget - FPFTY (I&E Recommended)	25,830	34,260	10,190	42,970	113,250	16%	increase from prior 2-year historic average (2022-2023)
FPFTY Claims Per OCA-IV-10	54,449	59,625	20,627	71,395	206,096	111%	increase from prior 2-year historic average (2022-2023)
I&E Recommended Adjustment	$(28,619)	$(25,365)	$(10,437)	$(28,425)	$(92,846)		

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 20

"FE PA Statement No. 2 and FE PA Exhibit PML-1, p. 40, Adjustment IS-5, concerning vegetation management:

A. Provide the total FPFTY 2025 vegetation management expense claim for each rate district, since all that is provided on Exhibit PML-1 are *adjustments* to vegetation management expense.

B. Provide actual yearly amounts incurred by rate district for vegetation management expense for 2021, 2022, and 2023, along with budgeted amounts for FTY 2024.

C. Identify the corresponding capitalized amounts associated with the responses to Parts A and B above."

RESPONSE:

A. See FE PA Response to OCA Interrogatory Set IV, No. 10 subpart e, which provides the total vegetation management expense by year, starting with Year 1, the FPFTY 2025.

B. The table below provides the vegetation management actual expenses for 2021 through 2023 and the budgeted amounts for 2024.

Rate District		2021	2022	2023	2024 Budget
Met-Ed	Capital	$12,035,555	($2,496)	$1,565	$0
	O&M	$14,567,764	$32,331,232	$18,017,473	$27,702,337
Penelec	Capital	$13,137,128	($1,921)	$0	$0
	O&M	$16,523,117	$35,640,469	$19,696,234	$34,380,619
Penn Power	Capital	$2,343,903	($866)	$0	$0
	O&M	$5,822,760	$11,341,997	$6,618,802	$10,534,748
West Penn	Capital	$18,044,969	$418	$0	$0
	O&M	$22,897,640	$45,985,116	$25,264,858	$43,180,437
Total PA	**Capital**	**$45,561,556**	**($4,864)**	**$1,565**	**$0**
	O&M	**$59,811,281**	**$125,298,815**	**$69,597,367**	**$115,798,142**

C. All proposed enhanced vegetation management program costs are O&M. There are no capital dollars for the program.

2023

Row Labels	Sum of CI	Sum of CMI
ANIMAL	32300	2913810
BIRD	7277	454576
CUSTOMER EQUIPMENT	3983	61936
EQUIPMENT FAILURE	109688	21633943
FIRE	1165	449815
FORCED OUTAGE	122869	10339195
HUMAN ERROR - COMPANY	31725	1961375
HUMAN ERROR -NON-COMPANY	4527	802283
ICE	2	100
LIGHTNING	12812	3369411
LINE FAILURE	20766	4832076
OBJECT CONTACT WITH LINE	4840	415652
OTHER ELECTRIC UTILITY	18	2480
OTHER UTILITY-NON ELEC	122	8425
OVERLOAD	1567	124571
PREVIOUS LIGHTNING	566	160342
SWITCHING ERROR	927	18281
TREES - SEC/SERVICE	1978	960205
TREES OFF ROW-LIMB	49230	15339338
TREES OFF ROW-TREE	191181	63609451
TREES ON ROW	5773	1643027
UG DIG-UP	539	190657
UNKNOWN	80069	10506267
VEHICLE	51565	7553125
WIND	4409	1855344
Grand Total	**739898**	**149205685**

Met-Ed:	
I&E Calculated:	
Off-Row Tree/Limb	240411
On Row / Sec/Svc	7751
Total	248162
% Off-Row	96.9%
(Data from OCA-III-20, Attachment A)	

2023

Row Labels	Sum of CI	Sum of CMI
ANIMAL	37597	4228773
BIRD	12905	1277866
CALL ERROR	1	121
CONTAMINATION	168	14573
CUSTOMER EQUIPMENT	361	38847
EQUIPMENT FAILURE	197118	29098044
FIRE	1050	189172
FORCED OUTAGE	83443	9088004
HUMAN ERROR - COMPANY	14257	389859
HUMAN ERROR -NON-COMPANY	8283	926593
ICE	7782	2206979
LIGHTNING	29590	4826212
LINE FAILURE	88822	12886395
OBJECT CONTACT WITH LINE	590	207045
OTHER ELECTRIC UTILITY	2792	839510
OTHER UTILITY-NON ELEC	112	36478
OVERLOAD	2327	246923
PREVIOUS LIGHTNING	68	8951
SWITCHING ERROR	992	33696
TREES - SEC/SERVICE	2487	843336
TREES OFF ROW-LIMB	31473	7455694
TREES OFF ROW-TREE	237705	67142870
TREES ON ROW	963	393821
UG DIG-UP	771	178742
UNKNOWN	92989	10235518
VANDALISM	3821	196354
VEHICLE	53173	5540896
WIND	26453	18953830
Grand Total	**938093**	**177485102**

Penelec:	
I&E Calculated	
Off-Row Tree/Limb	969566
On Row / Sec/Svc	3450
Total	973016
% Off-Row	99.6%
(Data from OCA-III-20, Attachment B)	

2023

Row Labels	Sum of CI	Sum of CMI
ANIMAL	8121	631958
BIRD	3492	331589
CALL ERROR	371	100289
CUSTOMER EQUIPMENT	4	427
EQUIPMENT FAILURE	29607	2988340
FIRE	20	3240
FORCED OUTAGE	11539	531089
HUMAN ERROR - COMPANY	1	443
HUMAN ERROR -NON-COMPANY	87	18984
LIGHTNING	5047	806751
LINE FAILURE	7868	1382790
OBJECT CONTACT WITH LINE	47	2794
OTHER ELECTRIC UTILITY	70	15470
OVERLOAD	524	35095
PREVIOUS LIGHTNING	4	545
TREES - SEC/SERVICE	295	176385
TREES OFF ROW-LIMB	17351	2304846
TREES OFF ROW-TREE	23629	8907378
TREES ON ROW	137	33137
UG DIG-UP	596	53977
UNKNOWN	12845	1056477
VEHICLE	11074	1345258
WIND	11	47382
Grand Total	**132740**	**20774644**

Penn Power:	
I&E Calculated	
Off-Row Tree/Limb	40980
On Row / Sec/Svc	432
Total	41412
% Off-Row	99.0%
(Data from OCA-III-20, Attachment C)	

2023

Row Labels	Sum of CI	Sum of CMI
ANIMAL	22317	2663202
BIRD	11755	1194112
CUSTOMER EQUIPMENT	17	1852
EQUIPMENT FAILURE	89735	13399726
FIRE	1624	282821
FORCED OUTAGE	97424	8415483
HUMAN ERROR - COMPANY	3778	107052
HUMAN ERROR -NON-COMPANY	6184	890584
LIGHTNING	7670	1501825
LINE FAILURE	82818	18155150
OBJECT CONTACT WITH LINE	4136	477610
OTHER ELECTRIC UTILITY	1482	760373
OTHER UTILITY-NON ELEC	39	12378
OVERLOAD	106	54520
PREVIOUS LIGHTNING	3	759
TREES - SEC/SERVICE	834	381559
TREES OFF ROW-LIMB	34039	7944679
TREES OFF ROW-TREE	228229	115881751
TREES ON ROW	2799	1096665
UG DIG-UP	752	253492
UNKNOWN	106361	17667208
VANDALISM	12	5305
VEHICLE	64898	11683865
WIND	12384	4622665
Grand Total	**779396**	**207454636**

West Penn:	
I&E Calculated	
Off-Row Tree/Limb	262268
On Row / Sec/Svc	3633
Total	265901
% Off-Row	98.6%
(Data from OCA-III-20, Attachment D)	

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

OFFICE OF CONSUMER ADVOCATE Set IV, No. 66

"Refer to Statement No. 8 page 15. Please provide a detailed schedule showing the breakdown of the EV Education platform, grant assistance, fleet advisory services, and dealership toolkit program estimated at $3,480,000 annually."

RESPONSE:

The below table shows the breakdown of the EV education platform, grant assistance, fleet advisory services, and dealership toolkit program that total $3,480,000 annually.

Program	Budget
EV Education Platform	$400,000
Grant Assistance	$980,000
Dealership EV Toolkit	$320,000
Fleet Advisory	$1,000,000
Program Promotion and Marketing	$630,000
Full Time Employee	$150,000
Total	$3,480,000

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 42

"Reference FE PA Statement No. 8, pp. 13-19, and FE PA Exhibit PML-1, p. 46, Adjustment IS-7, line 8 concerning the electric vehicle (EV) pilot:

A. Provide all detailed calculations in Excel format with formulas intact showing how estimates for program costs for: (1) the individual education and awareness components totaling $3,480,000; and (2) the individual incentive/rebate components of $4,000,000 were determined.

B. Explain how the money will be used if the Company is unable to expend the total maximum amounts proposed in this filing for the intended purposes, particularly if there is significant underspending.

C. Provide copies of all written communication details and program rules/procedures developed thus far that would be used for each element of this program.

D. Explain how this program benefits low-income households where it is possible that EVs would be firmly viewed as an unattainable luxury.

E. Explain why it is proper that budget amounts are not more modest given that a large portion of residential customers in the Company's service territory may have little to no interest in driving EVs and will not be persuaded by such communications.

F. Cite Commission docket numbers where guidance and any parameters have been set in administering such programs.

G. Cite any other regulated utility's programs used as a guide in any way in developing parameters or cost estimates for the proposed pilot programs.

H. List all regulated utilities in Pennsylvania that have EV programs currently in place that First Energy is aware of."

RESPONSE:

A. See FE PA Response to OCA Interrogatory Set IV, No. 66.

B. The budget for the EV Pilot was derived from RFP responses from vendors to implement the various program elements, enrollment rates for similar programs in FirstEnergy's New Jersey and Maryland service territories, and overhead costs to execute those programs. As such, FE PA believes it has budgeted appropriately and plans to spend to the level requested.

C. See FE PA Response to I&E RE, No. 42, Attachments A-D. FE PA does not currently maintain any other written documents that are responsive to this request.

D. The median price of a new car sold as of January 2024 according to Kelly Blue Book is $47,401. There exist several car models, including the Nissan Leaf, Chevy Bolt, and Chevy Bolt EUV, whose MSRP starts under $30,000, about 40% below the median price. Federal rebates made available through the Inflation Reduction Act that can now even be applied at the time of purchase make some of these, as well as several other EV models, affordable and accessible to millions in Pennsylvania. Furthermore, as the EV market expands, the market for pre-owned EVs will expand as well, greatly expanding the availability of affordable EVs.

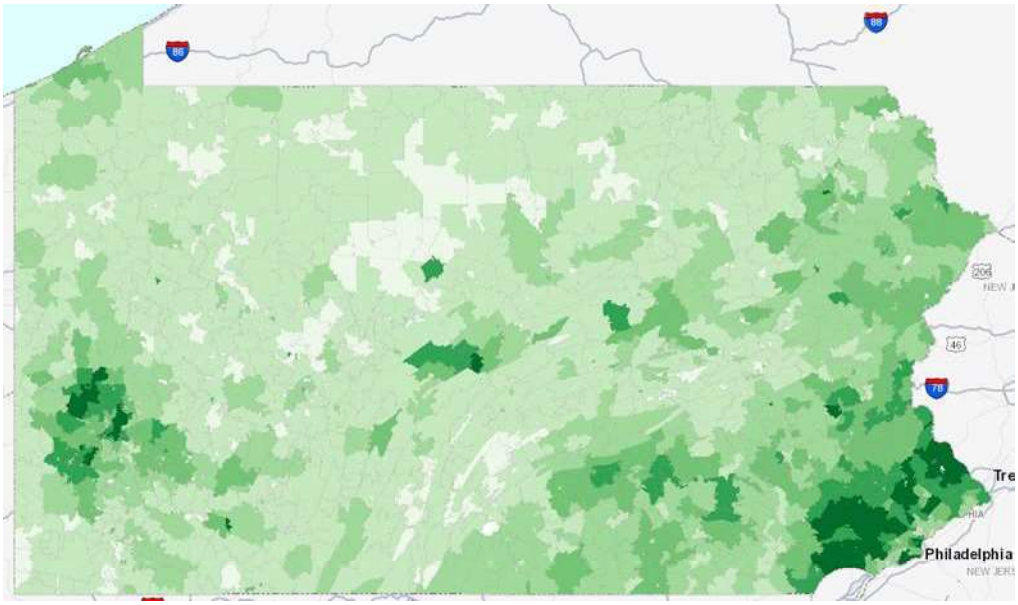
EVs also have much lower operational costs compared to their internal combustion engine counterparts. The cost of electric energy on a per-mile basis is substantially lower than the cost of gasoline on a per-mile basis, and EVs have less manufacturer recommended routine maintenance.

Because of the availability of EVs below the median purchase price of new vehicles, the availability of federal tax incentives that reduce the purchase price for those vehicles, the increase in availability of EVs in the pre-owned market, and the lower operational costs for EVs, FE PA does not believe these vehicles are an "unattainable luxury."

The EV Pilot also aims to assist low-income households by providing educational resources that will allow them to find all available incentives that make EVs more affordable and by increasing the availability of charging at multifamily homes, workplaces, and in the public for those that currently lack access to the ability to charge an EV.

In addition, the EV Pilot aims to increase the electrification of vehicle fleets, including public transit, through program elements such as fleet advisory, grant writing assistance, and charging rebates for public serving entities. These programs will help replace larger, more emitting vehicles with zero-emission alternatives. This will greatly reduce emissions resulting in environmental benefits for everyone, especially those that utilize said public transportation.

E. Below is the map of EV registrations published by PennDOT as of May 1, 2024, which is available at https://www.penndot.pa.gov/ProjectAndPrograms/Planning/EVs/Pages/default.aspx



The map shows concentrations EV registrations in FE PA's service territory in the areas surrounding Pittsburgh as well as State College, York, Erie, and Reading amongst others.

One of the objectives of the EV Pilot is to incentivize EV charging infrastructure that will increase access to EV ownership for customers. The budget for the EV Pilot accounts for the EV charging needs considering the large geographic footprint of FE PA. The forecast for EVs in the Company's service territory supports this need.

The below table is the forecasted EV counts by service region:

Forecasted EV Counts by Operating Company					
Year	MetEd	Penelec	PP	WPP	Total FE-PA
2024	35,631	14,901	7,736	38,405	96,673
2025	54,918	24,783	12,069	59,344	151,114
2026	81,577	41,271	18,408	89,148	230,404
2027	115,257	64,840	26,777	127,667	334,541
2028	156,027	96,334	37,284	175,256	464,901
2029	202,395	134,998	49,565	230,241	617,199
2030	252,359	179,399	63,117	290,383	785,258
2031	306,158	229,620	77,973	355,901	969,652
2032	363,264	285,012	93,961	426,085	1,168,322
2033	422,798	344,862	110,858	499,921	1,378,439
2034	485,808	410,141	128,958	578,715	1,603,622
2035	556,786	485,959	149,614	668,327	1,860,686

In addition to the larger population centers that are already adopting EVs, infrastructure investment is needed in rural areas to provide the necessary charging infrastructure to support EV ownership in those areas. The EV Pilot aims to provide financial incentive for this infrastructure to increase access to EVs that otherwise would not be built purely on an economic basis.

F. Guidance for the Company's EV programs can be found in the Final Policy Statement issued by the Pennsylvania Public Utility Commission on November 15, 2023, at Docket No. M-2022-3040755, which provides guidance on Electric Utility Rate Design for Electric Vehicle Charging. See also subpart (g) for other utilities' programs that informed FE PA's EV Pilot.

G. Programs that informed the proposed FE PA EV Pilot include programs by other FirstEnergy utilities include those offered by Jersey Central Power & Light Company (https://www.firstenergycorp.com/help/electric-vehicles/nj-ev/new-jersey-ev.html) and Potomac Edison Company (https://www.firstenergycorp.com/help/electric-vehicles/maryland-ev/maryland-ev.html).

   Other programs that were considered include programs offered by Duquesne Light Company (https://duquesnelight.com/energy-money-savings/electric-vehicles) and PECO (https://www.peco.com/smart-energy/innovation-technology/electric-vehicles-l3)

H. FE PA is aware of programs at Duquesne Light Company, PECO, and UGI Electric.

NOTICES

DEPARTMENT OF REVENUE

Interest Rate Notice

[53 Pa.B. 8006]
[Saturday, December 23, 2023]

Under sections 806 and 806.1 of The Fiscal Code (72 P.S. §§ 806 and 806.1), the Secretary of Revenue announces that, for the calendar year beginning January 1, 2024, all underpayments of tax which became due and payable to the Commonwealth shall bear interest at the rate of 8% per annum. All overpayments of the tax paid during this calendar year under Article III of the Tax Reform Code of 1971 (72 P.S. §§ 7301—7361) shall bear interest at the rate of 8% per annum. All other overpayments of tax paid during this calendar year shall bear interest at the rate of 6% per annum. These rates will remain constant until December 31, 2024. These rates will be codified under 61 Pa. Code § 4.2(a) (relating to rate of interest).

These rates have been established based upon the rate established by the Secretary of the Treasury of the United States under section 6621(a)(2) of the Internal Revenue Code (26 U.S.C.A. § 6621(a)(2)) to be effective January 1, 2024.

Although the Tax Reform Act of 1986 amended section 6621 of the Internal Revenue Code by requiring that the Secretary of the Treasury of the United States establish quarterly rates of interest to become effective for Federal purposes on the first month of each calendar quarter, these amendments do not affect Commonwealth law. The Fiscal Code, as previously cited, requires that the interest rate be established effective January 1 of each calendar year without regard to any change in the Federal interest rate during the calendar year.

PATRICK BROWNE,
Secretary

[Pa.B. Doc. No. 23-1769. Filed for public inspection December 22, 2023, 9:00 a.m.]

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FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
2024 BASE RATE CASE FILING
DOCKET NO. R-2024-3047068

BUREAU OF INVESTIGATION AND ENFORCEMENT RE, No. 9

"Reference FE PA Statement No. 4, pp. 19-21, concerning the refund to customers via a one-time bill credit:

A. Provide workpapers in Excel format (FE PA Exhibit JMS-1, JMS-2, JMS-3, and any others), with all formulas intact, used to calculate the $10.5 million to be refunded to customers and the resulting interest at 6% to produce a total refund amount of $13.6 million.

B. Provide any additional workpapers used to support the breakdown between the Met-Ed, Penelec, Penn Power, and West Penn Rate rate districts.

C. State who exactly in the Commission will receive the informational filing within 30 days after funds are distributed and explain why the parties in this proceeding would not also receive such an update."

RESPONSE:

A. and B. See FE PA Response to I&E Interrogatory RS, No. 1, CONFIDENTIAL Attachment A.

C. FE PA will submit the filing on the docket for this rate case. Therefore, all parties will have access to the information in the filing.

I&E Statement No. 1-R
Witness: Vanessa Okum
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Rebuttal Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

UNIVERSAL SERVICE PROGRAMS
SERVICE COMPANY INCENTIVE COMPENSATION

TABLE OF CONTENTS

INTRODUCTION 1

RESPONSE TO CAUSE-PA WITNESS HARRY GELLER 2

RESPONSE TO OCA WITNESS DANTE MUGRACE 8

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Vanessa Okum, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst.

Q. ARE YOU THE SAME VANESSA OKUM WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 1 AND THE SCHEDULES IN I&E EXHIBIT NO. 1?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address the direct testimony of the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) witness Harry S. Geller concerning universal service programs and the Office of Consumer Advocate (OCA) witness Dante Mugrace concerning service company incentive compensation.

Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 1-R contains schedules that support my rebuttal testimony.

RESPONSE TO CAUSE-PA WITNESS HARRY GELLER

Q. SUMMARIZE MR. GELLER'S RECOMMENDATIONS REGARDING UNIVERSAL SERVICE PROGRAMS.

A. Mr. Geller recommends numerous changes to the Company's four universal service programs including: (1) FirstEnergy Pennsylvania Electric Company's (FE PA or Company) Customer Assistance Program (PCAP); (2) the Hardship Fund (Dollar Energy Fund); (3) the Low-Income Usage Reduction Program (LIURP), also known as WARM; and (4) Customer Assistance Referral and Evaluation Services (CARES).[1] He also points out that FE PA's proposed 2024 Universal Service and Energy Conservation Plan (USECP) has recently been approved by the Commission, subject to a few conditions, but the Commission's Order is currently pending reconsideration and thus the Company has not yet implemented its new program.[2]

Q. DOES MR. GELLER MAKE ANY RECOMMENDATIONS THAT MAY NEGATIVELY IMPACT RATEPAYERS?

A. Yes. Mr. Geller recommends that FE PA increase its annual funding for hardship

[1] CAUSE-PA Statement No. 1, pp. 33-60.
[2] CAUSE-PA Statement No. 1, pp. 22-23.

grants to $1 million,[3] or an increase of $515,000 to the Company's fiscal year 2025 budget of $485,000.[4] He purposely does not specify a recommended source of funding.[5] Current funding is sourced entirely from shareholders and voluntary donations from ratepayers and employees.[6]

Mr. Geller also recommends that the Company increase its LIURP annual budget by a percentage equal to any approved increase in residential rates in this proceeding, allocated proportionally amongst FE PA's four rate districts.[7]

Q. DO YOU AGREE WITH MR. GELLER'S RECOMMENDATION THAT THE COMPANY SHOULD INCREASE ITS HARDSHIP AND LIURP FUNDING?

A. No. While Mr. Geller's recommendations are well-intentioned, it is inappropriate to consider an increase in any part of the universal service plan budget in this base rate proceeding.

Q. ARE THERE ANY RECENT COMMISSION DECISIONS THAT SUPPORT YOUR ARGUMENT?

A. Yes. Most recently the Commission stated the following related to a decision

[3] CAUSE-PA Statement No. 1, p. 43.
[4] I&E Exhibit No. 1-R, Schedule 1.
[5] CAUSE-PA Statement No. 1, p. 43.
[6] I&E Exhibit No. 1-R, Schedule 1.
[7] CAUSE-PA Statement No. 1, pp. 50-51.

concerning universal service issues in the Aqua Pennsylvania, Inc. base rate case,[8]

> Our decision on this issue is consistent with prior decisions in which we have determined that it was not appropriate to consider proposals relating to a public utility's energy burdens, CAP, and other universal service program issues within the context of a base rate proceeding, finding that such proposals are more properly considered in a public utility's Universal Service and Energy Conservation Plan (USECP) proceeding.

Additionally, in the PECO Energy Company – Gas Division proceeding the Commission did not consider CAUSE-PA's proposals related to the Customer Assistance Plan (CAP) and other universal service program issues within the context of the base rate proceeding because they would be more properly considered in its USECP proceeding.[9] In that proceeding, the Commission also referenced the 2020 Columbia Gas of Pennsylvania, Inc. (Columbia Gas) proceeding[10] where it concluded, "that energy burdens should not be considered separately from other parts of the Company's CAP and universal service programs but should be considered as part of the Company's entire universal service plan, including the need for changes and associated costs."[11]

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[8] *PA Public Utility Commission et al. v. Aqua Pennsylvania, Inc.*, Docket No. R-2021-3027386, p. 333 (Order Entered May 16, 2022).

[9] *PA Public Utility Commission v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, pp. 195-196 (Order Entered June 22, 2021).

[10] *PA Public Utility Commission v. Columbia Gas of Pennsylvania, Inc.*, Docket No. R-2020-3018835, p. 160 (Order Entered February 19, 2021).

[11] *PA Public Utility Commission v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929, p. 195 (Order Entered June 22, 2021).

Q. IS THERE ANY ADDITIONAL GUIDANCE THAT SUPPORTS YOUR RECOMMENDATION?

A. Yes. The Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, states,

> [A] LIURP budget can only be revised through a USECP proceeding initiated pursuant to the periodic USECP review process or in response to a petition to amend a USECP earlier than the periodic USECP review process.[12]

Further, it states as follows,

> As LIURP is a ratepayer-funded program, considerations impacting its budget determination should be open to scrutiny and comment. USECP proceedings allow all interested parties to provide comments, raise questions, and review information justifying the proposed change to the LIURP budget in an on-the-record proceeding. [13]

Q. WERE THERE ANY RECENT STATEMENTS MADE THAT SUPPORT YOUR RECOMMENDATION?

A. Yes. In Public Meeting on September 21, 2023, Commissioner John F. Coleman, Jr. (Commissioner Coleman) issued a statement to the 2022 UGI Utilities, Inc. – Electric Division (UGI Electric) base rate case at Docket No. R-2022-3037368, et al.,[14] regarding his concerns related to USECPs expressing,

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[12] Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, p. 36 (Order Entered May 18, 2023).

[13] Notice of Proposed Rulemaking for the *Initiative to Review and Revise the Exhibit Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1-58.18*, p. 37 (Order Entered May 18, 2023).

[14] *PA Public Utility Commission v. UGI, Utilities Inc. – Electric Division*, Docket No. R-2022-3037368, et al., Statement of Commissioner John F. Coleman, Jr., September 21, 2023.

> I am becoming increasingly uncomfortable with the modification to universal service programs within base rate cases, especially in base rate cases that result in black box settlements…the design, budgeting, and administration of universal service programs is a complex undertaking for our public utilities… [and the] complexity… [is] best addressed in USECP proceedings.[15]

Commissioner Coleman also cited the 2023 Order for LIURP Regulations,[16] adding,

> In that Order, the Commission stated "[t]he appropriateness, effectiveness, and prudence of the cost of universal service is determined in a USECP proceeding. How those universal service costs are recovered is addressed in a rate case." Also in that Order, the Commission stated that requiring LIURP budgets to be set in USECP proceedings is intended "to ensure that modifications conform to regulatory or policy-level considerations." It may be time to expand this reasoning to encompass all universal service programs – their designs and costs.[17]

Q. DOES THE COMPANY HAVE A USECP CURRENTLY UNDER REVIEW WITH THE COMMISSION?

A. Yes. On November 1, 2022, the Company filed its proposed 2024-2028 USECP, and on March 14, 2024, the Commission entered an Order conditionally approving the plan.[18] However, on March 29, 2024, CAUSE-PA filed a Petition for

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[15] Id., p. 2.

[16] *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program (LIURP) Regulations at 52 Pa. Code §§ 58.1—58.18*, Docket No. L-2016-2557886 (Order Entered May 18, 2023).

[17] *PA Public Utility Commission v. UGI, Utilities Inc. – Electric Division*, Docket No. R-2022-3037368, et al., Statement of Commissioner John F. Coleman, Jr., September 21, 2023, pp. 2-3.

[18] *Metropolitan Edison Company Universal Service and Energy Conservation Plan for 2024-2028, West Penn Power Company Universal Service and Energy Conservation Plan for 2024-2028, Pennsylvania Power Company Universal Service and Energy Conservation Plan for 2024-2028, and Pennsylvania Electric Company Universal Service and Energy Conservation Plan for 2024-2028* at Docket Nos. M-2022-3036532, M-2022-3036533, M-2022-3036534, and M-2022-3036535 (Order Entered March 14, 2024).

Reconsideration in this matter. On April 4, 2024, the Commission granted the petition, and on July 11, 2024, the Commission issued an updated Order denying a majority of the issues raised in CAUSE-PA's petition for reconsideration.[19]

Q. IN THE MARCH 14, 2024 ORDER, DID THE COMMISSION ADDRESS THE POSSIBILITY OF UPDATING THE "WARM" BUDGET OUTSIDE OF USECP REVIEWS?

A. Yes. The Order states that both CAUSE-PA and OCA express concern with the WARM budget and support updating the budget outside of USECP reviews. The Commission ruled that on March 2, 2026, FE PA shall file an updated WARM needs assessment for consideration to update the budget at that time. However, the Commission did not make any provisions for updating the budget within the context of a base rate case.[20]

The Order entered on July 11, 2024, does not address this topic specifically, but states more broadly,

> "As we discuss throughout this Order, we have based our decision on the record in this matter, consistent with statute, regulation, precedent, and policy. We conclude that there are

[19] *Metropolitan Edison Company Universal Service and Energy Conservation Plan for 2024-2028, West Penn Power Company Universal Service and Energy Conservation Plan for 2024-2028, Pennsylvania Power Company Universal Service and Energy Conservation Plan for 2024-2028, and Pennsylvania Electric Company Universal Service and Energy Conservation Plan for 2024-2028* at Docket Nos. M-2022-3036532, M-2022-3036533, M-2022-3036534, and M-2022-3036535, (Order Entered July 11, 2024).

[20] *Metropolitan Edison Company Universal Service and Energy Conservation Plan for 2024-2028, West Penn Power Company Universal Service and Energy Conservation Plan for 2024-2028, Pennsylvania Power Company Universal Service and Energy Conservation Plan for 2024-2028, and Pennsylvania Electric Company Universal Service and Energy Conservation Plan for 2024-2028* at Docket Nos. M-2022-3036532, M-2022-3036533, M-2022-3036534, and M-2022-3036535, p. 108 (Order Entered March 14, 2024).

no material questions of fact that need to be resolved in a base rate case or in a stand-alone OALJ proceeding."[21]

Additionally, the Commission stated:

"The FirstEnergy PA's base rate case is already well underway and sending even limited issues relative to the 2024 USECP to that proceeding or a stand-alone OALJ proceeding would increase stakeholder litigation costs and impose delays on implementation of aspects of the 2024 USECP. Further, USECP modifications that are made through a rate case or OALJ settlement agreement may not include any analysis of why these changes are necessary or their potential cost-impacts."[22]

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ABOUT MR. GELLER'S DIRECT TESTIMONY?

A. Yes. Due to the length, depth, and number of issues addressed in Mr. Geller's direct testimony, lack of response to any topic or recommendation should not be interpreted as agreement with his recommendations.

RESPONSE TO OCA WITNESS DANTE MUGRACE

Q. SUMMARIZE MR. MUGRACE'S RECOMMENDATIONS REGARDING SERVICE COMPANY INCENTIVE COMPENSATION.

A. Mr. Mugrace recommends that short-term incentive compensation (STIP) paid to

[21] *Metropolitan Edison Company Universal Service and Energy Conservation Plan for 2024-2028, West Penn Power Company Universal Service and Energy Conservation Plan for 2024-2028, Pennsylvania Power Company Universal Service and Energy Conservation Plan for 2024-2028, and Pennsylvania Electric Company Universal Service and Energy Conservation Plan for 2024-2028* at Docket Nos. M-2022-3036532, M-2022-3036533, M-2022-3036534, and M-2022-3036535, p. 24 (Order Entered July 11, 2024).

[22] Id., p. 26.

service company employees related to financial metrics, which represents 30% of total STIP awards, be disallowed. He states that these types of incentives do not correlate to ratepayer benefits but rather benefit the Company and its shareholders. Therefore, he concludes that these incentives should be funded by shareholders and not recovered from ratepayers.[23]

Additionally, Mr. Mugrace recommends that long-term incentive compensation (LTIP), which is paid to service company executives, should be disallowed in its entirety, as it is based solely on financial metrics and clearly benefits the interests of shareholders.[24]

Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDATION?

A. No. While I agree that LTIP compensation should be disallowed in its entirety, I disagree that only 30% of STIP compensation should be disallowed. As shown in my direct testimony and accompanying exhibit, **{BEGIN PROPRIETARY}** [redacted] **{END PROPRIETARY}**[25] For this reason, I argue that financial metrics are the primary driver of STIP compensation, and therefore, the related claim should be disallowed in its entirety.

[23] OCA Statement No. 1, pp. 40-41.
[24] OCA Statement No. 1, pp. 41-42.
[25] I&E Statement No. 1, pp. 24-26 and I&E Exhibit No. 1, Schedule 5.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 1-R
Witness: Vanessa Okum

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany

the

Rebuttal Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

UNIVERSAL SERVICE PROGRAMS
SERVICE COMPANY INCENTIVE COMPENSATION

2019	Utility Contributions/Dependent on Match from Customer Contributions*	Ratepayer/Employee Contributions	PA Consolidation
Met-Ed	$114,404	$114,404	
Penelec	$72,859	$72,859	
Penn Power	$36,639	$36,639	
West Penn	$108,224	$144,381	
2020			
Met-Ed	$120,352	$120,352	
Penelec	$73,506	$73,506	
Penn Power	$37,114	$37,114	
West Penn	$108,089	$142,820	
2021			
Met-Ed	$118,207	$118,207	
Penelec	$74,929	$74,929	
Penn Power	$36,385	$36,610	
West Penn	$106,305	$137,835	
2022			
Met-Ed	$114,531	$114,531	
Penelec	$70,717	$70,717	
Penn Power	$35,120	$35,177	
West Penn	$107,010	$130,119	
2023			
Met-Ed	$115,833	$115,833	
Penelec	$69,827	$69,827	
Penn Power	$34,103	$34,103	
West Penn	$105,422	$132,178	
2024			
Met-Ed	$117,000		$43,000
Penelec	$73,000		$42,000
Penn Power	$36,000		$12,500
West Penn	$109,000		$52,500
2025			
Met-Ed	$117,000		$43,000
Penelec	$73,000		$42,000
Penn Power	$36,000		$12,500
West Penn	$109,000		$52,500

2026		
Met-Ed	$117,000	$43,000
Penelec	$73,000	$42,000
Penn Power	$36,000	$12,500
West Penn	$109,000	$52,500

I&E Statement No. 4-R
Witness: Christine Wilson

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Rebuttal Testimony

of

Christine Wilson

Bureau of Investigation & Enforcement

Concerning:

PENSION AND OPEB EXPENSES

CAPITALIZED PENSION AND OPEBs

PENSION AND OPEB NORMALIZATION MECHANISM

TABLE OF CONTENTS

INTRODUCTION OF WITNESS 1

FE PA PENSION AND OPEB CLAIM METHODS AND I&E'S RESPONSE 2

OCA WITNESS DANTE MUGRACE'S RECOMMENDATIONS 4

INTRODUCTION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christine Wilson, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation & Enforcement (I&E) as a Fixed Utility Financial Analyst Supervisor.

Q. ARE YOU THE SAME CHRISTINE WILSON WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 4 AND THE SCHEDULES IN I&E EXHIBIT NO. 4?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to briefly address the direct testimony of the Office of Consumer Advocate (OCA) witness Dante Mugrace (OCA Statement No. 1) concerning the FirstEnergy Pennsylvania Electric Company's (FE PA, or Company) pension and other post-employment benefits (OPEB) claims and the related proposed pension and OPEB normalization mechanism.

Q. DOES YOUR REBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. No.

FE PA PENSION AND OPEB CLAIM METHODS AND I&E'S RESPONSE

Q. BRIEFLY SUMMARIZE THE COMPANY'S PROPOSED METHODS TO DETERMINE PENSION AND OPEB CLAIMS.

A. As stated in my direct testimony,[1] FE PA makes claims for its defined benefit pension retirement plan and its other post-employment benefit (OPEB) plan. The Company has made several related claims: expense claims, rate base claims, and a proposed pension and OPEB normalization mechanism (PON Mechanism).[2] In this proceeding, the Company has proposed to switch its method for ratemaking from the prior methods: (1) a prior ten-year average of cash contributions for its pension;[3] and (2) a recovery of the service cost component for OPEBs[4] to a delayed recognition method that amortizes net accumulated actuarial losses over future periods for both pension and OPEBs.[5]

Q. WHAT WAS YOUR RECOMMENDATION IN DIRECT TESTIMONY RELATED TO THESE ASSOCIATED CLAIMS?

A. In direct testimony, I disagreed entirely with this switch in pension and OPEB

1 I&E Statement No. 4, p. 15.
2 FE PA Statement No. 4, pp. 11-25.
3 FE PA Statement No. 4, p. 9.
4 I&E Exhibit No. 4, Schedule 2, p. 1.
5 FE PA Statement No. 4, pp. 11-12.

methods for ratemaking purposes. The switch in methods overly complicates the determination of proper allowances for ratemaking and makes resulting future claim determinations subject to manipulation if any variables, including but not limited to the future period over which any future net gains or losses are amortized, are changed in the actuarial calculations.[6] Instead, I recommended that the Company be required to continue using the cash pension contribution method, changing to a historic five-year normalization aligning with the Company's rate case filing frequency, which is designed with a target of 100% funding and aligns better with what a utility needs to pay out in a test year.[7]

For OPEB expense, I recommended that FE PA not be allowed to deviate from its method used in prior rate cases based on recovery of the service cost component,[8] and further noted that the Company has not made any cash payments to OPEBs from 2014 to 2023,[9] thus I recommended that an allowance in line with the service cost component.[10]

I also recommended a complete disallowance of any capitalized pension and OPEB costs in rate base.[11] Finally, I recommended a complete disallowance of the regulatory asset/liability treatment for over or under-recovery of pension and OPEB expenses via the proposed PON Mechanism.[12]

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6 I&E Statement No. 4, p. 18.
7 I&E Statement No. 4, p. 19, and p. 21.
8 I&E Exhibit No. 4, Schedule 2, p. 1.
9 I&E Exhibit No. 4, Schedule 2, p. 9.
10 I&E Statement No. 4, p. 23.
11 I&E Statement No. 4, pp. 25-27.
12 I&E Statement No. 4, pp. 27-33.

OCA WITNESS DANTE MUGRACE'S RECOMMENDATIONS

Q. WHAT IS OCA WITNESS MUGRACE'S POSITION ASSOCIATED WITH THE COMPANY'S CLAIMED CAPITALIZED PENSION AND OPEB EXPENSES IN RATE BASE?

A. Mr. Mugrace disagrees with the Company's proposed capitalized balance and associated rate base treatment for the pension and OPEB assets as they are "merely a financial accounting mismatch" due to FirstEnergy's proposed change in methods for its pension and OPEB claims for ratemaking.[13]

Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDED DISALLOWANCE OF RATE BASE TREATMENT FOR THE PENSION AND OPEB ASSETS?

A. Yes. As stated in my direct testimony, I disagree entirely with FE PA's proposed switch in pension and OPEB methods for ratemaking purposes, thus I disagree with any rate base treatment for related timing differences.[14]

Q. WHAT DID MR. MUGRACE RECOMMEND RELATED TO THE COMPANY'S PROPOSED PENSION AND OPEB EXPENSE CLAIMS?

A. It is not entirely clear to me what Mr. Mugrace is recommending since he references OCA-IV-47 to support his adjustment to pension expense; however,

[13] OCA Statement No. 1, p. 28.
[14] I&E Statement No. 4, p. 18.

that interrogatory addresses OPEBs. He does state however that, "While the Company can account for its Pension costs under its proposed change in methodology, for ratemaking purposes, I am recommending a five-year normalization."[15] It's not clear to me whether he accepted the proposed delayed recognition method and this normalization uses numbers associated with that delayed recognition methodology, or if he uses some other method. For his five-year normalization though, he uses amounts for the years 2021 through 2025.[16] For OPEB expense he recommends normalizing the service cost component over a similar five-year period, using the years 2021 through 2025.[17]

Q. DO YOU AGREE WITH MR. MUGRACE'S RECOMMENDED METHODS TO DETERMINE PENSION AND OPEB EXPENSE ALLOWANCES?

A. No. As stated in direct testimony, I disagree with switching methods from cash contributions to a delayed recognition method for ratemaking purposes and instead recommend that the Company be required to continue using a historic average of actual cash contributions to arrive at an appropriate pension expense allowance.[18] Additionally, in direct testimony, I recommended that the Company should not

[15] OCA Statement No. 1, p. 61.
[16] *Id.*
[17] OCA Statement No. 1, p. 63.
[18] I&E Statement No. 4, pp. 18-23.

deviate from its method for OPEBs used in prior rate cases which is based on recovery of the service cost component.[19] Thus, I stand by my recommendations.

Q. DOES MR. MUGRACE ADDRESS THE COMPANY'S PROPOSED PON MECHANISM?

A. No. I do not see that he addresses the PON Mechanism at all. I cannot be certain if his recommended disallowance of capitalized pension and OPEB expense implies disagreement with the proposed PON Mechanism, or if he is accepting the proposed PON Mechanism.[20] It should be noted, however, my interpretation is that the PON Mechanism is an entirely separate claim from the pension and OPEB amounts claimed in rate base in the instant proceeding.

Q. DOES YOUR RECOMMENDATION FOR THE PROPOSED PON MECHANISM CHANGE AS A RESULT OF ANYTHING IN MR. MUGRACE'S DIRECT TESTIMONY?

A. No. I continue to recommend a complete disallowance of the Company's proposed PON Mechanism for the reasons explained in my direct testimony.[21]

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

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[19] I&E Exhibit No. 4, Schedule 2, pp. 1-2.
[20] OCA Statement No. 1, p. 28.
[21] I&E Statement No. 4, pp. 15-33.

I&E Statement No. 1-SR
Witness: Vanessa Okum
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Surrebuttal Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES,

RATE BASE, PLR DEFERRED ASSET

TABLE OF CONTENTS

INTRODUCTION **1**

SUMMARY OF RECOMMENDED ADJUSTMENTS **4**

OVERALL I&E POSITION **6**

PAYROLL EXPENSE **11**

EMPLOYEE BENEFITS **15**

PAYROLL TAXES **17**

SERVICE COMPANY EXPENSE **22**

PRIVATE LETTER RULING (PLR) DEFERRED ASSET **26**

CASH WORKING CAPITAL **28**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Vanessa Okum. My business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as a Fixed Utility Financial Analyst in the Pennsylvania Public Utility Commission's (Commission) Bureau of Investigation and Enforcement (I&E).

Q. ARE YOU THE SAME VANESSA OKUM WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted I&E Statement No. 1 Proprietary, I&E Statement No. 1 Non-Proprietary, I&E Exhibit No. 1 Proprietary, I&E Exhibit No. 1 Non-Proprietary, I&E Statement No. 1-R Proprietary, I&E Statement No. 1-R Non-Proprietary, and I&E Exhibit No. 1-R. For purposes of clarity, when I reference my prior testimony and exhibits, I will be referencing the Non-Proprietary version unless otherwise indicated.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN ACCOMPANYING EXHIBIT?

A. Yes. I&E Exhibit No. 1-SR contains schedules relating to my surrebuttal

testimony.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of the following witnesses for FirstEnergy Pennsylvania Electric Company (FE PA or Company) and Local 777 of the International Brotherhood of Electrical Workers (IBEW Local 777) regarding FE PA's operating and maintenance (O&M) expenses, rate base, and the Company's Private Letter Ruling (PLR) deferred tax amortization:

- FE PA Statement No. 3-R – Patricia M. Larkin
- FE PA Statement No. 5-R – Gregory J. Gawlik
- FE PA Statement No. 13-R – April Marx
- IBEW Local 777 – Rebuttal Testimony of Daulph A. Kline

Note that I do not intend for my surrebuttal testimony to address every issue raised or otherwise discussed by the witnesses in this proceeding. My lack of response to any recommendation, position, or assertion of any witness does not necessarily indicate agreement with their rebuttal testimony.

Q. HAS FE PA UPDATED ITS OVERALL REVENUE REQUIREMENT CLAIM IN REBUTTAL TESTIMONY?

A. Yes. FE PA identified several components of its initial filing that required

revision.[1] The updates resulted in a total FPFTY revenue increase of $513,192,000,[2] which includes a projected increase to other operating revenues of $1,387,000. The increase to distribution revenues of $511,805,000, broken down by rate district, is as follows:

	Revenue Increase
Met-Ed	$144,326,000
Penelec	$139,988,000
Penn Power	$54,519,000
West Penn	$172,971,000
Total FirstEnergy	**$511,805,000**

The Company is not seeking to recover from ratepayers more than its initial requested increase of $503,849,000, however, it asks that any adjustments proposed by the parties in this proceeding be applied to the updated amount because it is the revenue requirement supported by the evidence in this proceeding.[3]

Q. DO YOU AGREE WITH FE PA WITNESS PATRICIA LARKIN'S ASSERTION THAT THE COMPANY'S REVENUE REQUIREMENT[4] SHOULD BE ACCEPTED AS THE COMPANY'S NEW STARTING POINT PRIOR TO I&E'S RECOMMENDED ADJUSTMENTS?

A. Yes, I accept the updated revenue requirement as the new starting point to which I

[1] FE PA Statement No. 3-R, pp. 3-5.
[2] FE PA Exhibit No. PML-7, pp. 1-2.
[3] FE PA Statement No. 3-R, pp. 5-6.
[4] FE PA Statement No. 3-R, pp. 5-6.

will propose my adjustments. Due to I&E's continued recommended adjustments as explained in each witness's surrebuttal testimony, I provide an update to the I&E overall recommended increase below following my summary of recommended adjustments as presented in this surrebuttal testimony.

SUMMARY OF RECOMMENDED ADJUSTMENTS

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS AS UPDATED IN THIS SURREBUTTAL TESTIMONY.

A. The following tables summarize my updated recommendations as discussed further in this surrebuttal testimony:

Met-Ed Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$37,585,000	$36,461,000	($1,124,000)
Employee Benefits Expense	$16,174,000	$15,690,000	($484,000)
Payroll Tax Expense	$2,657,000	$2,578,000	($79,000)
Service Company Expense	$53,655,782	$46,790,473	($6,865,309)
Total O&M Adjustments			**($8,552,309)**
Rate Base Adjustments:			
Capitalized Payroll	$46,309,000	$44,924,000	($1,385,000)
Capitalized Employee Benefits	$19,929,000	$19,333,000	($596,000)
Capitalized Payroll Taxes	$3,273,000	$3,175,000	($98,000)
Cash Working Capital	$65,234,000	$64,035,000	($1,199,000)
Total Rate Base Adjustments			**($3,278,000)**

Penelec Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$42,908,000	$41,604,000	($1,304,000)
Employee Benefits Expense	$10,292,000	$9,979,000	($313,000)
Payroll Tax Expense	$3,043,000	$2,950,000	($93,000)
Service Company Expense	$62,285,942	$54,069,799	($8,216,143)
PLR Deferred Asset Amortization	$4,811,000	$2,886,798	($1,924,202)
Total O&M Adjustments			**($11,850,345)**
Rate Base Adjustments:			
Capitalized Payroll	$49,367,000	$47,866,000	($1,501,000)
Capitalized Employee Benefits	$11,842,000	$11,482,000	($360,000)
Capitalized Payroll Taxes	$3,502,000	$3,396,000	($106,000)
Unamortized PLR Deferred Asset	$9,622,991	$11,547,193	$1,924,202
Cash Working Capital	$64,441,000	$63,089,000	($1,352,000)
Total Rate Base Adjustments			**($1,394,798)**

1

Penn Power Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Payroll Expense	$8,107,000	$7,930,000	($177,000)
Employee Benefits Expense	$3,027,000	$2,961,000	($66,000)
Payroll Tax Expense	$570,000	$558,000	($12,000)
Service Company Expense	$15,829,931	$13,786,583	($2,043,348)
Total O&M Adjustments			**($2,298,348)**
Rate Base Adjustments:			
Capitalized Payroll	$14,860,000	$14,536,000	($324,000)
Capitalized Employee Benefits	$5,548,000	$5,427,000	($121,000)
Capitalized Payroll Taxes	$1,045,000	$1,022,000	($23,000)
Cash Working Capital	$14,835,000	$15,119,000	$284,000
Total Rate Base Adjustments			**($184,000)**

2

West Penn Rate District	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Payroll Expense	$34,484,000	$33,746,000	($738,000)
Employee Benefits Expense	$5,250,000	$5,138,000	($112,000)
Payroll Tax Expense	$2,436,000	$2,384,000	($52,000)
Service Company Expense	$63,759,694	$56,441,257	($7,318,437)
PLR Deferred Asset Amortization	$2,261,000	$1,356,366	($904,634)
Total O&M Adjustments			**($9,125,071)**
Rate Base Adjustments:			
Capitalized Payroll	$46,847,000	$45,844,000	($1,003,000)
Capitalized Employee Benefits	$7,133,000	$6,980,000	($153,000)
Capitalized Payroll Taxes	$3,309,000	$3,238,000	($71,000)
Unamortized PLR Deferred Asset	$4,520,828	$5,425,462	$904,634
Cash Working Capital	$56,986,000	$57,307,000	$321,000
Total Rate Base Adjustments			**($1,366)**

OVERALL I&E POSITION

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT FOR MET-ED?

A. I&E's total updated recommended revenue requirement for Met-Ed is $517,820,000. This recommended revenue requirement represents an increase of $21,844,000 to the Company's present rate revenues of $495,976,000. This total recommended allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the

testimonies of I&E witnesses D.C. Patel,[5] Joseph Kubas,[6] and Christine Wilson.[7] A calculation of the I&E recommended revenue requirement is shown below in Table I(a):

FE-Met-Ed		TABLE I(a)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	495,976	0	495,976	21,844	517,820
Deductions:					
O&M Expenses	216,399	-82,603	133,796	255	134,051
Depreciation/Amortization	165,039	0	165,039		165,039
Taxes, Other	32,467	0	32,467	1,326	33,793
Income Taxes:					
Current State	-24	6,770	6,746	1,619	8,365
Current Federal	1,181	16,367	17,548	3,915	21,463
Deferred Taxes	2,010	0	2,010		2,010
ITC	0	0	0		0
Total Deductions	417,072	-59,466	357,606	7,115	364,721
Income Available	78,904	59,466	138,370	14,729	153,099
Measure of Value	2,154,022	-95,914	2,058,108	0	2,058,108
Rate of Return	3.66%		6.72%		7.44%

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT FOR PENELEC?

A. I&E's total updated recommended revenue requirement for Penelec is $541,824,000. This recommended revenue requirement represents an increase of $45,020,000 to the Company's present rate revenues of $496,804,000. This total recommended allowance incorporates my adjustments made in this testimony to

[5] I&E Statement No. 2.
[6] I&E Statement No. 3.
[7] I&E Statement No. 4.

O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue requirement is shown below in Table I(b):

FE-Penelec		TABLE I(b)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	496,804	0	496,804	45,020	541,824
Deductions:					
O&M Expenses	208,278	-59,224	149,054	570	149,624
Depreciation/Amortization	152,412	0	152,412		152,412
Taxes, Other	31,928	0	31,928	2,731	34,659
Income Taxes:					
Current State	1,398	4,840	6,238	3,333	9,571
Current Federal	4,491	11,701	16,192	8,061	24,253
Deferred Taxes	6,268	0	6,268		6,268
ITC	0	0	0		0
Total Deductions	404,775	-42,683	362,092	14,695	376,787
Income Available	92,029	42,683	134,712	30,325	165,037
Measure of Value	2,277,823	-59,234	2,218,589	0	2,218,589
Rate of Return	4.04%		6.07%		7.44%

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT FOR PENN POWER?

A. I&E's total updated recommended revenue requirement for Penn Power is $152,601,000. This recommended revenue requirement represents an increase of $20,179,000 to the Company's present rate revenues of $132,422,000. This total recommended allowance incorporates my adjustments made in this testimony to

O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue requirement is shown below in Table I(c):

FE-Penn Power		TABLE I(c)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	132,422	0	132,422	20,179	152,601
Deductions:					
O&M Expenses	61,798	-22,900	38,898	205	39,103
Depreciation/Amortization	49,016	0	49,016		49,016
Taxes, Other	8,364	0	8,364	1,226	9,590
Income Taxes:					
Current State	-1,333	1,876	543	1,498	2,041
Current Federal	-2,855	4,535	1,680	3,623	5,303
Deferred Taxes	1,527	0	1,527		1,527
ITC	0	0	0		0
Total Deductions	116,517	-16,489	100,028	6,552	106,580
Income Available	15,905	16,489	32,394	13,627	46,021
Measure of Value	644,733	-26,079	618,654	0	618,654
Rate of Return	2.47%		5.24%		7.44%

Q. WHAT IS I&E'S TOTAL UPDATED RECOMMENDED REVENUE REQUIREMENT FOR WEST PENN?

A. I&E's total updated recommended revenue requirement for West Penn is $539,628,000. This recommended revenue requirement represents an increase of $95,282,000 to the Company's updated present rate revenues of $444,346,000. This total recommended allowance incorporates my adjustments made in this

testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A calculation of the I&E recommended revenue requirement is shown below in Table I(d):

FE-West Penn		TABLE I(d)			
R-2024-3047068		INCOME SUMMARY			
($ in Thousands)					
	12/31/25	INVESTIGATION & ENFORCEMENT			
	Proforma	[----------			----------]
	Present Rates	Adjustments	Present Rates	Allowances	Proposed
	$	$	$	$	$
Operating Revenue	444,346	0	444,346	95,282	539,628
Deductions:					
O&M Expenses	211,256	-46,552	164,704	895	165,599
Depreciation/Amortization	148,002	0	148,002		148,002
Taxes, Other	29,219	0	29,219	5,797	35,016
Income Taxes:					
Current State	-1,013	3,803	2,790	7,078	9,868
Current Federal	-1,597	9,200	7,603	17,118	24,721
Deferred Taxes	3,992	0	3,992		3,992
ITC	0	0	0		0
Total Deductions	389,859	-33,549	356,310	30,888	387,198
Income Available	54,487	33,549	88,036	64,394	152,430
Measure of Value	2,095,780	-46,667	2,049,113	0	2,049,113
Rate of Return	2.60%		4.30%		7.44%

Q. PLEASE SUMMARIZE I&E'S UPDATED COMBINED RECOMMENDED REVENUE REQUIREMENT.

A. I&E's total updated recommended revenue requirement for all FirstEnergy rate districts combined is $1,751,873,000. This recommended revenue requirement represents an increase of $182,325,000 to the Company's updated present rate revenues of $1,569,548,000. As mentioned above, this total recommended

allowance incorporates my adjustments made in this testimony to O&M expenses and rate base, and those recommended adjustments made in the testimonies of I&E witnesses D.C. Patel, Joseph Kubas, and Christine Wilson. A summary of the total I&E recommended revenue requirement is shown in the table below:

First Energy - I&E Overall Recommendation Total Revenue Requirement Summary ($ in Thousands)					
	Total Company	Met Ed	Penelec	Penn Power	West Penn
Present Rate Revenue	$ 1,569,548	$ 495,976	$ 496,804	$ 132,422	$ 444,346
I&E Recommended:					
Additional Revenue Requirement	$ 182,325	$ 21,844	$ 45,020	$ 20,179	$ 95,282
I&E Recommended Revenues	$ 1,751,873	$ 517,820	$ 541,824	$ 152,601	$ 539,628
Rate Increase/(Decrease)	$ 182,325	$ 21,844	$ 45,020	$ 20,179	$ 95,282
	11.6%	4.4%	9.1%	15.2%	21.4%
Company Filing Increase	$ 513,192	$ 144,695	$ 140,409	$ 54,666	$ 173,422
Difference	$ (330,867)	$ (122,851)	$ (95,389)	$ (34,487)	$ (78,140)

PAYROLL EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR PAYROLL EXPENSE.

A. I recommended an allowance of $119,741,000 for payroll expense, or a reduction of $3,343,000 ($123,084,000- $119,741,000) to the Company's payroll expense claim, and an allowance of $153,170,000 for capitalized payroll, or a reduction of $4,213,000 ($157,383,000 - $153,170,000) to the Company's capitalized payroll claim broken down by rate district as follows:

Payroll Expense	FPFTY O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$37,585,000	$36,461,000	($1,124,000)
Penelec	$42,908,000	$41,604,000	($1,304,000)
Penn Power	$8,107,000	$7,930,000	($177,000)
West Penn	$34,484,000	$33,746,000	($738,000)
Total FirstEnergy	**$123,084,000**	**$119,741,000**	**($3,343,000)**

Capitalized Payroll	FPFTY Capitalized Claim	I&E Allowance	I&E Adjustment
Met-Ed	$46,309,000	$44,924,000	($1,385,000)
Penelec	$49,367,000	$47,866,000	($1,501,000)
Penn Power	$14,860,000	$14,536,000	($324,000)
West Penn	$46,847,000	$45,844,000	($1,003,000)
Total FirstEnergy	**$157,383,000**	**$153,170,000**	**($4,213,000)**

My recommendation was based on the following vacancy rates calculated for each rate district and applied to payroll expense:[8]

	Average Vacancy Rate
Met-Ed	2.99%
Penelec	3.04%
Penn Power	2.18%
West Penn	2.14%

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness April Marx and IBEW Local 777 witness Daulph Kline address my recommendation.

[8] I&E Statement No. 1, pp. 12-15.

Q. PLEASE SUMMARIZE MS. MARX'S RESPONSE.

A. Ms. Marx disagrees with my recommendation. She states that it is not appropriate to single out one historical component of labor costs and apply a reduction to other costs. She continues that although a vacancy rate is expected and normal, the portfolio of work is still completed by existing employees using overtime or by additional retained contractors, and therefore, an expense is still incurred. She adds that additional hiring expenses may also be incurred to fill the vacant positions.[9]

Q. DO YOU AGREE WITH MS. MARX'S ARGUMENT?

A. I disagree with Ms. Marx's argument. Since a level of vacancies has always existed historically, the proper level of overtime, contractors, and hiring expenses have already been built into the FPFTY budget. Those expenses are not affected by vacancies; however, payroll expense and other labor-related expenses such as employee benefits and payroll taxes are affected.

Q. PLEASE SUMMARIZE MR. KLINE'S RESPONSE.

A. Mr. Kline addresses Met-Ed specifically, and states that the union does not necessarily support a vacancy adjustment. He continues that Local 777 would be amendable to supporting a full recovery of Met-Ed's payroll expense and

[9] FE PA Statement No. 13-R, pp. 3-4.

capitalized payroll if Med-Ed demonstrated it was implementing new methods for recruitment that would justify a forecasted reduction in its vacancy rate.[10]

Q. DO YOU AGREE WITH MR. KLINE'S POSITION?

A. No. While new hiring methods could possibly result in a higher level of staffing, Met-Ed has not demonstrated an intent to implement new hiring practices, therefore the point is moot within the context of the current base rate case. It is reasonable to expect Met-Ed will have a vacancy rate in the FPFTY that is comparable to its historic vacancy rate.

Q. HAS MS. MARX'S OR MR. KLINE'S TESTIMONY CHANGED YOUR RECOMMENDATION TO APPLY A VACANCY ADJUSTMENT TO PAYROLL EXPENSE?

A. No. I continue to recommend applying a vacancy rate in each rate district that is specific to the historic vacancy rate of that district, resulting in an overall allowance of $119,741,000 for payroll expense, or a reduction of $3,343,000 ($123,084,000- $119,741,000) to the Company's payroll expense claim, and an allowance of $153,170,000 for capitalized payroll, or a reduction of $4,213,000 ($157,383,000 - $153,170,000) to the Company's capitalized payroll claim as broken down by rate district above.

[10] IBEW Local 777 Rebuttal Testimony of Daulph A Kline, pp. 3-5.

EMPLOYEE BENEFITS

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR EMPLOYEE BENEFITS.

A. I recommended an allowance of $33,768,000, or a reduction of $975,000 ($34,743,000 - $33,768,000) to the Company's employee benefits expense claim and an allowance of $43,222,000, or a reduction of $1,230,000 ($44,452,000 - $43,222,000) to the Company's capitalized benefits claim broken down by rate district as follows:

O&M Employee Benefits	FPFTY O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$16,174,000	$15,690,000	($484,000)
Penelec	$10,292,000	$9,979,000	($313,000)
Penn Power	$3,027,000	$2,961,000	($66,000)
West Penn	$5,250,000	$5,138,000	($112,000)
Total FirstEnergy	**$34,743,000**	**$33,768,000**	**($975,000)**

Capitalized Employee Benefits	FPFTY Capitalized Claim	I&E Allowance	I&E Adjustment
Met-Ed	$19,929,000	$19,333,000	($596,000)
Penelec	$11,842,000	$11,482,000	($360,000)
Penn Power	$5,548,000	$5,427,000	($121,000)
West Penn	$7,133,000	$6,980,000	($153,000)
Total FirstEnergy	**$44,452,000**	**$43,222,000**	**($1,230,000)**

My recommendation corresponded to the vacancy adjustment made to payroll expense above and was calculated by applying the same vacancy rate to

employee benefits.[11]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness April Marx and IBEW Local 777 witness Daulph Kline address my recommendation.

Q. PLEASE SUMMARIZE MS. MARX'S RESPONSE.

A. Ms. Marx does not directly address this recommendation but mentions derivative adjustments to payroll expense and states that applying a headcount factor to labor costs does not take into consideration the actual cost of the employees.[12]

Q. DO YOU AGREE WITH MS. MARX'S ARGUMENT?

A. No. I calculated my adjustment using the same vacancy rate used for payroll expense. If the Company's forecasted increase in benefits is calculated based on payroll expense,[13] then a decrease in payroll expense would also result in a corresponding decrease in employee benefits.

Q. PLEASE SUMMARIZE MR. KLINE'S RESPONSE.

A. Mr. Kline states that because this expense is related to the payroll adjustment, which the union does not necessarily support, the union believes this reduction

[11] I&E Statement No. 1, pp. 17-18.
[12] FE PA Statement No. 13-R, p. 4.
[13] FE PA Exhibit No. PML-7, p. 48.

should be forestalled for the same reasons he listed concerning the payroll adjustment.[14]

Q. DO YOU AGREE WITH MR. KLINE?

A. No. As stated above in my surrebuttal testimony, the Company has not identified any changes to its hiring methods and therefore it is not reasonable to expect a significant reduction in vacancy rates.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR EMPLOYEE BENEFITS?

A. No. I continue to recommend an overall allowance of $33,768,000, or a reduction of $975,000 ($34,743,000 - $33,768,000) to the Company's employee benefits expense claim and an allowance of $43,222,000, or a reduction of $1,230,000 ($44,452,000 - $43,222,000) to the Company's capitalized benefits claim broken down by rate district as shown above.

PAYROLL TAXES

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR PAYROLL TAXES?

A. I recommended an allowance of $9,160,000 for O&M payroll tax expense, or an increase of $6,300,000 ($9,160,000 - $2,860,000) and an allowance of

[14] IBEW Local 777 Rebuttal Testimony of Daulph A Kline, pp. 5-6.

$11,718,000 for capitalized payroll taxes, or an increase of $8,080,000 ($11,718,000 - $3,638,000) to the Company's as-filed claim broken down by rate district as follows:

O&M Payroll Tax Expense	FPFTY As-Filed O&M Claim	I&E Allowance	I&E Adjustment
Met-Ed	$872,000	$2,789,000	$1,917,000
Penelec	$984,000	$3,183,000	$2,199,000
Penn Power	$138,000	$607,000	$469,000
West Penn	$866,000	$2,581,000	$1,715,000
Total FirstEnergy	**$2,860,000**	**$9,160,000**	**$6,300,000**

Capitalized Payroll Tax Expense	FPFTY As-Filed Capitalized Claim	I&E Allowance	I&E Adjustment
Met-Ed	$1,075,000	$3,437,000	$2,362,000
Penelec	$1,132,000	$3,662,000	$2,530,000
Penn Power	$254,000	$1,112,000	$858,000
West Penn	$1,177,000	$3,507,000	$2,330,000
Total FirstEnergy	**$3,638,000**	**$11,718,000**	**$8,080,000**

Due to a calculation error made by the Company and uncovered during the discovery process,[15] my adjustment resulted in an increase to the Company's claim to first adjust for the error as I expected it to be updated by the Company in

[15] I&E Exhibit No. 1, Schedule 3.

rebuttal testimony, and then to apply the vacancy rate to correspond with the payroll adjustment.[16]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witnesses Patricia Larkin and April Marx disagree with my recommendation.

Q. PLEASE SUMMARIZE MS. MARX'S RESPONSE.

A. Ms. Marx states that with respect to derivative adjustments to payroll taxes (resulting from my adjustment to payroll expense), applying a headcount factor to labor costs does not take into consideration the actual cost of the employee in terms of salary, which is the foundation for payroll taxes.[17]

Q. DO YOU AGREE WITH MS. MARX'S STATEMENT?

A. No. I calculated my adjustment using the same vacancy rate used for payroll expense. If the Company's forecasted increase in payroll tax is calculated based on payroll expense,[18] then a decrease in payroll expense would also result in a corresponding decrease in payroll tax.

[16] I&E Statement No. 1, 19-23.
[17] FE PA Statement No. 13-R, p. 4.
[18] FE PA Exhibit No. PML-7, p. 48.

Q. PLEASE SUMMARIZE MS. LARKIN'S RESPONSE.

A. Ms. Larkin disagreed with my adjustment to capitalized payroll expenses to correct the Company's as-filed claim, asserting that only the payroll tax expense claim was incorrect, and the capitalized claim was not.[19]

Q. DO YOU ACCEPT MS. LARKIN'S ASSERTION THAT IT WAS UNNECESSARY TO CORRECT THE CAPITALIZATION PAYROLL EXPENSE CLAIM?

A. Yes. The Company corrected its payroll tax rate in rebuttal testimony, and I accept her argument that the correction did not apply to the capitalized portion of payroll taxes.

Q. SUMMARIZE THE COMPANY'S UPDATED CLAIM FOR PAYROLL TAX.

A. The Company updated its FPFTY claim for payroll taxes to a total of $19,835,000[20] which is broken down by rate district and partially capitalized to rate base, producing payroll tax expense and capitalized payroll tax as follows:

[19] FE PA Statement No. 3-R, pp. 9-10.
[20] FE PA Exhibit PML-7, p. 59.

Payroll Tax Expense	FPFTY Claim	O&M Allocation	Payroll Tax Expense	Capitalized Payroll Tax
Met-Ed	$5,930,000	44.8%	$2,657,000	$3,273,000
Penelec	$6,545,000	46.5%	$3,043,000	$3,502,000
Penn Power	$1,615,000	35.3%	$570,000	$1,045,000
West Penn	$5,745,000	42.4%	$2,436,000	$3,309,000
Total FirstEnergy	**$19,835,000**		**$8,706,000**	**$11,129,000**

Q. DO YOU AGREE WITH THE COMPANY'S CORRECTED PAYROLL TAX CLAIM?

A. No. The Company's updated claim does not account for my recommended vacancy rates.

Q. DO YOU HAVE AN UPDATE TO YOUR RECOMMENDATION BASED ON THE COMPANY'S UPDATED CLAIM?

A. Yes. My updated recommendation applies my previously calculated vacancy rates to the Company's updated claim for payroll tax expense and capitalized payroll, resulting in an allowance of $8,470,000, or a reduction of $236,000 ($8,706,000 - $8,470,000) to the Company's updated FPFTY payroll tax expense claim and an allowance of $10,831,000, or a reduction of $298,000 ($11,129,000 - $10,831,000) to the Company's updated capitalized payroll tax claim and is broken down by rate district as follows:

O&M Payroll Tax Expense	Updated FPFTY O&M Claim	Updated I&E Allowance	Updated I&E Adjustment
Met-Ed	$2,657,000	$2,578,000	($79,000)
Penelec	$3,043,000	$2,950,000	($93,000)
Penn Power	$570,000	$558,000	($12,000)
West Penn	$2,436,000	$2,384,000	($52,000)
Total FirstEnergy	**$8,706,000**	**$8,470,000**	**($236,000)**

Capitalized Payroll Tax Expense	Updated FPFTY Capitalized Claim	Updated I&E Allowance	Updated I&E Adjustment
Met-Ed	$3,273,000	$3,175,000	($98,000)
Penelec	$3,502,000	$3,396,000	($106,000)
Penn Power	$1,045,000	$1,022,000	($23,000)
West Penn	$3,309,000	$3,238,000	($71,000)
Total FirstEnergy	**$11,129,000**	**$10,831,000**	**($298,000)**

SERVICE COMPANY EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR SERVICE COMPANY EXPENSE.

A. I recommended an allowance of $171,088,112 or a reduction of $24,443,237 to the Company's FPFTY service company expense claim broken down as follows:

Service Company Expense	FPFTY Claim	I&E Allowance	I&E Adjustment
Met-Ed	$53,655,782	$46,790,473	($6,865,309)
Penelec	$62,285,942	$54,069,799	($8,216,143)
Penn Power	$15,829,931	$13,786,583	($2,043,348)
West Penn	$63,759,694	$56,441,257	($7,318,437)
Total FirstEnergy	**$195,531,349**	**$171,088,112**	**($24,443,237)**

My recommendation was based on removing stock-based incentive compensation paid to FirstEnergy Service Corporation (FESC) employees and charged to FE PA.[21]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness April Marx disagrees with my recommendation.

Q. PLEASE SUMMARIZE MS. MARX'S RESPONSE.

A. Ms. Marx states that the short-term incentive plan (STIP) program is not a stock-based incentive program, so the entire basis for my recommendation related to the STIP is unfounded. She asserts that attempts to single out and disallow aspects of the overall compensation plan should be rejected because they disregard the fact that FE PA is entitled to recover in rates all costs reasonably necessary to provide electric service. Ms. Marx states that the Company's ability to recruit and retain

[21] I&E Statement No. 1, pp. 24-26.

qualified employees is directly related to its ability to provide reasonable and competitive compensation.

Ms. Marx also argues that the use of an earnings per share metric as a key performance indicator does not warrant disallowance of any portion of the STIP expense. She states that the financial and operational key performance indicators (KPIs) are intertwined and cannot be viewed as mutually exclusive. Ms. Marx claims that both the STIP and long-term incentive plan (LTIP) are structured similarly to other peers in the industry, which further demonstrates the need for such programs in a competitive labor market.

Additionally, Ms. Marx points out that the Commission has recently reviewed and approved the STIP and LTIP for each of the rate districts as part of the overall compensation package.

Finally, she argues that the Commission has reiterated that incentive compensation programs should be evaluated as a whole to determine if there are benefits to shareholders, and that where the program contains both financial and operational metrics, the utility is permitted to recover its costs. [22]

Q. WHAT IS YOUR RESPONSE TO MS. MARX'S ARGUMENTS?

A. First, by qualifying the STIP and LTIP as stock-based programs, I am simply referring to the fact that the programs are based on achieving a designated earnings per share of the Company's stock.

[22] FE PA Statement No. 13-R, pp. 5-12.

Ms. Marx states that the financial and operational goals are intertwined, but I maintain that a clear weight is given to the earnings per share goal, as evidenced by the fact that **{BEGIN PROPRIETARY}** [redacted] **{END PROPIETARY}**[23] No matter how successful employees are at achieving their operational goals, no award is given unless the earnings per share goal is first met. This is an important distinction that is not directly addressed in Ms. Marx's response.

Ms. Marx states that the Commission recently reviewed and approved the incentive programs of each rate district. Another important distinction is that I am not contesting the STIP and LTIP for those employed directly by any of the rate districts, but only for employees of FESC, whose costs are billed back to the rate districts indirectly. The Company has admitted that these employees are not generally performing operations services.[24]

As both the STIP and LTIP in this instance are: (1) paid to employees who do not work directly for the utility and are generally not performing operations services; and (2) are based on earnings per share metrics or aligned with shareholder interests, I maintain that these costs do not relate to the safe and reliable distribution of service and should therefore not be passed through to

[23] I&E Exhibit No. 1, Schedule 5.
[24] FE PA Statement No. 4, pp. 27-28.

ratepayers. FESC has the right to offer a competitive compensation package to its employees, but FE PA ratepayers should not have to bear the burden of it.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR SERVICE COMPANY INCENTIVE COMPENSATION?

A. No. I continue to recommend an allowance of $171,088,112, or a reduction of $24,443,237 to the Company's FPFTY service company expense claim broken down by rate district as shown above.

PRIVATE LETTER RULING (PLR) DEFERRED ASSET

Q. SUMMARIZE THE COMPANY'S CLAIM FOR THE PLR DEFERRED ASSET.

A. Due to a recently issued ruling from the Internal Revenue Service (IRS) regarding excess accumulated deferred income taxes, FE PA has established a regulatory asset for Penelec and West Penn in rebuttal testimony, intended to recover an overpayment of deferred tax liability to customers. The total regulatory asset amounts are $14,433,991 for Penelec and $6,781,828 for West Penn. Expense claims associated with both deferred assets are proposed for recovery over a period of three years, or $4,811,000 per year for Penelec and $2,261,000 per year for West Penn.[25] Additionally, excess accumulated deferred income tax claims in rate base for the unamortized balance for the remaining two years are $9,622,991

[25] FE PA Statement No. 5-R, pp. 6-11 and FE PA Exhibit No. PML-7, p. 62.

($14,433,991 - $4,811,000) for Penelec, and $4,520,828 ($6,781,828 -$2,261,000) for West Penn.[26]

Q. WAS THIS PROPOSED REGULATORY ASSET A PART OF THE COMPANY'S INITIAL FILING?

A. No. The Company states that the ruling became public after direct testimony was submitted in this case and that this regulatory asset is necessary for the Company to comply with the IRS's normalization rules.

Q. DO YOU AGREE WITH THE COMPANY'S CLAIM?

A. No. I accept the Company's claim to set up a regulatory asset to recover the full amount of overpayment, however I disagree that it should be amortized over a three-year period.

Q. WHAT DO YOU RECOMMEND AS AN AMORTIZATION PERIOD FOR THE PLR DEFERRED ASSET?

A. I recommend an amortization period of five years, which is supported by the Company's historic filing frequency as discussed by I&E witness Christine Wilson in her direct testimony.[27] This aligns the PLR deferred asset with the Company's

[26] FE PA Statement No. 5-R, p. 10.
[27] I&E Statement No. 4, pp. 9-14.

other five-year amortizations as recommended by Ms. Wilson throughout her testimony.

Q. WHAT IMPACT DOES YOUR RECOMMENDED AMORTIZATION PERIOD HAVE ON THE PENELEC AND WEST PENN RATE DISTRICTS?

A. My recommended amortization period results in an allowance of $2,886,798 ($14,433,991 / 5 years), or a reduction of $1,924,202 ($4,811,000 - $2,886,798) to Penelec's claim and an allowance of $1,356,366 ($6,781,828 / 5 years), or a reduction of $904,634 ($2,261,000 - $1,356,366) to West Penn's claim.

Additionally, I recommend the following allowances for the unamortized PLR deferred asset balance: $11,547,193 ($14,433,991 - $2,886,798) or an increase of $1,924,202 ($9,622,991 - $11,547,193) to the Penelec claim and $5,425,462 ($6,781,828 - $1,356,366) or an increase of $904,634 ($4,520,828 - $5,425,462) to the West Penn claim.

<u>CASH WORKING CAPITAL</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR CASH WORKING CAPITAL (CWC).

A. I recommended an allowance of $199,611,000, or reduction of $1,885,000 ($201,496,000 - $199,611,000) broken down by rate district as follows:

Cash Working Capital	FPFTY Claim	I&E Allowance	I&E Adjustment
Met-Ed	$65,234,000	$64,054,000	($1,180,000)
Penelec	$64,441,000	$63,112,000	($1,329,000)
Penn Power	$14,835,000	$15,123,000	$288,000
West Penn	$56,986,000	$57,322,000	$336,000
Total FirstEnergy	**$201,496,000**	**$199,611,000**	**($1,885,000)**

My recommendation included modification of the Company's claim based on all recommended adjustments to O&M expenses as discussed in my direct testimony.[28]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. No.

Q. DID FE PA UPDATE ITS CWC CLAIM?

A. No, the Company did not update its claim.

Q. BASED ON THE ABOVE SURREBUTTAL TESTIMONY, WHAT IS YOUR UPDATED RECOMMENDED ALLOWANCE FOR CWC?

A. Reflecting all of my recommended adjustments as discussed above, my updated recommendation for CWC broken down by rate district is as shown below:[29]

[28] I&E Statement No. 1, pp. 28-30.
[29] I&E Exhibit No. 1-SR, Schedule 1.

Cash Working Capital	FPFTY Claim	I&E Allowance	I&E Adjustment
Met-Ed	$65,234,000	$64,035,000	($1,199,000)
Penelec	$64,441,000	$63,089,000	($1,352,000)
Penn Power	$14,835,000	$15,119,000	$284,000
West Penn	$56,986,000	$57,307,000	$321,000
Total FirstEnergy	**$201,496,000**	**$199,611,000**	**($1,885,000)**

Q. ARE YOUR ABOVE-RECOMMENDED CWC ALLOWANCES FINAL RECOMMENDATIONS?

A. No. All adjustments to the Company's claims for revenues, expenses, taxes, and rate base must be continually brought together for each operating unit in the Administrative Law Judge's Recommended Decision and again in the Commission's Final Order. This process, known as iteration, effectively prevents the determination of a precise calculation until all adjustments have been made to the Company's claims.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 1-SR
Witness: Vanessa Okum

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany

the

Surrebuttal Testimony

of

Vanessa Okum

Bureau of Investigation & Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES,

RATE BASE, PLR DEFERRED ASSET

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Met-Ed Rate District

Line	Description	Met-Ed Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 647,549	$ 1,774	54.76	A	(35.35)	B	19.41	$ 34,436
3	Payroll	36,461	100	54.76	A	(17.39)	C	37.37	3,733
4	Benefits	34,114	93	54.76	A	(42.02)	C	12.75	1,191
5	Annual PSC Assessment	2,887	8	54.76	A	85.00	C	139.76	1,105
6	Service Company	46,952	129	54.76	A	(16.71)	C	38.06	4,895
7	Uncollectibles	19,196	53	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	78,006	214	54.76	A	(54.60)	C	0.16	34
9	**Total O&M Expenses**	$ 865,164	$ 2,370						$ 45,395
10	**Income Taxes**								
11	Federal Income Taxes	$ 27,337	$ 75	54.76	A	(37.00)	D	17.76	$ 1,330
12	State Income Taxes	10,792	30	54.76	A	(37.00)	D	17.76	525
13	**Total Income Taxes**	$ 38,129	$ 104						$ 1,856
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 2,578	$ 7	54.76	A	(21.17)	E	33.59	$ 237
16	Ad Valorem Tax	434	1	54.76	A	24.41	F	79.18	94
17	Gross Receipts Tax	82,441	226	54.76	A	33.99	G	88.76	20,047
18	Public Utility Realty Tax	2,310	6	54.76	A	64.50	H	119.26	755
19	Sales and Use Tax	122	0	54.76	A	(29.49)	I-J	25.27	8
20	Other Tax	-	-	54.76	A	(21.17)	E	33.59	-
21	**Total Taxes Other Than Income Taxes**	$ 87,885	$ 241						$ 21,142
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 45,526	$ 125	54.76	A	(93.86)	K	(39.09)	$ (4,876)
24	Customer Deposits	2,501	7	54.76	A	(275.83)	K	(221.06)	(1,515)
25	**Total Interest Expense**	$ 48,026	$ 132						$ (6,391)
26	**Prepayments**						L		$ 2,033
27	**Cash Working Capital Requirement**	$ 1,039,204	$ 2,847						$ 64,035

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Penelec Rate District

Line	Description	Penelec Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 505,114	$ 1,384	56.01	A	(35.91)	B	20.10	$ 27,820
3	Payroll	41,604	114	56.01	A	(17.89)	C	38.13	4,346
4	Benefits	37,084	102	56.01	A	(38.62)	C	17.40	1,768
5	Annual PSC Assessment	2,886	8	56.01	A	85.00	C	141.01	1,115
6	Service Company	54,251	149	56.01	A	(16.71)	C	39.31	5,842
7	Uncollectibles	19,672	54	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	114,719	314	56.01	A	(53.92)	C	2.10	660
9	**Total O&M Expenses**	$ 775,329	$ 2,124						$ 41,550
10	**Income Taxes**								
11	Federal Income Taxes	$ 28,008	$ 77	56.01	A	(37.00)	D	19.01	$ 1,459
12	State Income Taxes	11,122	30	56.01	A	(37.00)	D	19.01	579
13	**Total Income Taxes**	$ 39,130	$ 107						$ 2,038
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 2,950	$ 8	56.01	A	(18.71)	E	37.31	$ 302
16	Ad Valorem Tax	188	1	56.01	A	4.35	F	60.36	31
17	Gross Receipts Tax	74,709	205	56.01	A	55.07	G	111.09	22,737
18	Public Utility Realty Tax	1,668	5	56.01	A	64.50	H	120.51	551
19	Sales and Use Tax	123	0	56.01	A	(29.54)	I-J	26.48	9
20	Other Tax	1	0	56.01	A	(29.65)	E	26.37	0
21	**Total Taxes Other Than Income Taxes**	$ 79,639	$ 218						$ 23,630
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 47,877	$ 131	56.01	A	(93.30)	K	(37.29)	$ (4,891)
24	Customer Deposits	2,081	6	56.01	A	(287.11)	K	(231.09)	(1,318)
25	**Total Interest Expense**	$ 49,959	$ 137						$ (6,209)
26	**Prepayments**						L		$ 2,079
27	**Cash Working Capital Requirement**	$ 944,057.62	$ 2,586						$ 63,089

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - Penn Power Rate District

Line	Description	Penn Power Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 186,512	$ 511	51.06	A	(35.50)	B	15.57	$ 7,955
3	Payroll	7,930	22	51.06	A	(17.20)	C	33.87	736
4	Benefits	11,209	31	51.06	A	(37.77)	C	13.29	408
5	Annual PSC Assessment	915	3	51.06	A	85.00	C	136.06	341
6	Service Company	13,833	38	51.06	A	(16.71)	C	34.35	1,302
7	Uncollectibles	5,000	14	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	24,845	68	51.06	A	(60.28)	C	(9.22)	(627)
9	**Total O&M Expenses**	$ 250,242	$ 686						$ 10,115
10	**Income Taxes**								
11	Federal Income Taxes	$ 6,832	$ 19	51.06	A	(37.00)	D	14.06	$ 263
12	State Income Taxes	2,673	7	51.06	A	(37.00)	D	14.06	103
13	**Total Income Taxes**	$ 9,505	$ 26						$ 366
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 558	$ 2	51.06	A	(20.10)	E	30.96	$ 47
16	Ad Valorem Tax	80	0	51.06	A	14.06	F	65.12	14
17	Gross Receipts Tax	23,827	65	51.06	A	37.51	G	88.57	5,782
18	Public Utility Realty Tax	402	1	51.06	A	64.50	H	115.56	127
19	Sales and Use Tax	-	-	51.06	A	(29.77)	I-J	21.30	-
20	Other Tax	0	0	51.06	A	(39.90)	E	11.16	0
21	**Total Taxes Other Than Income Taxes**	$ 24,867	$ 68						$ 5,971
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 13,608	$ 37	51.06	A	(93.44)	K	(42.37)	$ (1,580)
24	Customer Deposits	537	1	51.06	A	(287.70)	K	(236.64)	(348)
25	**Total Interest Expense**	$ 14,145	$ 39						$ (1,928)
26	**Prepayments**						L		$ 595
27	**Cash Working Capital Requirement**	$ 298,760	$ 819						$ 15,119

FE PA Exhibit TSL-5
Lead-Lag Study
Witness: T. Lyons
Page 1 of 1

I&E Modified

FirstEnergy Pennsylvania Electric Company
2023 Lead-Lag Study
Working Capital Requirement ($000)
Summary - West Penn Rate District

Line	Description	West Penn Rate District ($000)	Average Daily Expenses	Revenue Lag	Ref.	Expense Lead	Ref.	Net (Lead) / Lag Days	Working Capital Requirement
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operations and Maintenance Expenses**								
2	Energy Purchases	$ 754,044	$ 2,066	49.59	A	(35.09)	B	14.50	$ 29,950
3	Payroll	33,746	92	49.59	A	(20.20)	C	29.40	2,718
4	Benefits	26,418	72	49.59	A	(36.76)	C	12.84	929
5	Annual PSC Assessment	3,574	10	49.59	A	85.00	C	134.59	1,318
6	Service Company	56,663	155	49.59	A	(16.71)	C	32.88	5,105
7	Uncollectibles	17,058	47	0.00	A	0.00	C	0.00	-
8	Other O&M Expenses	166,017	455	49.59	A	(55.39)	C	(5.80)	(2,639)
9	**Total O&M Expenses**	$ 1,057,520	$ 2,897						$ 37,381
10	**Income Taxes**								
11	Federal Income Taxes	$ 28,784	$ 79	49.59	A	(37.00)	D	12.59	$ 993
12	State Income Taxes	11,550	32	49.59	A	(37.00)	D	12.59	398
13	**Total Income Taxes**	$ 40,333	$ 111						$ 1,391
14	**Taxes Other Than Income Taxes**								
15	Payroll Taxes	$ 2,384	$ 7	49.59	A	(21.41)	E	28.18	$ 184
16	Ad Valorem Tax	186	1	49.59	A	(18.56)	F	31.03	16
17	Gross Receipts Tax	91,285	250	49.59	A	37.26	G	86.85	21,720
18	Public Utility Realty Tax	1,720	5	49.59	A	64.50	H	114.09	538
19	Sales and Use Tax	7	0	49.59	A	(29.45)	I-J	20.14	0
20	Other Tax	-	-	49.59	A	(27.16)	E	22.43	-
21	**Total Taxes Other Than Income Taxes**	$ 95,582	$ 262						$ 22,458
22	**Interest Expense**								
23	Interest on Long-Term Debt	$ 44,187	$ 121	49.59	A	(95.83)	K	(46.23)	$ (5,597)
24	Customer Deposits	2,159	6	49.59	A	(279.51)	K	(229.92)	(1,360)
25	**Total Interest Expense**	$ 46,346	$ 127						$ (6,957)
26	**Prepayments**						L		$ 3,034
27	**Cash Working Capital Requirement**	$ 1,239,783	$ 3,397						$ 57,307

I&E Statement No. 2-SR
Witness: D. C. Patel

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Surrebuttal Testimony

of

D. C. Patel

Bureau of Investigation and Enforcement

Concerning:

Rate of Return

TABLE OF CONTENTS

INTRODUCTION **1**

SUMMARY OF MR. D'ASCENDIS'S REBUTTAL TESTIMONY **3**

MR. D'ASCENDIS'S UPDATED ANALYSIS 3

RELEVANCE OF 2024 AUTHORIZED RETURN ON EQUITY **5**

PROXY GROUP **6**

DISCOUNTED CASH FLOW **12**

EXCLUSIVE RELIANCE ON THE DCF 13

MARKET-TO-BOOK RATIO 18

CAPITAL ASSET PRICING MODEL **21**

RISK-FREE RATE 22

MARKET RETURN 25

EXCLUSION OF THE ECAPM 26

FLOTATION COST ADJUSTMENT **28**

RISK PREMIUM **30**

COMPARABLE EARNINGS **32**

OVERALL RATE OF RETURN **36**

SUMMARY OF IBEW WITNESS REBUTTAL TESTIMONY **37**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is D. C. Patel and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. ARE YOU THE SAME D. C. PATEL WHO IS RESPONSIBLE FOR THE DIRECT TESTIMONY CONTAINED IN I&E STATEMENT NO. 2 AND THE SCHEDULES IN I&E EXHIBIT NO. 2?

A. Yes.

Q. DO YOU HAVE ANY CHANGES OR ERRATA PERTAINING TO YOUR APPENDIX A ATTACHED TO THE DIRECT TESTIMONY?

A. Yes. On pages 2 and 3 of my Appendix A attached to the direct testimony, the following typographical errors were made:

Docket Number	Incorrect Utility Name	Correct Utility Name
R-2020-3019661	FE PA Energy Co.- Gas Operations (1307(f))	PECO Energy Co. - Gas Operations (1307(f))
R-2018-3001568	FE PA Energy Co.- Gas Operations (1307(f))	PECO Energy Co. - Gas Operations (1307(f))
R-2017-2602611	FE PA Energy Co.- Gas Operations (1307(f))	PECO Energy Co. - Gas Operations (1307(f))
R-2021-3024601	FE PA Energy Co.- Electric Operations	PECO Energy Co. - Electric Operations
R-2020-3018929	FE PA Energy Co.- Gas Operations	PECO Energy Co. - Gas Operations

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of FirstEnergy Pennsylvania Electric Company (FE PA or Company) witness Dylan W. D'Ascendis regarding rate of return topics including the cost of common equity and the overall fair rate of return to be applied to the Company's rate base (FE PA Statement No. 10-R). In addition, I will address the International Brotherhood of Electrical Workers, AFL-CIO Local 777 (IBEW) witness Daulph A. Kline supporting FE PA's claimed return on equity (ROE) (IBEW Rebuttal Statement).

The absence of any comments or responses to particular statements or topics addressed in FE PA's rebuttal testimony and that of other parties' witnesses concerning the ROE does not imply my acceptance or support of the Company's or other parties' positions in this proceeding.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN EXHIBIT?

A. No. I refer to my direct testimony (I&E Statement No. 2) and schedules contained in my exhibit (I&E Exhibit No. 2) where necessary.

Q. WHAT WAS YOUR ORIGINAL OVERALL RECOMMENDATION IN DIRECT TESTIMONY?

A. I recommended the following rate of return for the Company (I&E Statement No. 2, p. 6 and I&E Exhibit No. 2, Schedule 1):

I&E FirstEnergy Pennsylvania Electric Company Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	9.91%	5.33%
Total	**100.00%**		**7.44%**

SUMMARY OF MR. D'ASCENDIS'S REBUTTAL TESTIMONY

Q. SUMMARIZE MR. D'ASCENDIS'S RESPONSE IN REBUTTAL TESTIMONY TO YOUR RATE OF RETURN RECOMMENDATIONS.

A. Mr. D'Ascendis has concerns with my: (1) use of revenue criterion to determine the comparability of a potential proxy group companies; (2) exclusive reliance on the result of Discounted Cash Flow (DCF) model for ROE recommendation; (3) use and application of the Capital Asset Pricing Model (CAPM) and exclusion of Empirical CAPM (ECAPM) analysis; and (4) failure to reflect a flotation cost adjustment in my recommended ROE (FA PA Statement No. 10-R, p. 8). He also disagrees with my lack of acceptance of his use of the Risk Premium (RP) and Comparable Earnings (CE) methods (FE PA Statement No. 10-R, pp. 17-19).

MR. D'ASCENDIS'S UPDATED ANALYSIS

Q. DID THE COMPANY UPDATE ITS RATE OF RETURN CLAIM?

A. No. Mr. D'Ascendis provides updated cost of equity analysis results using market

data as of May 31, 2024 (FE PA Exhibit DWD-1R through DWD-17R) because his original analysis was performed using market data as of December 29, 2023 (FE PA Exhibit DWD-1 through DWD-9). Based on the results produced by his updated analysis, his indicated common equity cost rate range (after adjustments) is 10.42% - 12.63% (FE PA Statement No. 10-R, p. 4 and FE PA Exhibit DWD-1R, p. 2) in contrast to his originally indicated common equity cost rate range (after adjustments) of 10.01% - 13.07% (FE PA Statement No. 10-R, p. 2 and FE PA Exhibit DWD-1, p. 2). However, Mr. D'Ascendis continues to support his original cost of equity recommendation of 11.30% and the overall rate of return of 8.19% as shown below (FE PA Statement No. 10-R, pp. 2 and 4 and FE PA Exhibit DWD-1 and DWD-1R, p. 1):

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY
Summary of Cost of Capital

Type of Capital	Ratio	Cost Rate	Weighted Cost Rate
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	11.30%	6.08%
Total	**100.00%**		**8.19%**

Q. DO YOU HAVE ANY UPDATES TO YOUR RATE OF RETURN ANALYSIS AND RECOMMENDATIONS.

A. No. My cost of equity analysis is based upon the most recent market data at the time of my analysis; therefore, I am not updating my analysis and

recommendations.

RELEVANCE OF 2024 AUTHORIZED RETURN ON EQUITY

Q. SUMMARIZE MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING YOUR REFERENCE TO OTHER STATE REGULATORY AUTHORITIES' AUTHORIZED RETURN ON EQUITY (ROE).

A. Mr. D'Ascendis disputes my factual statement that FE PA's 11.30% requested ROE is 164 basis points (1.64%) higher than the average return on equity of 9.66% of all electric utility rate cases decided or approved by other state regulatory authorities in the first quarter of 2024 (FE PA Statement No. 10-R, p. 6). He states that other state regulatory authorities' authorized ROEs may be reasonable benchmarks of acceptable ROEs, but they do not reflect the current and expected cost of common equity and are of little value (FE PA Statement No. 10-R, pp. 6-7). Therefore, he suggests that the Commission should not rely on the authorized ROEs in setting the ROE for FE PA in this proceeding (FE PA Statement No. 10-R, p. 7).

Q. WHAT IS YOUR RESPONSE TO MR. D'ASCENDIS REGARDING OTHER STATE REGULATORY AUTHORITIES' AUTHORIZED ROEs?

A. Mr. D'Ascendis agrees that other state regulatory authorities' authorized ROEs may be reasonable benchmarks of acceptable ROEs. However, he opines that these ROEs do not reflect the current and expected cost of common equity

because the authorized ROEs are based on market data presented in an evidentiary record, which spans a period before the decision. I disagree with his opinion and believe that the authorized ROEs approved in the first quarter of 2024 are representative of current economic conditions and the expected cost of capital because the forecasted future period market data are used in the DCF and CAPM analysis. Additionally, I am not comparing the 2023 twelve-month period authorized ROEs with FE PA's claimed ROE. In view of the above, I firmly believe that the 2024 first quarter average of ROEs authorized by other state regulatory authorities are relevant and provide useful guidance in determining an appropriate ROE for the subject utility.

PROXY GROUP

Q. SUMMARIZE MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING YOUR PROXY GROUP.

A. Mr. D'Ascendis has updated his proxy group to include PNM Resources, Inc. as this company now passes his screening criteria based on fiscal year 2023 financial data (FE PA Statement No. 10-R, p. 3). He opines that using the percentage of revenue as a screening criterion for a proxy group is incorrect and that the percentage of net operating income is a more appropriate criterion because income is more likely to be considered by the financial community in making credit assessments and investment decisions than revenue. He opines that focusing on revenue may mislead an analyst to assume that the operating unit is the primary

driver of expected growth when the majority of earnings and cash flows are derived from other business segments (FE PA Statement No. 10-R, pp. 8-9). He then presents a table showing percentages of net operating income and assets attributable to the regulated electric utility business for the companies that are included in my proxy group, but not included in his utility proxy group (FE PA Statement No. 10-R, p. 10).

Q. MR. D'ASCENDIS ARGUES THAT YOUR CRITERION REQUIRING THAT 50% OR MORE OF REVENUE MUST BE GENERATED FROM THE ELERCTIC UTILITY INDUSTRY FOR INCLUSION IN THE PROXY GROUP IS NOT APPROPRIATE. DO YOU AGREE?

A. No. Revenues represent the percentage of cash inflow a company receives from each business line related to providing a good or service. If fewer than 50% of revenues come from the regulated business, a company is not comparable to the subject utility as it does not provide a similar level of regulated business (I&E Statement No. 2, pp. 7-8).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S ASSERTION THAT THE PERCENTAGE OF NET OPERATING INCOME IS A MORE APPROPRIATE CRITERION?

A. No. Calculating the percentage of a utility's net operating income that makes up the total net operating income of a company is not always a reliable way of

determining if a business is primarily a regulated utility. In fact generation of revenue is the first step that drives the net income (net profit) and cash flow. A company's realization of net income depends on various factors such as management, operational and financial efficiency in the best use of utility assets with available resources, operating and maintenance cost containment measures, capital expenditure programs, etc. Therefore, a utility's revenue composition is a more appropriate measure than net income for establishing a proxy group because this measure represents the percentage of cash flow a company receives from each business segment. The financial community is more likely to rely on measures of income rather than measures of revenue when making credit assessments and investment decisions. The main purpose of using a proxy group is to compile a set of companies that have similar risks to the subject utility. If less than 50% of revenues come from the regulated electric business, the company is not comparable to the subject utility as it does not provide a similar level of regulated electric business. Mr. D'Ascendis did not include the percentage of operating income from regulated electric operations for other companies of his proxy group. I continue to assert that comparing the net operating income of an electric utility segment to the total net operating income of a company is not an appropriate screening criterion for the proxy group.

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S ASSERTION THAT THE PERCENTAGE OF ELECTRIC UTILITY ASSETS IN THE COMPANY'S TOTAL ASSETS IS ALSO AN APPROPRIATE CRITERION?

A. No. Calculating the percentage of utility assets that make up the total assets of a company is not always a reliable way of determining if a business is primarily a regulated utility. Assets are accounted for at the original cost minus depreciation, which means that the value of an asset depends on its age. Therefore, it is possible for the regulated utility segment of a company to have assets that are predominately depreciated. Although a utility may have assets that are significantly depreciated, it does not always indicate the level of business a company does. A company, or its parent company, can have most of its utility assets depreciated but still do more business as a utility than as another business.

Another reason that the percentage of utility business is not always accurately represented by using the percentage of utility assets to the total assets is that there are differences between businesses in the amount of capital needed. Generally, a utility company requires a higher level of assets (asset value) to produce a comparatively small level of cash flow while another business may need only a small amount of assets to produce a large level of cash flow. Therefore, comparing the assets of an electric utility segment to the total assets of a company is not an appropriate criterion as it could be misleading.

Q. WHAT IS YOUR RESPONSE TO MR. D'ASCENDIS'S ANALYSIS OF YOUR PROXY GROUP COMPANIES' NET OPERATING INCOME AND ASSETS ATTRIBUTABLE TO REGULATED ELECTRIC OPERATIONS?

A. Though I do not agree with Mr. D'Ascendis's assertion to use operating income and assets as the proxy group selection criteria rather than the revenue criterion, his analysis reveals that out of the sixteen companies in my proxy group only one company has less than 50% net operating income. Similarly, one company has less than 50% of total assets attributable to regulated electric operation (FE PA Statement No. 10-R, p. 10). Based on my proxy group selection criteria, all companies in my proxy group are appropriately comparable to the subject utility (FE PA).

Q. HAS THE COMMISSION ACCEPTED I&E'S METHODOLOGY IN DETERMINING A PROXY GROUP?

A. Yes. In the most recent Columbia Water base rate proceeding, the Commission concludes,[1]

> In Columbia Gas 2021, we stated the following regarding the proxy group at issue in that proceeding: First, as I&E and the ALJ pointed out, a company's revenues represent the percentage of cash flow the company receives from each business line related to providing a good or service. Therefore, if less than fifty percent of revenues come from the regulated gas sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.

[1] *Pa. PUC v. Columbia Water Company,* Docket No. R-2023-3040258, pp.75-77 (Order Entered January 18, 2024).

> As further noted by I&E, while two companies or segments can have the same level of revenue, their net operating income may vary greatly, depending on their performance and decisions. The purpose of a proxy group is to compile a set of companies that have similar risks to the subject utility. As such, we are of the same opinion, as in our decisions in *Columbia Gas 2021* and *PECO 2021*, that if less than 50% of a utility's revenues come from the regulated business sector, the company is not comparable to the subject utility as it does not provide a similar level of regulated business.
>
> Based on the specific record developed in the instant case, we find that the percentage of revenues generated from regulated utility operations, in this instance regulated water utility operations, is the appropriate criterion to include when setting Columbia's proxy group. Therefore, we concur with I&E that Essential Utilities should be excluded from the proxy group that we will use in setting the authorized ROE and the resulting overall rate of return for Columbia in this proceeding.

The above order references the Commission's prior decisions to accept I&E's methodology to use a percentage of revenues in selecting a proxy group as it most closely resembles the company. First, in *Pennsylvania Public Utility Commission, et. al v. Columbia Gas of Pennsylvania, Inc*., Opinion and Order at Docket R-2020-3018835, pp. 110-112 (Order Entered February 19, 2021). Second, in *Pennsylvania Public Utility Commission, et. al v. PECO Energy Company - Gas Division*, Opinion and Order at Docket R-2020-3018929 (Order Entered June 22, 2021, Non-Proprietary Version), pp. 137-139.

Q. DO YOU HAVE ANY CHANGES TO YOUR PROXY GROUP?

A. No. For the reasons discussed above, the percentage of revenue is an appropriate criterion and I continue to recommend the same proxy group of sixteen companies

(I&E Statement No. 2, pp. 9-10).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S MODIFIED DCF AND CAPM RESULTS PRESENTED AFTER ELIMINATING HIS ALLEGED LESS COMPARABLE COMPANIES FROM YOUR PROXY GROUP ANALYSIS?

A. No. Since I disagree with Mr. D'Ascendis's disaggregation of my proxy group, I disagree with his modified DCF result of 10.39% and CAPM result of 11.30% prepared after excluding his chosen six companies from my proxy group of sixteen companies (FE PA Statement No. 10-R, p. 10, FE PA Exhibit DWD-2R, and FE PA Exhibit DWD-3R).

<u>DISCOUNTED CASH FLOW</u>

Q. SUMMARIZE MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING YOUR DCF ANALYSIS.

A. Mr. D'Ascendis opines that I gave exclusive weight to the DCF model results for my cost of equity recommendation. He then asserts that averaging my DCF result of 9.91% and CAPM result of 11.29% produces an indicated ROE of 10.60%, which is below his recommended ROE, but within his recommended range of ROEs (FE PA Statement No. 10-R, pp. 10-11). He refers to four base rate cases where he claims the Commission has considered multiple cost of equity models (FE PA Statement No. 10-R, pp. 12, 27-29). Then, he argues that the market-based

DCF cost rate, when applied to a book value capitalization (which is below the market value capitalization), will understate investors' required return on market value. In short, he asserts that a market-to-book (M/B) ratio above one causes the DCF results to understate the investor-required return (FE PA Statement No. 10-R, pp. 20-24). Finally, Mr. D'Ascendis is not advocating for a specific adjustment to the DCF results for an M/B ratio, though he claims in his discussion to demonstrate the DCF's limitation and supports the use of multiple cost of equity models in determining an appropriate investor-required ROE (FE PA Statement No. 10-R, p. 24).

EXCLUSIVE RELIANCE ON THE DCF

Q. PLEASE RESPOND TO MR. D'ASCENDIS'S ASSERTION THAT YOU RELIED SOLELY ON THE DCF METHOD.

A. As stated in my direct testimony, while my recommendation was based on the results of my DCF analysis, I also employed the CAPM only as a comparison because the DCF method is the most reliable and forward-looking model reflecting the economic market conditions (I&E Statement No. 2, pp. 17-21). I have considered the fact that no method can perfectly predict the return on equity, which is why I use the CAPM as a comparison to the DCF. Although no one method can capture every factor that influences an investor, including the results of methods less reliable than the DCF, this does not make the end result of the DCF less reliable or less accurate. In direct testimony, I cited several cases that

illustrate the methodology I employed is consistent with the methodology historically used by the Commission in base rate proceedings as recently as 2017, 2018, 2020, and 2021[2] (I&E Statement No. 2. p. 17).

For these reasons, I stand by my method of using the DCF result with a CAPM result for comparison in recommending an appropriate ROE.

Q. WHICH CASES DOES MR. D'ASCENDIS MENTION WHERE HE CLAIMS THE COMMISSION HAS CONSIDERED MULTIPLE COST OF EQUITY MODELS?

A. Mr. D'Ascendis cites the 2013 Columbia Water Company,[3] the 2014 Emporium Water Company,[4] the 2021 Aqua Pennsylvania, Inc.,[5] and the 2023 Columbia Water Company[6] base rate cases to suggest the Commission has considered multiple cost of common equity models (FE PA Statement No. 10-R, pp. 27-29).

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2 *Pa. PUC v. City of DuBois – Bureau of Water*, Docket No. R-2016-2554150 (Order Entered March 28, 2017). *See generally* Disposition of Cost Rate Models, pp. 96-97; *Pa. PUC v. UGI Utilities, Inc. – Electric Division,* Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Cost of Common Equity, p. 119; *Pa. PUC v. Wellsboro Electric Company,;* Docket No. R-2019-3008208 (Order Entered April 29, 2020). *See generally* Disposition of Primary Methodology to Determine ROE, pp. 80-81; *Pa. PUC v. Citizens Electric Company of Lewisburg, PA,* Docket No. R-2019-3008212 (Order Entered April 29, 2020). *See generally* Disposition of Cost of Common Equity, pp. 91-92. *Pa. PUC v. Columbia Gas of Pennsylvania, Inc.,* Docket No. R-2020-3018835 (Order Entered February 19, 2021). *See generally* Disposition of Cost of Common Equity, p. 131. *Pa. PUC v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929 (Order Entered June 22, 2021). *See generally* Disposition of Return of Rate on Common Equity, p. 171.

3 *Pa. PUC v. The Columbia Water Company*, Docket No. R-2013-2360798 (Order Entered January 23, 2014).

4 *Pa. PUC v. Emporium Water Company*, Docket No. R-2014-2402324 (Order Entered January 28, 2015).

5 *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, pp. 154-155 (Order Entered May 16, 2022).

6 *Pa. PUC v. Columbia Water Company,* Docket No. R-2023-3040258, p. 108 (Order Entered January 18, 2024).

Q. WHAT IS YOUR RESPONSE TO MR. D'ASCENDIS'S RFERENCE TO THE COMMISSION'S ORDERS IN THESE BASE RATE PROCEEDINGS?

A. First, in the 2013 Columbia Water base rate proceeding, the Commission specifically states that it used the DCF method as the foundation in determining the ROE (FE PA Statement No. 10-R, p. 27). Any adjustments to the cost of equity after the fact are at the Commission's discretion including consideration of the results of any other cost of equity model. Regarding the 2014 Emporium Water rate case, the Commission simply summarized the recommendations presented by OCA, I&E, and Emporium; it did not specifically comment on which model(s) it relied upon. It appears that the Commission decision was primarily based on Emporium's debt service obligations and adoption of a 60%/40% hypothetical capital structure (FE PA Statement No. 10-R, pp. 27-28). Regarding the 2021 Aqua Pennsylvania rate case, as stated in my direct testimony (I&E Statement No. 2, p. 23), Aqua's return on equity of 10.00% is above the national average for water utility base rate cases and above the Distribution System Improvement Charge (DSIC) rate authorized by the Commission of 9.80%[7] for water and wastewater utilities for the year ended December 31, 2021. This DSIC rate for water and wastewater utilities has since dropped 5 basis points to 9.75%

[7] PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2021, approved at Public Meeting on June 16, 2022, at Docket No. M-2022-3032405.

for the year ended March 31, 2023[8] and further dropped 10 basis points to 9.65% for the year ended June 30, 2023[9] and remained at the same level (9.65%) for the year ended December 31, 2023.[10] These rates were well below the 10.00% ROE authorized by the Commission for Aqua, which demonstrates the unreasonable skewing of results associated with using the CAPM as a ceiling for determining a utility's ROE. Lastly, in the 2023 Columbia Water rate proceeding the Commission authorized an ROE of 9.75% as reasonable and appropriate for that company based upon consideration of a variety of factors such as increasing inflation leading to increases in interest rates and capital costs. As discussed in my direct testimony (I&E Statement No. 2, p. 24) and considering the currently forecasted lower-level inflation rates, and the Federal Reserve's intention to cut interest rates in 2024-2025, I respectfully disagree with using that case as a basis for determining a proper ROE in the instant proceeding.

Q. PLEASE CONTINUE.

A. In the most recent Pennsylvania-American Water Company (PAWC) base rate proceeding, the Commission agreed with the ALJs' recommended ROE based on

[8] PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended March 31, 2023, approved at Public Meeting on July 13, 2023 at Docket No. M-2023-3041106.

[9] PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended June 30, 2023, approved at Public Meeting on October 19, 2023 at Docket No. M-2023-3042679.

[10] PA Public Utility Commission, Bureau of Technical Utility Services Report on the Quarterly Earnings of Jurisdictional Utilities for the Year Ended December 31, 2024, approved at Public Meeting on May 9, 2024 at Docket No. M-2024-3048688.

I&E's results of DCF and CAPM analyses that produces an ROE of 9.45% and denied PAWC's request for an upward adjustment to its ROE for exemplary management performance. Though the Commission determined PAWC's ROE based on the average results of DCF and CAPM analyses, the Commission most importantly notes in the order,[11]

> Before concluding this section, we stress that based upon the specific record developed in this proceeding, we have determined that taking the average of the DCF and CAPM results produces a reasonable ROE. However, we do not strictly endorse averaging the DCF and CAPM in other proceedings where it is determined that methodologies other than the DCF are necessary to determine the utility's ROE. Consistent with these determinations, we shall deny PAWC's Exception No. 1, I&E's Exception No. 1, and the OCA's Exception No. 11.

This demonstrates the problem associated with using the CAPM as a ceiling for determining a utility's return on equity. Additionally, using the CAPM in this proceeding would result in a significant burden to ratepayers for additional 138 basis points (CAPM 11.29% – DCF 9.91% = 1.38%) in ROE in the aftermath of high levels of inflation (I&E Statement No. 1, pp. 35-36). Finally, as stated in my direct testimony, I did in fact employ the CAPM as a comparison to my DCF result and my recommendation is consistent with the methodology historically used by the Commission in base rate proceedings.

[11] *Pa. PUC v. Pennsylvania-American Water Company*, Docket Nos. R-2023-3043189 and R-203-3043190, pp. 194- 195 (Order Entered July 22, 2024).

MARKET-TO-BOOK RATIO

Q. WHAT DOES MR. D'ASCENDIS CLAIM REGARDING THE M/B RATIO IN THIS PROCEEDING?

A. He opines that an M/B ratio above 1.0 causes a market-based DCF cost rate, when applied to a book value capitalization, to understate investors' required return on market value (FE PA Statement No. 10-R, p. 21).

Q. DOES AN M/B RATIO ABOVE ONE (1.0) CAUSE THE DCF TO INCORRECTLY ESTIMATE THE INVESTOR-REQUIRED RETURN ON EQUITY?

A. No. Although there are differences between the book value and market value capitalization of utilities, Mr. D'Ascendis's assertion that this difference causes the DCF to understate the ROE. He assumes that investors are unaware of this difference. Investors purchase securities such as stocks at market value as opposed to book value. In doing so, they evaluate historic returns or yields on potential stock investment and accept the future returns and associated risks implied by market prices. Financial statements of a company, which are based on book values, show the entirely true financial position of a company, providing the foundation for investment and financing decisions.

Additionally, the forecasted growth rates used in the DCF are set by analysts based on current conditions and what they expect the future could be for the stock. If an M/B ratio is above 1.0, no investors would invest in a utility stock

that has been trading above book value for several years and be surprised that customers' rates continue to be set based on the book value capital structure. An M/B ratio of above 1.0 for utility stocks reflects their value in the market and implies that investors expect future cash flows to be more valuable than the historical accounting value of the company. Since the stock market is impacted by regulatory policies and economic and financial conditions, an M/B ratio could be less than 1.0 when the stock market is in a depression or a company is experiencing under-performance, so it is inappropriate to evaluate DCF results with the M/B ratio.

Q. PLEASE CONTINUE.

A. Mr. D'Ascendis acknowledges that in traditional rate base/rate of return regulation, where a market-based common equity cost rate is applied to a book value rate base, it is presumed that the M/B ratios are at unity or 1.00, which is rarely the case (FE PA Statement No. 10-R, p. 20). He cites Roger A. Morin's discussion that "DCF models assume an M/B ratio of 1.0 and therefore under or over-states investors' required return when market value exceeds or is less than the book value, respectively." However, it is important to note that Mr. Morin also states (FE PA Statement No. 10-R, p. 20),

> Application of the standard DCF model to utility stocks understates the investor's expected return when the M/B ratio of a given stock exceeds unity. This was particularly relevant in the capital market environment of the early 2020s when utility stocks are trading at M/B ratios well above unity and

have been for nearly two decades. The converse is also true, that is, the DCF model overstates the investor's return when the stock's M/B ratio is less than unity.

Mr. D'Ascendis's concern that the DCF result understates an ROE when a M/B ratio is above 1.0 equally implies that when the M/B ratio is below 1.0, the DCF results will overstate an ROE. Market value of a stock is volatile and always influenced by various unpredictable factors that change the M/B ratio.

As discussed above and in the context of ratemaking, I disagree with Mr. D'Ascendis's contention that the DCF result understates an ROE when the M/B ratio is above 1.0. Finally, I reiterate that it is inappropriate to evaluate DCF results with an M/B ratio and I reject any notion for a leverage adjustment to the DCF results in determining an appropriate ROE.

Q. PLEASE RESPOND TO MR. D'ASCENDIS'S REFERENCE TO THE COMMISSION'S ORDERS IN THE 2005 CITY OF LANCASTER - SEWER FUND AND 2007 PPL GAS UTILITIES ADOPTING A LEVERAGE ADJUSTMENT TO COMPENSATE FOR THE DIFFERENCE BETWEEN MARKET VALUE CAPITALIZATION AND BOOK VALUE CAPITALIZATION USED IN RATEMAKING.

A. In this proceeding Mr. D'Ascendis is not advocating a specific adjustment to the DCF results to recognize a difference between market value capitalization and book value capitalization (M/B ratio) used for ratemaking. However, he characterizes this difference as limitation of the DCF method and suggests using

the multiple cost of equity models in determining investors' required return (FE PA Statement No. 10-R, pp. 23-24).

It is worth noting that Mr. D'Ascendis refers to two Commission orders issued seventeen years ago and ignores the Commission's recent orders[12] in six base rate proceedings after 2007, rejecting a leverage adjustment to recognize the book value and market value difference in determining the cost of equity. Additionally, as discussed above, investors are aware of the difference in the returns on book value and market value of a utility's stock while making investment decisions, and therefore, Mr. D'Ascendis's concern regarding the potential impact of a M/B ratio in the cost of equity is irrelevant in the context of utility ratemaking.

CAPITAL ASSET PRICING MODEL

Q. SUMMARIZE MR. D'ASCENDIS'S RESPONSE TO YOUR CAPM ANALYSIS.

A. Mr. D'Ascendis disputes my use of the 10-year U.S. Treasury Note as a proxy to measure the risk-free rate and to calculate my market return used in my CAPM analysis. He also disagrees with my exclusion of the ECAPM method in

[12] *Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-00072711 (Order Entered July 31, 2008), pp. 38-39; *Pa. PUC v. City of Lancaster – Bureau of Water*; Docket No. R-2010-2179103 (Order Entered July 14, 2011), p. 101; *Pa. PUC v. UGI Utilities, Inc. – Electric Division*; Docket No. R-2017-2640058 (Order Entered October 25, 2018), pp. 93-94*; Pa. PUC v. Columbia Gas of Pennsylvania, Inc.*; Docket No. R-2020-3018835 (Order Entered February 19, 2021), pp. 137-141; *Pa. PUC v. PECO Energy Company - Gas Division*; Docket No. R-2020-3018929 (Order Entered June 22, 2021, Public Version), pp. 172-173; *Pa. PUC v. Aqua Pennsylvania, Inc.*; Docket No. R-2021-3027385 (Order Entered June 22, 2021), pp. 154-155.

computing the Company's return on equity (FE PA Statement No. 10-R, pp. 29-30).

RISK-FREE RATE

Q. WHAT IS MR. D'ASCENDIS'S RESPONSE TO YOUR USE OF THE YIELD ON THE 10-YEAR U.S. TREASURY NOTE AS A RISK-FREE RATE?

A. First, Mr. D'Ascendis claims that his use of the yield on a 30-year U.S. Treasury Bond is more appropriate than my use of the yield on a 10-year Treasury Note because it better reflects the life of the underlying investment. The average life of FE PA's utility plant ranges from approximately 36 to 37 years based on the composite depreciation rate of the components of its utility plant. He also opines that long-term treasury notes are not subject to maturity risk as the cost of equity is a long-term concept, and the investment horizon of an individual investor is irrelevant. He also claims that not incorporating the risk-free rate projection for 2030-2034 is inconsistent with the DCF assumption of a constant rate of dividend growth and the Efficient Market Hypothesis (EMH), which assumes that all available information including the 2030-2034 forecasted interest rate is considered by investors when making investment decisions (FE PA Statement No. 4-R, pp. 30-32).

Q. IS THE LIFE OF THE INVESTMENT THE ONLY FACTOR THAT SHOULD BE CONSIDERED IN CHOOSING A RISK-FREE RATE?

A. No. The risk-free rate is the return that can be earned without accepting any risk, and while the life of the investment can be considered in the choice of risk-free rates, the most important consideration is that the rate be as risk-free as possible. As explained in my direct testimony, I chose the 10-year Treasury Note as it mitigates the shortcomings of the short-term Treasury-Bill and the 30-year Treasury Bond (I&E Statement No. 2, pp. 32-33). Although long-term Treasury Bonds have less risk of being influenced by federal policies, they have substantial maturity risk associated with market risk and the risk of unexpected inflation. As such, my choice of a 10-year Treasury Note is appropriate. Further, as also pointed out in my direct testimony, the Commission recently agreed with I&E that the 10-year Treasury Note is the superior measure of the risk-free rate of return.[13]

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S ASSERTION THAT LONG-TERM TREASURY BONDS ARE NOT SUBJECT TO MATURITY RISK?

A. No. As discussed in my direct testimony, while long-term Treasury Bonds exhibit more stability, they are not risk-free. Long-term Treasury Bonds have substantial maturity risk associated with market risk and the risk of unexpected inflation

[13] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018). *See generally* Disposition of Capital Asset Pricing Model (CAPM), p. 99; *Pa. PUC v. Aqua Pennsylvania, Inc.,* Docket Nos. R-2021-3027385 & R-2021-3027386, p.154 (Order Entered May 16, 2022); *Pa. PUC v. Columbia Water Company*; Docket No. R-2023-3040258 (Order Entered January 18, 2024). See generally Disposition of Cost of Common Equity, pp. 107-108.

which is why long-term treasuries normally offer higher yields to compensate investors for these risks (I&E Statement No. 2, p. 32).

Q. DOES THE PROJECTED RISK-FREE RATE NEED TO REPRESENT THE LONGEST TIME PERIOD AVAILABLE AS MR. D'ASCENDIS CLAIMS?

A. No. The time period reflected in a projected risk-free rate should include the period in which rates will be in effect. Since FE PA is not setting rates to be applicable far into the future, using projections for five or more years from now, as Mr. D'Ascendis suggests, is inappropriate (FE PA Statement No. 10-R). The yield on the 10-year Treasury Note is expected to range between 4.30% and 3.90% from the third quarter of 2024 and the third quarter of 2025 and the 2025-2029 forecasted average rate is 3.90%. For my forecasted CAPM analysis, I calculated 4.07%, which is the average of all the yields I observed (I&E Exhibit No. 2, Schedule 8). In addition, the further out into the future one forecasts (2030-2034), the less reliable and more speculative the estimates become; therefore, to give more weight to less reliable estimates would not be prudent.

Further, I disagree with Mr. D'Ascendis's claim that ignoring the risk-free rate projection for 2030-2034 is inconsistent with the DCF assumption of a constant rate of dividend growth and the EMH. In the DCF analysis, analysts' forecasted growth rates for the next three to five years are used, which closely resembles the risk-free rate projection period (2024-2029) used in the CAPM

analysis. In short, my calculation provides a balance of shorter-term future estimates, when FE PA's new rates will likely remain effective.

MARKET RETURN

Q. PLEASE SUMMARIZE MR. D'ASCENDIS'S RESPONSE TO YOUR MARKET RETURN INPUT IN THE CAPM ANALYSIS.

A. Mr. D'Ascendis states that I used an estimate of Value Line's expected market return from the Value Line Summary and Index report of May 17, 2024. He then references the spot dividend yield and 52-week average dividend yield calculated in my DCF analysis and opines that I should have calculated Value Line's expected market return in a consistent manner for the CAPM analysis. Accordingly, he recalculates my overall market return for the CAPM analysis and states that my Value Line expected market return would have been 12.82%, with an overall market return of 12.49% for the CAPM analysis (FE PA Statement No. 10-R, p. 32 and FE PA Exhibit DWD-8R, p. 2).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S RESPONSE CONCERNING THE OVERALL MARKET RETURN USED IN YOUR CAPM ANALYSIS AND HIS MODIFIED CAPM RESULTS?

A. No. Mr. D'Ascendis is mixing the DCF methodology of using the average dividend yield and growth rate of the proxy group companies with the overall market return calculation for the CAPM analysis. He denounces Value Lines'

forecasted median dividend yield of 2.10% for the next twelve months and median estimate for stock price appreciation potential of 45% for next three to five years that I used in my calculation of the expected market return of 11.83% (I&E Exhibit No. 2, Schedule 10). Instead, he suggests using a *historic* average of 52-week dividend yields and growth rates published by Value Line in calculating an *expected* market return, which has the effect of inflating the market return and consequently CAPM results. He is not concerned about my S&P 500 historical market return input of 12.16% (I&E Exhibit No. 2, Schedule 10) that is used in calculating an average expected market return of 12.00% [(11.83% + 12.16) ÷ 2].

Mr. D'Ascendis undermines my CAPM analysis result of 11.29% (I&E Exhibit No. 2, Schedule 11), which is based on Value Line's forecasted overall market return of 11.83% (I&E Exhibit No. 2, Schedule 10). As discussed above, I disagree with his inflated CAPM result of 11.75% using the modified overall market return of 12.49% and modified risk free rate (30-year Treasury Bonds) of 4.27% (FE PA Exhibit DWD-8R, p. 1).

<u>EXCLUSION OF THE ECAPM</u>

Q. PLEASE SUMMARIZE MR. D'ASCENDIS'S RESPONSE TO YOUR EXCLUSION OF THE ECAPM IN YOUR ANALYSIS.

A. Mr. D'Ascendis asserts that the empirical Security Market Line (SML) described by the traditional CAPM is not as steeply sloped as the CAPM model predicts, and that tests of the CAPM have measured the level of which security returns and

betas are related as predicted by the CAPM. He suggests that I should have used the ECAPM in my CAPM analysis (FE PA Statement No. 10-R, p. 33).

Q. EXPLAIN WHY YOU EXCLUDED THE ECAPM FROM YOUR ANALYSIS.

A. The ECAPM is a modified version of the CAPM, which attempts to address the belief that the actual risk v. return correlation is flatter than what is predicted by the CAPM. The implication is that the CAPM underestimates returns with lower levels of risk and over-estimates the returns associated with higher levels of risk. The ECAPM entails assigning a 25% weight to the market beta and 75% weight to the individual company or proxy group beta.[14]

Additionally, the use of ECAPM in estimating the cost of capital does not increase the validity of the result but merely adds another measure of subjectivity to the CAPM, attempting to make the SML more accurate. The ECAPM reduces the purpose of the beta, which is the only company-specific variable in the CAPM model. This additional layer of subjectivity provides an even stronger basis to rely on the DCF as the primary method to calculate a utility's cost of equity.

[14] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, p. 106.

Q. HAVE YOU CHANGED YOUR CAPM CALCULATION AS A RESULT OF MR. D'ASCENDIS'S REBUTTAL TESTIMONY?

A. No. First, I disagree with Mr. D'Ascendis's modified CAPM result of 11.84%, which is an average result of the CAPM (11.75%) and the ECPAM (11.93%) results (FE PA Exhibit DWD-8R, p. 1). Second, I continue to recommend using my CAPM result of 11.29% (I&E Exhibit No. 2, Schedule 11) only as a comparison to my DCF result of 9.91% (I&E Exhibit No. 1, Schedule 6).

FLOTATION COST ADJUSTMENT

Q. PLEASE SUMMARIZE MR. D'ASCENDIS'S RESPONSE TO YOUR REJECTION OF A FLOTATION COST ADJUSTMENT IN THE COST OF EQUITY.

A. Mr. D'Ascendis reiterates that FE PA receives capital from its parent company and provide returns on the capital infusion and claims that denying recovery of stock issuance costs would penalize the investors that fund the utility operations (FE PA Statement No. 10-R, p. 34). He then cites Florida Public Service Commission order in the 2023 Peoples Gas System, Inc. (PGS) rate proceeding, where the Commission approved the flotation cost adjustment in the authorized ROE for PGS (FE PA Statement No, 10-R, p. 35).

Q. WHAT IS YOUR RESPONSE TO MR. D'ASCENDIS'S REBUTAL TESTIMONY REGARDING FLOTATION COST ADJUSTMENT?

A. As discussed in my direct testimony (I&E Statement No. 2, pp. 46-48), FE PA is a wholly owned subsidiary of its parent company, FirstEnergy Corporation (FEC). FE PA does not issue stock to the general public through the capital market, but FEC does. FEC had last issued common stock in 2021 and it does not have any planned new issuances of common stock over the next five years (I&E Exhibit No. 2, Schedule 13). FEC stock issues are for a variety of reasons and uses including providing capital support to electric distribution utilities in five states and transmission utilities (operating subsidiaries). Stock issues are not specifically and entirely issued and used for the benefit of FE PA. Flotation costs of the parent company/issuer company are already incurred and accounted for as expenses or amortized in the books of the issuer company, which has no direct nexus with FE PA. Therefore, historic stock issuance costs are not recoverable directly or indirectly from FE PA's ratepayers in this rate case. Additionally, FEC has no definite plan to issue stock in the near future.

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S CITE OF FLORIDA PUBLIC SERVICE COMMISSION ORDER THAT ALLOWED A FLOTATION COST ADJUSTMENT TO THE ROE OF A GAS UTILITY?

A. No. Mr. D' Ascendis's reference to the Florida Public Service Commission order allowing a flotation cost adjustment in PGS's rate proceeding has no relevance in

this proceeding. A survey was conducted by the Staff of the Iowa Utilities Board (Bittner, 1992) regarding the Utility Commissions' decision concerning flotation costs in the rate case proceedings.[15] This survey result indicates that State Commissions/Boards rejected a flotation cost adjustment in sixteen rate cases in contrast to eleven rate cases where this was allowed. In West Penn Power Company's two rate cases, the Pennsylvania Public Utility Commission had denied the claim for a flotation cost adjustment.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION TO REJECT FE PA'S CLAIM FOR A FLOTATION COST ADJUSTMENT IN THE COST OF EQUITY?

A. No. Considering the above discussion and the impact of the claimed floatation cost adjustment to ratepayers (I&E Statement No. 2, pp. 47-48), the Company's claim is not appropriate and justified; therefore, I continue to recommend rejection of the flotation cost adjustment claim of 0.21% to the cost of equity.

RISK PREMIUM

Q. WHAT WAS YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING MR. D'ASCENDIS'S RP METHOD?

A. I opposed giving the CAPM and RP considerable weight in determining the cost of

[15] David C. Parcell, "The Cost of Capital – A Practitioner's Guide," 2020 Edition, pp. 211-215.

equity because the RP method is a simplified version of the CAPM, and it suffers the same flaws as CAPM. As discussed in my direct testimony, the CAPM measures the cost of equity indirectly and can be manipulated by the market risk premium calculation and the time period chosen (I&E Statement No. 2, pp. 38-39).

Q. SUMMARIZE MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING THE RP METHOD.

A. Mr. D'Ascendis states that his equity risk premium analysis applies beta to the indicated equity risk premium to create a proxy group-specific equity risk premium. In view of this, he claims that his RP analysis should be considered by the Commission in approving an ROE for the Company (FE PA Statement No. 10-R, p. 17).

Q. WHAT IS YOUR RESPONSE TO MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING THE RP METHOD?

A. Mr. D'Ascendis uses the same CAPM formula with different inputs in determining RP derived cost of equity [Moody's Baa1 Rated Utility Bond Rate + (Proxy Group Beta x Average Equity Risk Premium)] (FE PA Exhibit DWD-1R, pp. 22-32). This indicates that fundamentally the RP method is virtually similar to the CAPM. The RP method result indicates to an investor what the equity cost rate should be if current economic and regulatory conditions are the same as those present during the historical period in which the risk premiums were determined. Beta is the only

company-specific variable used in the CAPM and RP models, which measures the historical volatility of a stock compared to the historical overall market return or equity risk premium. As discussed in my direct testimony, I continue to assert that the RP method is a simplified version of the CAPM and it suffers the same flaws as the CAPM. Therefore, the RP analysis should not be given equal weight to other methods in determining an appropriate ROE for the Company (I&E Statement No. 2, pp. 18-21 and 38-39).

COMPARABLE EARNINGS

Q. WHAT WAS YOUR RECOMMENDATION IN DIRECT TESTIMONY CONCERNING MR. D'ASCENDIS'S CE METHOD USING A NON-PRICE REGULATED PROXY GROUP?

A. I recommended that the Commission reject all analyses (DCF, CAPM, and RP) performed using the Non-Price Regulated Proxy Group for the CE method as it is highly speculative and subjective. Mr. D'Ascendis's non-regulated proxy group (of forty-five non-utility companies with unrelated or entirely dissimilar business segments carrying different risks and uncertainties) is simply not comparable to an electric distribution utility in terms of the business risks and financial risk profile (I&E Statement No. 2, pp. 39-40).

Q. SUMMARIZE MR. D'ASCENDIS'S REBUTTAL TESTIMONY REGARDING THE CE METHOD.

A. Mr. D'Ascendis claims that his Non-Price Regulated Proxy Group is not subjective in nature, as it is based on a range of two measures of risk: (1) the unadjusted beta of the Utility Proxy Group, which measures systematic, or market risk; and (2) the standard error of regression, which gave rise to those betas, measuring non-systematic or diversifiable risk. Business and financial risk may vary between companies and proxy groups, but if the collective average betas and standard errors of the regression of the group are similar, the total, or aggregate risks are similar (FE PA Statement No. 10-R, p. 18). Finally, he claims that his application of the DCF, CAPM, and RPM to the Non-Price Regulated Proxy Group reveals an apples-to-apples comparison of the investor-required return for non-regulated companies, which are similar in total risk (FE PA Statement No. 10-R, p. 19).

Q. DO YOU BELIEVE THAT THE COMPANIES USED BY MR. D'ASCENDIS IN HIS CE ANALYSIS ARE SIMILARLY SITUATED AND COMPARABLE TO FE PA?

A. No. As explained in my direct testimony (I&E Statement No. 2, pp. 39-40) the companies in Mr. D'Ascendis's analysis are not regulated utilities and similarly situated; therefore, they are too disparate to be used in a CE analysis. For example, the criteria Mr. D'Ascendis uses to choose the companies in his proxy

group for the CE analysis are engaged in unregulated industries like Chemicals, Pharmaceuticals, Retail Stores, Financial Services, Telecom, IT Services, Industrials, Machinery, Medical Devices, Diversified Business, Trucking, Services, Aerospace/Defense, etc. (FE PA Exhibit DWD-6, p. 3). All the companies of his proxy group operate in industries that are very different from a utility company and operate under variable level of regulations. Also, a large majority, if not all the companies he uses in his analysis, are not monopolies as utilities largely are. This means that they have significantly more competition and would require a higher return for the added risk. Additionally, the CE method should be excluded because it is entirely subjective as to which companies are comparable and it is debatable whether historical accounting returns are representative of the future.

Q. HAS MR. D'ASCENDIS PROVEN THAT THE RISKS FACED BY HIS NON-REGULATED PROXY GROUP ARE SIMILAR TO THAT OF HIS ELECTRIC UTILITY GROUP?

A. No. The risks faced in each industry for the companies used in Mr. D'Ascendis's unregulated group differ from the risks faced by his electric utility group because each industry carries industry-specific risks. Specifically, the level of competition between non-price regulated companies and monopolies, which utilities largely are, is too difficult a factor to control. Although beta is an indicator of a company's investment risk in relation to the entire stock market, beta is not a

quantification of the total investment risk of a given company. Mr. D'Ascendis's unregulated proxy group may have a beta comparable to that of his electric group, but that does not mean the companies face sufficiently similar risks to be used as a substitute for an industry's market. Both beta and the standard error of regression are measures of the past performance of a stock and as such do not necessarily reflect where an industry is going or what risks it is expected to face.

Additionally, the Commission made the following comments in a recent UGI Electric case regarding the CE method, specifically, the use of non-utility companies in a comparable group, and stated,[16]

> With respect to the CE method, as noted above, this cost of equity method utilizes data for non-regulated firms. Thus, by its very nature, determining which companies are comparable is entirely subjective. In addition, the record indicates that the companies UGI utilized in its CE group results in the selection of companies such as Coca-Cola Company, Kellogg Company, and Walmart Stores, Inc.... Each of these companies operate in industries that are very different from a utility company and have significantly more competition, which would require a higher return for the associated additional risk.

Finally, I am advised by counsel that this premise defies the principle set forth in the *Hope* and *Bluefield cases*[17] that a utility is entitled to a return similar to that being earned by companies with similar risks and uncertainties, but not as high as those earned by highly profitable or speculative ventures.

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[16] *Pa. PUC v. UGI Utilities, Inc. – Electric Division;* Docket No. R-2017-2640058 (Order Entered October 25, 2018), p. 105. The Commission has also ruled "[t]he use of nonregulated companies as a comparable group for regulated firms requires numerous unsupportable assumptions which results in a highly speculative finding." *Pennsylvania Public Utility Commission v. Philadelphia Electric Co.* 33 PUR 4th 319, 341 (Pa PUC 1980).

[17] *See Bluefield Water Works & Improvements Co. v. Public Service Comm. of West Virginia,* 262 U.S. 679,692-93 (1923), and the *FPC v. Hope Natural Gas Co.,* 320 U.S. 591, 603 (1944).

Q. DO YOU AGREE WITH MR. D'ASCENDIS'S CLAIM THAT HIS APPLICATION OF THE DCF, CAPM, AND RP METHOD TO THE NON-PRICE REGULATED PROXY GROUP IS AN APPLES-TO-APPLES COMPARISON OF THE INVESTOR-REQUIRED RETURN FOR REGULATED UTILITY COMPANIES?

A. No. As discussed above, Non-Price Regulated Proxy Group and Electric Utility Proxy Group companies have different business and financial risks, and therefore, are not similarly situated and comparable in the context of total risk. Mr. D'Ascendis's application of the DCF, CAPM, and RP Method to the Non-Price Regulated Proxy Group does not validate or provide support to his claim of an apples-to-apples comparison of the investor-required return for non-regulated and regulated electric utility companies.

OVERALL RATE OF RETURN

Q. HAS YOUR OVERALL RATE OF RETURN RECOMMENDATION CHANGED FROM YOUR DIRECT TESTIMONY?

A. No. My recommended cost of equity and overall rate of return remain unchanged from my direct testimony (I&E Statement No. 2, p. 6).

Q. PLEASE RESTATE YOUR OVERALL RATE OF RETURN RECOMMENDATION.

A. I continue to recommend the following rate of return for FE PA:

I & E FirstEnergy Pennsylvania Electric Company Summary of Cost of Capital			
Type of Capital	**Ratio**	**Cost Rate**	**Weighted Cost Rate**
Long-Term Debt	46.19%	4.56%	2.11%
Common Equity	53.81%	9.91%	5.33%
Total	**100.00%**		**7.44%**

As discussed in my direct testimony, I reiterate that my recommended return on equity of 9.91% is higher than the average return on equity of 9.66% of all electric utility rate cases decided/approved by the state regulatory authorities in the first quarter of 2024. It is also important to note here that Pennsylvania is a deregulated state, which would indicate less risk (I&E Statement No. 2, p. 68).

SUMMARY OF IBEW WITNESS REBUTTAL TESTIMONY

Q. SUMMARIZE IBEW WITNESS KLINE'S COMMENT ON FE PA'S CLAIMED ROE OF 11.30% IN REBUTTAL TESTIMONY.

A. Mr. Kline supports FE PA's claimed ROE and he believes a return needs to be sufficient to assure confidence in the financial integrity of FE PA and ensure it attracts and retains investors (IBEW Statement, p. 12).

Q. DO YOU AGREE WITH MR. KLINE'S CONCURRENCE WITH THE FE PA'S CLAIMED ROE?

A. No. I disagree with Mr. Kline's acceptance of FE PA's claimed ROE because he

does not present a detailed cost of equity analysis that matches the Company's claimed ROE. To suggest that the FE PA's claimed cost of equity be approved absent a detailed analysis in a base rate proceeding is inappropriate and not in the public interest. Mr. Kline made a general comment that "a return needs to be sufficient to assure confidence in the financial integrity of FE PA and to ensure it attracts and retains investors." It appears he did not evaluate FE PA's financials and ratemaking calculations to support his position. Additionally, he is not concerned with the impact of FE PA's claimed ROE on the rates and the burden that ratepayers would carry.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Statement No. 3-SR
Witness: Joseph Kubas
NON-PROPRIETARY

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Surrebuttal Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:

Other Revenue
Proposed Revenue
Rate Structure, Cost of Service Studies
Scale Back of Rates
Rate Base
Amortization Expense

TABLE OF CONTENTS

INTRODUCTION **1**

RATE BASE **2**

VERIZON COMPLAINT **3**

CUSTOMER COST ANALYSIS **12**

CUSTOMER CHARGE RECOMMENDATIONS **20**

REVENUE ALLOCATION **22**

SCALE BACK OF RATES **26**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Joseph Kubas, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. ARE YOU THE SAME JOSEPH KUBAS WHO SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted I&E Statement No. 3 – PROPRIETARY, I&E Statement No. 3 – NON-PROPRIETARY, and I&E Exhibit No. 3.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to address the rebuttal testimony of FirstEnergy Pennsylvania Electric Company (FE PA or Company) witnesses Joanne M. Savage (FE PA St. No. 1-R), Patricia Larkin (FE PA St. No. 3-R), Tracy Ashton (FE PA St. No. 4-R), and Tim Lyons (FE PA St. No. 7-R). I will also address the rebuttal testimony of the Office of Consumer Advocate (OCA) witness Karl Richard Pavlovic (OCA St. No. 4R), the rebuttal testimony of the Large Users Groups (LUG) witness Brian C. Andrews (LUG St. No. 1R), and the rebuttal testimony of The Pennsylvania State University (PSU) witness James Christ (PSU St. No. 1-R).

Q. DOES YOUR DIRECT TESTIMONY INCLUDE AN EXHIBIT?

A. Yes. I&E Exhibit No. 3-SR contains schedules relating to my direct testimony.

RATE BASE

Q. DID THE COMPANY CLAIM VARIOUS PLANT ADDITIONS IN THE FUTURE TEST YEAR (FTY) ENDING DECEMBER 31, 2024, AND FULLY PROJECTED FUTURE TEST YEAR (FPFTY) ENDING DECEMBER 31, 2025, THAT WERE INCLUDED IN RATE BASE?

A. Yes. The first set of additions to plant are described in I&E St. No. 3, pp. 3-4. The second set of plant additions are related to the Company's inspection and maintenance program for lines and transformers (I&E St. No. 3, p. 6).

Q. DID YOU RECOMMEND THAT THE COMPANY PROVIDE UPDATES TO THESE TOTALS COMPARING ACTUAL ADDITIONS TO PLANT ADDITIONS?

A. Yes. I recommended that the Company be required to provide the Commission's Bureau of Investigation and Enforcement and the Office of Consumer Advocate with separate reports for Met-Ed, Penelec, Penn Power, and West Penn Power showing he actual FTY additions, retirements, and transfers, as shown on FE PA Ex. V-A-3, pp. 2-5 no later than April 1, 2025. In addition, I recommend the Company be required to provide similar updates of FE PA Ex. V-A-3, pp. 2-5 with actual additions and retirements for the FPFTY no later than April 1, 2026.

Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION?

A. Yes. The Company agreed to provide these updates (FE PA St. No. 4-R, p. 9).

VERIZON COMPLAINT

Q. PLEASE SUMMARIZE WHAT FE DESCRIBES AS THE VERIZON COMPLAINT.

A. Verizon utilizes FE PA's poles to attach its facilities and pays revenue to FE PA based upon an agreed upon contract rate. However, Verizon filed a complaint with the Commission at Docket No. C-2020-3019347 due to an alleged excessive contract rate. The Commission ruled in favor of Verizon and ordered the rate and corresponding revenue be reduced (FE PA Statement No. 1, pp. 21-22). An appeal of this decision was filed in the Commonwealth Court of Pennsylvania at Docket No. 521 CD 2021, and FE indicated that it will update its claim depending on the outcome of the decision (FE PA Statement No. 1, p. 22).

Q. WHAT DID FE PA CLAIM WITH RESPECT TO THE VERIZON COMPLAINT?

A. FE PA claimed two things concerning the Verizon Complaint. First, FE PA looked back and carved out a portion of its other revenue that it did not receive as the result of an unfavorable result of the complaint filed by Verizon. Second, FE PA looked forward and projected lower revenue anticipated as a result of the Verizon Complaint (FE PA Statement No. 1, pp. 21-22).

Q. WHAT AMOUNT OF VERIZON COMPLAINT REVENUE DID THE COMPANY CLAIM WAS NOT RECEIVED?

A. FE PA compiled the amount of revenue it claims was not received on FE PA Exhibit PML-1, p. 20, Adjustment RB-5, line 12. **{BEGIN PROPRIETARY}** [redacted] **{END PROPRIETARY}**

Q. HOW DOES THE COMPANY PROPOSE TO RECOVER THESE AMOUNTS FROM RATEPAYERS?

A. FE PA proposes to amortize these amounts over the **{BEGIN PROPRIETARY}** [redacted] **{END PROPRIETARY}**

Q. HOW MUCH DID THE COMPANY CLAIM IN RATE BASE FOR THE UNAMORTIZED PORTION OF THE VERIZON COMPLAINT?

A. FE PA reduced the total compiled amounts above by the corresponding claimed FPFTY amortization expense (FE PA Exhibit PML-1, p. 20, Adjustment RB-5, lines 12-14). **{BEGIN PROPRIETARY}** [redacted]

[redacted]

[redacted]

{END PROPRIETARY}

Q. WHAT DID YOU RECOMMEND CONCERNING THE COMPANY'S AMORTIZATION EXPENSE AND RATE BASE CLAIMS FOR THE VERIZON COMPLAINT AS IDENTIFIED ABOVE?

A. I recommended that all claims for the Verizon Complaint, both the amortization expense and rate base amounts detailed above be rejected in their entirety (I&E St. No. 3, p. 9).

Q. WHAT WAS THE BASIS FOR YOUR RECOMMENDATION?

A. The Verizon Complaint revenue shortfall represents "other revenues" the Company claims it did not receive in the past. In normal ratemaking, utilities are not permitted to recover revenues anticipated but not received. While the Company may have not received all the "other revenues" it projected that it would receive in the last base rate case, carving out this revenue as one past ratemaking component constitutes single issue ratemaking for which a prospective claim should not be permitted. In addition, the Company did not request deferral of this expense, some of which is prior to the FPFTY, and thus a prior period adjustment. Another reason I gave was that the Commission Order did not include a deferral or mention future recovery (I&E St. No. 3, pp. 9-10).

Q. DID YOU ALSO MAKE A RECOMMENDATION IF THE COMMISSION ALLOWS THE COMPANY TO RECOVER ANY PORTION OF THE CLAIMS ASSOCIATED WITH THE VERIZON COMPLAINT?

A. Yes. I recommended that if the Commission decides to allow amortization of a regulatory asset, the amortization period should be extended to five years to match the likely time period these rates are to be in effect based on I&E witness Christine Wilson's similar recommendations (I&E St. No. 4). Additionally, I recommended no rate base allowance for any portion of the Verizon Complaint claims as the Company should not be permitted to earn a return on any unamortized balances related to a revenue shortfall (I&E St. No. 3, p. 11).

Q. DID YOU ALSO RECOMMEND THE COMPANY PROVIDE AN UPDATED REVENUE PROJECTION IF THE REVENUE IN THE FILING IS PROJECTED TO CHANGE?

A. Yes. I also recommended that, if the Commission decides to allow the Company's claim, FE PA be required to update the projected Pole Attachment revenue before the record closes in this proceeding. This would ensure that the most accurate revenue allowance is reflected in base rates (I&E St. No. 3, p. 11).

Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATIONS CONCERNING THE VERIZON COMPLAINT?

A. Yes. The Company disagrees with my recommendations for several reasons. First,

the Company asserts that it did request a deferral of this amount in the past. Second, the Company claims that this lost revenue should be considered an "expense" that it would be entitled to defer and recover in the next base rate case. Third, it appears that if the Company believes that since the Commission and Commonwealth Court mentioned deferral that it did receive permission to defer the recovery. Fourth, the Company opines that if the deferred amount is not recovered, it will encourage electric utilities to capitulate to pole attachers, causing them and other utilities to receive less revenue. Finally, FE PA describes a prospective revenue adjustment and states that if the Commission denies the recovery of this lost revenue, in the future, electric utilities will not take the risk of charging pole attachment revenue among other things (FE PA St. No. 1-R, pp. 18-22 and St. No. 3-R, p. 15).

Q. PLEASE ADDRESS THE FIRST CLAIM CONCERNING THE REQUEST FOR DEFERRAL?

A. I am advised by counsel that FE PA's request to defer the lost revenue until the next base rate case is not valid. It is my understanding that the proper procedure for requesting deferral of this lost revenue would have been for FE PA to file a petition with the Commission requesting specific deferral, including support for the amounts. FE PA failed to make such a filing.

Q. PLEASE RESTATE THE COMPANY'S SECOND CLAIM CONCERNING THIS LOST REVENUE.

A. The Company claims that lost revenue is the same as an increase in an expense. Therefore, the Company opines that this lost revenue is an expense that should be approved in this proceeding since the Commission has in the past approved the recovery of "nonrecurring" and "extraordinary" expenses (FE PA St. No. 1-R, p. 20).

Q. SHOULD LOST REVENUE BE CONSIDERED THE SAME AS AN INCREASE IN EXPENSE?

A. No. Revenue and expenses are two different things, and the treatment of each claim is different. As described above and in my direct testimony, utilities are not permitted to recover projected revenue not ultimately received.

To qualify for deferral treatment, an expense must be "extraordinary." Historically, FE PA has generally cited FERC standards that denote an expense is extraordinary if it exceeds 5% of income (for example, see P-2023-3043394, West Penn Petition to Defer Winter Storm Quest Costs, Section III). While the Commission's Order did not make a determination as to whether the Winter Storm Quest expenses qualified as extraordinary and eligible for recovery, deferring that issue to a subsequent base rate case, by FE PA's own yardstick, the annual amounts shown on FE PA Exhibit JMS-4 are far less than 5% of total income for either Met Ed, Penelec, or Penn Power. While the lost revenue may be "nonrecurring," regardless of FE PA's efforts to fit it into an extraordinary expense definition, it is

not an expense, and there is no justification for recovering past lost revenue in this case.

Q. PLEASE ADDRESS THE THIRD CLAIM CONCERNING THE COMMISSION AND COMMONWEALTH COURT ORDER DESCRIBING DEFERRAL OF THIS LOST REVENUE?

A. Similar to the claims above, I am advised by counsel that these claims are not valid. While I do agree that the Orders cited by the Company mention deferral until the next base rate case, however, the mere mention of a deferral and that FE may raise the issue of this lost revenue in a future base rate proceeding does not justify FE PA skipping the requirement that it file a petition to be permitted to claim lost revenue realized before an FPFTY claim in a base rate case nor guarantee recovery of any such claim.

Q. PLEASE SUMMARIZE THE COMPANY'S FOURTH CLAIM CONCERNING LOST REVENUE.

A. The Company states on FE PA St. No. 1-R, p. 22,

> If the Company were denied the deferred recovery of the refunds and lost revenues related to the retrospective and prospective cancelation of the negotiated rates with ILEC attachers, the Commission would, in essence, be encouraging electric utilities to capitulate to the rate demands of pole attachers and not dispute whether they are eligible to receive a lower pole attachment rate under the Commission's regulations to the detriment of electric customers. Electric utilities would not be willing to risk disputing the pole attachers' demands for

lower rates if they could be left without a way to recover any refunds or lost revenues if and when the Commission ultimately finds that the pole attachers should be awarded a lower rate and a refund (plus interest) based on that lower rate.

Q. DID YOU RECOMMEND ANY PROSPECTIVE ADJUSTMENT TO PROPOSED POLE ATTACHMENT RATES AS SUGGESTED BY THE COMPANY?

A. No. I have accepted the lower pole attachment revenue and inherently the prospective negotiated rates proposed by FE PA for Met-Ed, Penelec, and Penn Power in the FPFTY. Therefore, the Company's concern regarding prospective rates is misplaced.

Q. PLEASE ADDRESS THE COMPANY'S FIFTH AND REMAINING CLAIM THAT POLE ATTACHMENT REVENUE COULD DECLINE IF THE COMMISSION DOES NOT ALLOW RECOVERY OF THIS LOST REVENUE FROM SEVERAL YEARS AGO.

A. The Company's plea to the Commission should not be accepted. Lost revenue or increased revenue from historic periods is simply not reconciled in subsequent rate cases. While the Company desires to claim the gross amount of multiple years of revenue overcharges due to the mandated rate changes in this proceeding, the annual amounts were simply not extraordinary, and the Company has made no effort to disclose or offset those claims by the conceivably many new pole attachments that occurred and generated revenue in the intervening years between rate cases. In

addition, I believe the Company has an incentive to maximize pole attachment revenue as it aids in offsetting cost increases between base rate cases. Finally, since the Company is compensated for risk in its return on equity, there is no valid reason to reimburse FE PA for revenue it claimed it did not recover prior to the FPFTY, particularly since the annual amounts did not constitute extraordinary as defined above.

Q. DID THE COMPANY ADDRESS YOUR ALTERNATIVE PROPOSAL CONCERNING A FIVE-YEAR AMORTIZATION PERIOD IF THE COMMISSION ALLOWS THE REVENUE RECOVERY?

A. No. Therefore, if the Commission does allow recovery of this lost revenue, the amortization period should be consistent with the time period used to normalize rate case expense.

Q. DID THE COMPANY PROVIDE ANY VALID REASONS FOR INCLUDING THE UNAMORTIZED BALANCES IN RATE BASE?

A. No. Therefore, my recommendation to exclude these lost revenues from rate base should be approved.

CUSTOMER COST ANALYSIS

Q. DID THE COMPANY COMPILE FOUR CUSTOMER COST ANALYSES TO SUPPORT THE PROPOSED INCREASES IN THE CUSTOMER CHARGES?

A. Yes. The Company provided similar Customer Cost Analyses for the rate districts as part of each cost of service study (COSS) labeled as FE PA Exhibit TSL-2. For Met-Ed, the Customer Cost Analysis is on pp. 36-37. For Penelec, the Customer Cost Analysis is on pp. 35-36. For Penn Power, the Customer Cost Analysis is on pp. 29-30. For West Penn Power, the Customer Cost Analysis is on pp. 38-39.

Q. DID YOU ADDRESS THE COMPANY'S FOUR CUSTOMER COST ANALYSES?

A. Yes, I recommended that some of the plant and expenses that the Company claimed be removed from each of the analyses. I also recommended that only a portion of uncollectible expense be included. Finally, I recommended that some of the forfeited discount revenue be reflected as an offset to customer costs (I&E St. No. 3, pp. 12-20).

Q. WHAT WAS THE BASIS FOR YOUR RECOMMENDATIONS IN THE CUSTOMER COST ANALYSES?

A. I stated that each of the Company's Customer Cost Analyses included plant and expenses that were not customer related. For some of the expenses, the description

was too vague to determine if they should be included in the analyses. I also relied upon past Commission precedent to determine what should and should not be included in a customer cost analysis. Next, I recommended that some of the late payment revenue be reflected in the analyses to align with the portion of the uncollectible expense that applies to the customer charge. Finally, I recommended an offset to customer costs from forfeited discounts because some of the forfeited discount is a result of a share of the late fee applying to the customer charge (I&E St. No. 3, pp. 12-20).

Q. DID YOU PREPARE SCHEDULES THAT SUMMARIZED YOUR CUSTOMER COST ANALYSES RESULTS?

A. Yes. A summary of my Customer Cost Analyses was included as I&E Ex. No. 3, Sch. 1-4.

Q. DID THE COMPANY ADDRESS YOUR CUSTOMER COST ANALYSES?

A. Yes. The Company states that my Customer Cost Analyses excluded items that should be included in the analyses for various reasons. First, the Company opines that since the plant I excluded is used to give customers access to the electric system, it should be included in the analyses. Second, the Company cites the National Association of Regulatory Utility Commissions ("NARUC") Electric Utility cost manual. Third, the Company provides a graph showing a correlation between the number of customers and the number of poles installed. Fourth, the Company cites a

past PPL Order that supposedly says if an item's allocation is based upon the number of customers in a COSS it is properly included in the Customer Cost Analyses. Fifth, the Company conceded that some of the uncollectible account expense should be excluded from the analyses and conceded that some forfeited discount revenue should be used as an offset in the analyses. Finally, the Company asserts the Aqua case that did not include similar water plant should not be used for comparison (FE PA St. No. 7-R, pp. 5-9).

Q. ADDRESSING THE FIRST CLAIM, WHAT SPECIFICALLY DOES THE COMPANY ARGUE CONCERNING PLANT USED TO PROVIDE ACCESS TO THE ELECTRIC GRID?

A. The Company argues that plant accounts 364 (Poles, Towers, and Fixtures), 365 (Overhead Conductors and Devices), 366 (Underground Conduit), 367 (Underground Conductors and Devices), and 368 (Line Transformers) and associated expenses vary with the number of customers and are related to changes in the number of customers because distribution facilities are designed to provide customers access to the electric system.

Q. IS PROVIDING "ACCESS TO THE ELECTRIC SYSTEM" THE CORRECT CRITERIA TO DETERMINE WHAT SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSES?

A. No. Arguably, almost all plant is used to provide a customer "access to the electric

system" but this broad inclusion is not the proper criteria. As described in my direct testimony only plant used to directly serve customers should be included in the Customer Cost Analyses. In addition, my direct testimony described how this type of plant is used to deliver generation, which the Company did not dispute (I&E St. No. 3, p. 16).

Q. ADDRESSING THE SECOND CLAIM, DOES THE NARUC MANUAL SUPPORT THE COMPANY'S CLAIM THAT THE PLANT YOU EXCLUDED SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSES?

A. No. First, I believe the NARUC directive can be used to allocate total costs in a COSS, which is what I believe that section is referring to. However, the issue here is customer costs and what to include in a Customer Cost Analysis which is more targeted and limited. Furthermore, the Commission is not required to follow all directives of NARUC. As described in my direct testimony, I believe the Commission should follow sound ratemaking and the precedent established in prior cases (I&E St. No. 3, p. 12-20).

Q. ADDRESSING THE THIRD CLAIM, DOES A CORRELATION BETWEEN THE NUMBER OF POLES SUPPORT THE COMPANY'S POSITION THAT POLES SHOULD BE INCLUDED IN THE CUSTOMER COST ANALYSES?

A. No. This similar comparison could be made for many types of plant and expenses,

even generation. In the long term, systemwide, as the Company adds customers, you would expect all types of plant to increase. However, as described above and in my direct testimony, systemwide plant balances are not the proper criteria for determining what to include in the Customer Cost Analyses. The proper analysis is the incremental plant to connect and bill one customer.

Q. CAN YOU PROVIDE AN EXAMPLE WHERE THE COMPANY DOES NOT ADD OR REMOVE A POLE IF A CUSTOMER IS ADDED OR LEAVES THE SYSTEM?

A. Yes. For example, along a public road, if a customer is added between two existing customers, the Company does not generally add a new pole to serve that customer. Similarly, if a customer's building is removed, the Company does not go out and remove one of the poles that are still being used to serve neighboring customers.

Q. DID THE COMPANY PROVIDE A SIMILAR CORRELATION FOR OVERHEAD AND UNDERGROUND CONDUCTORS AND DEVICES, OR UNDERGROUND CONDUIT?

A. No. Therefore, it is reasonable to believe the Company cannot show a similar correlation between conductors, devices, and conduit and the number of customers. Therefore, this lack of support undermines the Company's position that conductors, devices, and conduit plant should be included in the Customer Cost Analyses. Similar to the example above, if a customer is added between two existing

customers, the Company does not generally add wires and conduit back to the substation.

Q. ADDRESSING THE FOURTH CLAIM CONCERNING A 2012 PPL ORDER, DOES THE ALLOCATION OF PLANT IN A COSS DICTATE THE INCLUSION OF PLANT IN A CUSTOMER COST ANALYSIS?

A. No. As described above, they are two different things. A Customer Cost Analysis is more limited to the incremental items used to serve one customer. In the 2012 PPL case, the section cited by the Company only describes the COSS, not the Customer Cost Analysis (pp. 128 -132, Order entered December 28, 2012).

Q. ADDRESSING THE FIFTH CLAIM, WHAT DID THE COMPANY STATE CONCERNING LATE PAYMENT REVENUE AND FORFEITED DISCOUNT REVENUE?

A. The Company agrees that a portion of uncollectible expenses not associated with customer charges and demand charges varies with usage charges. The Company also agrees that the Customer Cost Analyses should include an offset for a portion of the late payment revenue. However, the Company states that these impacts are small and did not provide an update to its Customer Cost Analyses (FE St. No. 7-R, pp. 7-8).

Q. DOES THE FACT THAT THESE AMOUNTS ARE SMALL CHANGE YOUR RECOMMENDATIONS TO REFLECT ONLY A PORTION OF UNCOLLECTIBLE EXPENSE AND LATE PAYMENT REVENUE?

A. No. I agree the amounts are small, but they are still relevant, and I believe all amounts should be properly reflected. Plus, they could make a difference in future cases. Therefore, I continue to recommend that only the portion of uncollectible expenses associated with customer and demand charges be included in these Customer Cost Analyses and a portion of late payment revenue be credited in these Customer Cost Analyses and both be reflected in future FE PA base rate cases.

Q. ADDRESSING THE FINAL CLAIM, WHAT DID THE COMPANY STATE CONCERNING THE AQUA RATE CASE?

A. The Company opines that since Aqua did not claim distribution plant in its Customer Cost Analysis and the Aqua Order did not address the inclusion or exclusion of distribution plant, it should not be used as precedent. The Company goes on to claim that the Commission Order allowed Aqua to include certain indirect customer costs in its Customer Cost Analysis but notes that it did not claim these same indirect customer costs in its case (FE PA St. No. 7-R, p. 9).

Q. DOES COMPARING THE AQUA CUSTOMER COST ANALYSIS WITH THE FIRST ENERGY CUSTOMER COST ANALYSES SHOW HOW OVER-INCLUSIVE THE FIRST ENERGY CUSTOMER COST ANALYSES ARE?

A. Yes. Comparing the Aqua Customer Cost Analysis approved by the Commission with the FE PA Customer Cost Analyses shows how overinclusive and improper the FE PA Customer Cost Analyses are. Aqua did not include mains, pumps, fittings, and hydrants in its Customer Cost Analysis because they would be like Poles, Towers, Fixtures, Overhead and Underground Conductors, Devices, and Conduit Line Transformers, and none of these are direct customer costs.

Q. PLEASE ADDRESS THE COMPANY'S ASSERTION THAT THE AQUA COST ANALYSIS INCLUDED ITEMS NOT IN THE FIRST ENERGY CUSTOMER COST ANALYSES.

A. It's not clear what specific accounts the Company is referring to. I did include Miscellaneous Customer Account expense in the FE PA Customer Cost Analyses. As far as the other few miscellaneous type expenses, it was not evident that they were customer related, therefore I excluded them. The Company should have done a better job of describing and breaking down expenses so the Commission can evaluate whether some general and administrative cost should be included in the FE PA Customer Cost Analyses.

CUSTOMER CHARGE RECOMMENDATIONS

Q. WHAT WERE YOUR CUSTOMER AND DEMAND CHARGE RECOMMENDATIONS FOR MET-ED, PENELEC, PENN POWER, AND WEST PENN POWER?

A. I recommended none of the customer or demand charges for Met-Ed, Penelec, Penn Power, or West Penn Power be increased (I&E St. No. 3, pp. 20-24).

Q. DID THE COMPANY ADDRESS YOUR CUSTOMER CHARGE RECOMMENDATION?

A. Yes. As described above, the Company opines that I excluded many customer-related costs in my Customer Cost Analysis used to reach my conclusion that no customer or demand charges should be increased. The Company also asserts that my recommendation causes a cost shift from low to high usage customers. Finally, the Company states that higher customer charges are beneficial to high usage/weather sensitive customers (FE PA St. No. 7-R, pp. 10-11).

Q. DOES YOUR PROPOSAL NOT TO INCREASE THE CUSTOMER OR DEMAND CHARGE CAUSE AN IMPROPER SHIFT OF REVENUE RECOVERY FROM USAGE CUSTOMERS?

A. No. I believe my customer and demand charge recommendations are supported by my Customer Cost Analyses. Furthermore, my analyses show that the revenue received from the customer and demand charges exceed the corresponding customer

cost. Therefore, since these charges produce revenue above what the corresponding customer costs are, there is currently a subsidy being provided from low usage customers to high usage customers, the opposite of what the Company is trying to show is the case.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S POSITION THAT HIGH USAGE CUSTOMERS SHOULD BE SUBSIDIZED BECAUSE OF WINTER BILLS?

A. No. The proper determination of a customer charge should be the goal. While I understand that high usage customers can experience high winter bills, the Company offers budget billing to smooth out monthly bill variations, lessening the impact to electric heat customers in the winter months. Therefore, high usage customers are not being harmed by the current customer and demand charges.

Q. DID THE COMPANY PROVIDE ANY VALID REASONS FOR INCREASING ANY OF THE CUSTOMER OR DEMAND CHARGES?

A. No. As described above and in my direct testimony, proper Customer Cost Analyses show that the current customer and/or demand charges should not be increased.

REVENUE ALLOCATION

Q. DID YOU RECOMMEND A REALLOCATION OF REVENUE FOR TWO OF THE FOUR COMPANIES?

A. Yes. I recommended small reallocations of the proposed revenue in the Penelec and West Penn rate districts (I&E St. No. 3, pp. 25-28).

Q. WHAT WAS THE BASIS FOR YOUR REVENUE REALLOCATION IN THE PENELEC AND WEST PENN RATE DISTRICTS?

A. My recommendation was based upon the results of the Company's COSS that showed some of the classes had relative rates of return under proposed rates that were significantly above 1.00 and some were significantly below 1.00 (I&E St. No. 3, pp. 26-28).

Q. AFTER YOU SUBMITTED DIRECT TESTIMONY, DID THE COMPANY PROVIDE A REVISED COSS FOR ONE OF THE COMPANIES?

A. Yes. The Company provided a revised COSS for West Penn (I&E Ex. No. 3-SR, Sch. 1).

Q. PLEASE SUMMARIZE THE CHANGES IN THE WEST PENN COSS.

A. The Company revised some of the allocation factors. After these changes, the Company revised the proposed revenue by class. The largest changes in revenue by class were a reduction of $121,000 in the increase for Penn State, an additional

$88,000 increase for the Residential class, and smaller increases for some of the remaining classes (I&E Ex. No. 3-SR, Sch. 1, lines 14-15).

Q. DO YOU HAVE ANY CHANGES TO YOUR REALLOCATION RECOMMENDATION FOR WEST PENN?

A. Yes. As a result of the Company's revised West Penn COSS, I am revising my reallocation of revenue and scale back recommendation for West Penn and I am providing a revised I&E Ex. No. 3, Sch. 7, p. 4. The revised reallocation of revenue is shown on I&E Ex. No. 3-SR, Sch. 2, line 6. The revised scale back recommendation is described below.

Q. WHAT REVENUE REALLOCATION DID YOU MAKE AND WHY ARE YOU REVISING YOUR REVENUE REALLOCATION?

A. I first increased the amount to Penn State from zero to $75,000 (I&E No. 3-SR, Sch. 2, line 6, column M). The $75,000 increase to Penn State was necessary because under the Company's revised proposed revenue, the relative rate of return for the Penn State class is 0.76 (I&E Ex. No. 3-SR, Sch. 1, line 11, column M). Under my proposal, the relative rate of return for the Penn State class is 1.00 (I&E Ex. No. 3-SR, Sch. 2, line 13, column M). The increase that I recommend for the Penn State class is $1,399,000 ($1,324,000 + $75,000). The $1,399,000 is $446,000 less than the $1,445,000 the Company originally proposed for the Penn State class (I&E Ex. No. 3-SR, Sch. 1, line 14, column M). Then I reduced the $1,198,000 of additional

revenue I originally proposed for the Street Lighting Service (SLT) class by $75,000 to $1,123,000 because the percentage increase for the SLT class was the highest of all the classes (I&E No. 3-SR, Sch. 2, line 6, column L). The net change after both revisions is zero.

Q. DID THE COMPANY ADDRESS YOUR RECOMMENDATION TO REALLOCATE REVENUE IN THE PENELEC AND WEST PENN RATE DISTRICTS?

A. Yes. The Company disagrees with my recommendation. The Company states that its proposal balances fairness and bill continuity considerations with a 10% movement to cost-based rates for all classes (FE PA St. No. 7-R, p. 10).

Q. DID THE COMPANY PROVIDE ANY DETAILS OR DESCRIBE HOW YOUR PROPOSALS ARE UNFAIR OR UNBALANCED?

A. No. The Company failed to define what percentage increase it believes would be unfair or why a 10% movement is the optimum goal. As shown in my direct testimony, my recommendations increase the very low rates of return while keeping the percentage increases less than two times the system average (I&E Ex No. 3, Sch. 7, p. 4, line 15, columns E and M), Ex. No. 3-SR, Sch. 2, line 15, columns E, L and M). It is my opinion that if the increases are less than two times the system average increase, my proposals are reasonable. Therefore, the Company's claim that my proposal is unfair or unbalanced is misplaced.

Q. DID THE OCA ADDRESS YOUR RECOMMENDATION TO REALLOCATE REVENUE IN THE PENELEC AND WEST PENN RATE DISTRICTS?

A. Yes. First, the OCA believes it was improper for I&E to utilize the Company's COSS to evaluate and reallocate revenue. Second, based upon the OCA's revisions to the Company's COSS, OCA opines that the I&E revenue proposal shows some of the rates of return moving in the wrong direction. Finally, the OCA recommends that its revenue reallocation be used (OCA St. 4R, pp. 3-25).

Q. WERE YOU ABLE TO VERIFY THE OCA'S CLAIMS THAT YOUR RECOMMENDATIONS MOVE SOME OF THE RELATIVE RATES OF RETURN THE WRONG DIRECTION?

A. No. Furthermore, the OCA's testimony and conclusions are based upon the OCA being successful and convincing the Commission to make changes to the Company's proposed COSS. If the OCA is unsuccessful, this would validate the Company's COSS and my proposal.

Q. WOULD YOU OBJECT TO THE OCA'S PROPOSED REVENUE ALLOCATION IF IT IS SUCCESSFUL IN CHANGING THE COMPANY'S COSS?

A. No. If the OCA is successful and convinces the Commission to make changes to the proposed COSS, I would not object to the OCA revenue proposals. However, based

upon the Company's filing, I continue to support my revenue allocations.

Q. DID THE COMPANY OR OCA PROVIDE ANY VALID REASON FOR REJECTING YOUR RECOMMENDATION TO REALLOCATE REVENUE IN THE PENELEC AND WEST PENN RATE DISTRICTS?

A. No. Therefore, my recommendations should be approved.

SCALE BACK OF RATES

Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE MET-ED RATE DISTRICT?

A. I recommended that the first $28,418,000 reduction be applied as shown on I&E Ex. No. 3, Sch. 7, p. 1, line 6. After these reductions, revenue should be reduced proportionally to the percentage increases on I&E Ex. No. 3, Sch. 7, p. 1, line 14, except for the GSS, GSM, and Transmission Power (TP), Borderline, Municipal Service (MS), and Outdoor Lighting (POL) classes.

Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE PENELEC RATE DISTRICT?

A. I recommended that the first $25,832,000 reduction be applied as shown I&E Ex. No. 3, Sch. 7, p. 2, line 7. After these reductions, revenue should be reduced proportionally to the percentage increases on I&E Ex. No. 3, Sch. 7, p. 2, line 15, except for the GSS, Borderline, and Street Lighting (STLT) classes.

Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE PENN POWER RATE DISTRICT?

A. I recommended that a $3,158,000 reduction be applied as shown on I&E Ex. No. 3, Sch. 7, p. 3, line 6. After this reduction, revenue should be reduced proportionally to the percentages increase on I&E Ex. No. 3, Sch. 7, p. 3, line 14, except for the GSS, GSL, GP, TP, and STLT classes.

Q. WHAT DID YOU RECOMMEND IF THE COMMISSION GRANTS LESS THAN THE FULL INCREASE FOR THE WEST PENN RATE DISTRICT?

A. I recommended that the first $19,500,000 reduction be applied as shown on I&E Ex. No. 3, Sch. 7, p. 4, line 7. After these reductions, revenue should be reduced proportionally to the percentages increase on I&E Ex. No. 3, Sch. 7, p. 4, line 15, except for the GSS, GP/TP, PP-46, and the Street Lighting (STLT) classes.

Q. DO YOU HAVE ANY CHANGES TO YOUR TARGETED SCALE BACK FOR WEST PENN?

A. No. The revised COSS above did not change enough to cause me to alter my targeted scale back. However, applying the original scale back recommendation to the revised COSS resulted in slightly different net income, taxes, rates of return, and relative rates of return for some classes. The updated amounts are shown on I&E Ex. No. 3-SR, Sch. 2.

Q. DID THE COMPANY ADDRESS YOUR SCALE BACK RECOMMENDATION?

A. Yes. The Company disagrees with my recommendation. Similar to the arguments against my revenue reallocation, the Company states that its proposal balances fairness and bill continuity considerations with a 10% movement to cost-based rates for all classes (FE PA St. No. 7-R, p. 10).

Q. DID THE COMPANY PROVIDE ANY DETAILS OR DESCRIBE HOW YOUR PROPOSALS ARE UNFAIR OR UNBALANCED?

A. No, the lack of details is described above in the revenue allocation section.

Q. DID THE OCA ADDRESS YOUR RECOMMENDATION TO SCALE BACK REVENUE IN EACH OF THE RATE DISTRICTS?

A. Yes. First, the OCA believes it was improper for I&E to utilize the Company's COSS to propose a scale back of rates in this or any other rate proceeding. Second, the OCA asserts that a proportional scale back should be approved (OCA St. 4R, pp. 3-26).

Q. DOES THE OCA PROPOSAL NOT TO UTILIZE YOUR FE PA SCALE BACK IN ANY FUTURE RATEMAKING PROCEEDING LOGICAL?

A. No. This statement is illogical and does not reflect sound ratemaking principles. A targeted scale back recommendation is very specific to the case filed and the COSS

applicable. Since each utility, and data from year to year is different, no two revenue allocations are the same. Therefore, this specific scale back proposal would not be used in any other future proceedings. I disagree that all scale backs should be proportional and targeted scale backs should not be used, if that was Mr. Pavlovic's actual intent.

Q. WOULD YOU OBJECT TO THE OCA'S SCALE BACK PROPOSAL IF IT IS SUCCESSFUL IN CHANGING THE COMPANY'S COSS?

A. No. If the OCA is successful and convinces the Commission to make changes that impact each COSS, I would not object to the OCA scale back proposals. However, based upon the Company's filing, I continue to support my targeted scale back recommendations.

Q. DID THE LUG AND PSU PROVIDE REBUTTAL TESTIMONY ADDRESSING THE COSS, REVENUE, AND SCALE BACK FOR WEST PENN?

A. Yes. Both the LUG and PSU opine that West Penn's COSS is flawed and that any reliance on this flawed COSS should be rejected (LUG St. 1R, pp. 10-11, and PSU St. 1R, p. 4).

Q. DID YOU PROVIDE AN UPDATE TO YOUR RECOMMENDATION BASED UPON THE COMPANY REVISIONS TO THE WEST PENN COSS?

A. Yes. My scale back proposal applied to the revised West Penn COSS is shown on (I&E Ex. No. 3-SR, Sch. 2). While this schedule does capture the Company's revisions, it does not reflect any changes made by the LUG or PSU to the Company's COSS.

Q. DID THE LUG ADDRESS YOUR RECOMMENDATION TO SCALE BACK WEST PENN'S REVENUE?

A. Yes. The LUG opines that my scale back recommendation is based upon the Company's flawed COSS and recommends a proportional scale back based upon its COSS (LUG St. 1R, pp. 10-11).

Q. WOULD YOU OBJECT TO THE LUG'S PROPOSED SCALE BACK FOR WEST PENN IF IT IS SUCCESSFUL IN CHANGING THE COMPANY'S COSS?

A. No. If the LUG is successful and convinces the Commission to make changes that impact the West Penn COSS, I would not object to the LUG scale back proposals. However, if the Company's COSS is accepted, a proportional scale back will not result in significant movement of class revenue towards the cost of providing service to that class. Therefore, I continue to support my targeted scale back proposal for West Penn.

Q. DID PSU ADDRESS YOUR RECOMMENDATION TO SCALE BACK WEST PENN'S REVENUE?

A. Yes. PSU asserts that my scale back recommendation should be disregarded because a scale back should be based upon evidence of record, and with many issues in the case the final revenue requirement is unknown. Thus, PSU recommends a proportional scale back (PSU St. 1R, p. 4).

Q. WOULD YOU OBJECT TO PSU'S PROPOSED SCALE BACK IN WEST PENN IF IT IS SUCCESSFUL IN CHANGING THE COMPANY'S COSS?

A. No. If PSU is successful and convinces the Commission to make changes that impact the West Penn COSS, I would not object to the PSU scale back proposals. However, if the Company's COSS is accepted, a proportional scale back will not result in significant movement of class revenue towards the cost of providing service to that class. For example, the Company proposed an increase of $29,512,000 or 27% for the GSL class which has a relative rate of return of 2.42 under proposed rates (I&E Ex. No. 3-SR, Sch. 1, column G). In my proposal, this 2.42 is reduced to 1.36 (I&E Ex. No. 3-R, Sch. 2, column G) through the revenue allocation and first dollar relief, a significant difference, and movement towards 1.00. Under a proportional scale back, the 2.42 relative rate of return will not be decreased as much as my proposal. Therefore, based upon the Company's filing, I continue to support my scale back proposal for West Penn.

Q. DID THE COMPANY, OCA, THE LUG, OR PSU PROVIDE ANY VALID REASON FOR REJECTING YOUR SCALE BACK RECOMMENDATION?

A. No. Therefore, my scale back recommendations for Met-Ed, Penelec, Penn Power, and West Penn should be approved if the Company's COSS prevails.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

I&E Exhibit No. 3-SR
Witness: Joseph Kubas

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Exhibit to Accompany
The
Surrebuttal Testimony

of

Joseph Kubas

Bureau of Investigation and Enforcement

Concerning:

Other Revenue
Proposed Revenue
Rate Structure, Cost of Service Studies
Scale Back of Rates
Rate Base
Amortization Expense

	West Penn Rate District Current and Proposed ROR	- Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power / Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	56,715	34,705	319	(5,499)	14,919	8,694	3,678	70	592	1,716	(2,683)	203
2	Rate Base	2,094,173	1,520,788	2,030	133,474	223,023	66,311	62,657	58	15,938	11,955	53,234	4,705
3	Current Rate of Return	2.71%	2.28%	15.72%	-4.12%	6.69%	13.11%	5.87%	122.19%	3.71%	14.36%	-5.04%	4.32%
4	Current Indexed Rate of Retur	1.00	0.84	5.80	(1.52)	2.47	4.84	2.17	45.12	1.37	5.30	(1.86)	1.59
5	Proposed Revenues	614,232	443,691	1,095	22,881	78,849	29,518	17,308	46	4,202	5,957	9,361	1,324
6	Less: O&M Expenses	401,752	288,875	404	24,696	43,309	13,221	13,937	22	3,493	2,276	10,555	964
7	Income Before Income Taxes	$212,480	154,816	691	(1,815)	35,540	16,297	3,371	24	709	3,680	(1,195)	360
8	Income Taxes	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
9	Net Operating Income	171,513	124,967	558	(1,465)	28,688	13,155	2,721	19	573	2,971	(964)	291
10	Proposed Rate of Return	8.19%	8.22%	27.49%	-1.10%	12.86%	19.84%	4.34%	33.41%	3.59%	24.85%	-1.81%	6.18%
11	Proposed Indexed Rate of Retu	1.00	1.00	3.36	(0.13)	1.57	2.42	0.53	4.08	0.44	3.03	(0.22)	0.76
12	Increase	$185,819	134,265	285	8,293	22,740	7,965	5,559	13	1,325	1,652	3,317	403
13	Percent Increase	30.3%	30.3%	26.0%	36.2%	28.8%	27.0%	32.1%	27.3%	31.5%	27.7%	35.4%	30.4%
14	Originally Proposed Revenue	$614,232	$443,603	$1,095	$22,876	$78,833	$29,512	$17,305	$46	$4,201	$5,956	$9,359	$1,445
15	Change in Proposed Revenue	$0	$88	$0	$4	$16	$6	$3	$0	$1	$1	$2	-$121

I&E Exhibit No. 3-SR
Schedule 1

	West Penn Rate District Current and Proposed ROR	- Total Company	Residential Service RS	General Service Volunteer GSV	General Service Small GSS	General Service Medium GSM	General Service Large GSL	General Power / Transmission GP/TP	Primary Power Sch. 44 PP44	Primary Power Sch. 46 PP46	Outdoor Lighting POL	Street Lighting Service STLT	Penn. State University PSU
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	Current Net Operating Income	56,715	34,705	319	(5,499)	14,919	8,694	3,678	70	592	1,716	(2,683)	203
2	Rate Base	2,094,173	1,520,788	2,030	133,474	223,023	66,311	62,657	58	15,938	11,955	53,234	4,705
3	Current Rate of Return	2.71%	2.28%	15.72%	-4.12%	6.69%	13.11%	5.87%	122.19%	3.71%	14.36%	-5.04%	4.32%
4	Current Indexed Rate of Retur	1.00	0.84	5.80	(1.52)	2.47	4.84	2.17	45.12	1.37	5.30	(1.86)	1.59
5	Proposed Revenues	614,232	443,691	1,095	22,881	78,849	29,518	17,308	46	4,202	5,957	9,361	1,324
6	**Revenue Reallocation**	**$0**	**$0**	**$0**	**$1,813**	**$0**	**-$2,100**	**$0**	**-$11**	**$0**	**-$900**	**$1,123**	**$75**
7	**First Dollar Relief**	**-$19,500**	**$0**	**$0**	**$0**	**-$12,881**	**-$5,865**	**$0**	**-$2**	**$0**	**-$752**	**$0**	**$0**
8	Less: O&M Expenses	401,752	288,875	404	24,696	43,309	13,221	13,937	22	3,493	2,276	10,555	964
9	Income Before Income Taxes	$192,980	$154,816	$691	($3)	$22,659	$8,332	$3,371	$11	$709	$2,028	($72)	$435
10	Income Taxes	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%	19.3%
11	Net Operating Income	155,772	124,967	558	(2)	18,290	6,726	2,721	9	573	1,637	(58)	352
12	Proposed Rate of Return	7.44%	8.22%	27.49%	0.00%	8.20%	10.14%	4.34%	15.74%	3.59%	13.70%	-0.11%	7.47%
13	Proposed Indexed Rate of Retu	1.00	1.10	3.70	(0.00)	1.10	1.36	0.58	2.12	0.48	1.84	(0.01)	1.00
14	Increase	$166,319	134,265	285	10,106	9,859	0	5,559	0	1,325	0	4,440	478
15	Percent Increase	27.1%	30.3%	26.0%	44.2%	12.5%	0.0%	32.1%	0.0%	31.5%	0.0%	47.4%	36.1%

I&E Exhibit No. 3-SR
Schedule 2

I&E Statement No. 4-SR
Witness: Christine Wilson

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Docket No. R-2024-3047068

Surrebuttal Testimony

of

Christine Wilson

Bureau of Investigation and Enforcement

Concerning:

OPERATING AND MAINTENANCE EXPENSES

RATE BASE

TABLE OF CONTENTS

INTRODUCTION **1**

SUMMARY OF RECOMMENDED ADJUSTMENTS **2**

RATE CASE EXPENSE **6**

PENSION AND OPEB EXPENSE AND RELATED RATE BASE CLAIM **10**

PROPOSED PENSION AND OPEB NORMALIZATION MECHANISM **17**

ROUTINE STORM EXPENSE **19**

STORM RESERVE ACCOUNT **21**

EXTRAORDINARY STORM DEFERRALS **31**

COVID-19 REGULATORY ASSET AMORTIZATION **35**

VEGETATION MANAGEMENT EXPENSE **40**

ELECTRIC VEHICLE PILOT **48**

REFUND TO CUSTOMERS **56**

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Christine Wilson, and my business address is Pennsylvania Public Utility Commission, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Pennsylvania Public Utility Commission (Commission) in the Bureau of Investigation and Enforcement (I&E) as a Fixed Utility Financial Analyst Supervisor.

Q. ARE YOU THE SAME CHRISTINE WILSON WHO SUBMITTED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted I&E Statement No. 4, I&E Exhibit No. 4 – PROPRIETARY, I&E Exhibit No. 4 – NON-PROPRIETARY, and I&E Statement No. 4-R.

Q. DOES YOUR SURREBUTTAL TESTIMONY INCLUDE AN ACCOMPANYING EXHIBIT?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of

the following witnesses for the FirstEnergy Pennsylvania Electric Company (FirstEnergy, FE PA, or Company) base rate case: (1) FE PA witness Joanne M. Savage (FE PA Statement No. 1-R); (2) FE PA witness Patricia Larkin (FE PA Statement No. 3-R); (3) FE PA witness Tracy Ashton (FE PA Statement No. 4-R); (4) FE PA witness Mark A. Jones (FE PA Statement No. 8-R); (5) FE PA witness John Hawkins (FE PA Statement No. 12-R); and (6) FE PA witness Jason De Stigter (FE PA Statement No. 14-R). Additionally, I respond to the rebuttal testimony of Office of Consumer Advocate (OCA) witness Barbara Alexander (OCA Statement No. 6-R) and Local 777 of the International Brotherhood of Electrical Workers, AFL-CIO (IBEW Local 777) witness Daulph A. Kline (IBEW Local 777 Rebuttal Testimony).

Note that I do not intend for my surrebuttal testimony to address every issue raised or otherwise discussed by the witnesses in this proceeding. My lack of response to any recommendation, position, or assertion of any witness does not necessarily indicate agreement with their rebuttal testimony.

SUMMARY OF RECOMMENDED ADJUSTMENTS

Q. PLEASE SUMMARIZE YOUR RECOMMENDED ADJUSTMENTS AS UPDATED IN THIS SURREBUTTAL TESTIMONY.

A. The following tables summarize my updated recommendations discussed herein:

Met-Ed Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Rate Case Expense	$234,000	$142,576	($91,424)
Pension Expense	$11,460,000	$4,644,000	($6,816,000)
OPEB Expense	$4,050,504	$10,686	($4,039,818)
Storm Reserve Account	$33,282,000	$8,889,000	($24,393,000)
Extraordinary Storm Deferrals	$11,191,000	$6,714,000	($4,477,000)
COVID-19 Expense	$2,108,000	$749,200	($1,358,800)
Vegetation Management Expense	$54,449,000	$25,830,000	($28,619,000)
EV Pilot	$1,924,000	$1,327,000	($597,000)
Total O&M Adjustments			**($70,392,042)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($7,844,000)	$0	$7,844,000
Unamortized Storm Reserve Account	$66,565,000	$0	($66,565,000)
Unamortized Extraordinary Storm Deferrals	$22,381,000	$0	($22,381,000)
Unamortized COVID-19 Regulatory Asset	$4,216,000	$0	($4,216,000)
Total Rate Base Adjustments			**($85,318,000)**

1

Penelec Rate District	**Company Claim**	**I&E Recommended Allowance**	**I&E Adjustment**
O&M Expenses:			
Rate Case Expense	$234,000	$142,983	($91,017)
Pension Expense	$14,672,000	$5,651,000	($9,021,000)
OPEB Expense	($6,381,898)	$16,137	$6,398,035
Storm Reserve Account	$15,093,000	$4,128,000	($10,965,000)
Extraordinary Storm Deferrals	$2,725,000	$1,635,000	($1,090,000)
COVID-19 Expense	$3,518,000	$1,544,400	($1,973,600)
Vegetation Management Expense	$59,625,000	$34,260,000	($25,365,000)
EV Pilot	$2,292,000	$1,581,000	($711,000)
Total O&M Adjustments			**($42,818,582)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	$6,057,000	$0	($6,057,000)
Storm Reserve Account	$30,186,000	$0	($30,186,000)
Extraordinary Storm Deferrals	$5,451,000	$0	($5,451,000)
Unamortized COVID-19 Regulatory Asset	$7,036,000	$0	($7,036,000)
Total Rate Base Adjustments			**($48,730,000)**

1

Penn Power Rate District	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Rate Case Expense	$77,000	$47,186	($29,814)
Pension Expense	$3,980,000	3,041,000	($939,000)
OPEB Expense	$425,792	$1,660	($424,132)
Storm Reserve Account	$6,861,000	$1,947,000	($4,914,000)
Extraordinary Storm Deferrals	$6,650,000	$3,990,000	($2,660,000)
COVID-19 Expense	$1,193,000	$580,200	($612,800)
Vegetation Management Expense	$20,627,000	$10,190,000	($10,437,000)
EV Pilot	$545,000	$376,000	($169,000)
Total O&M Adjustments			**($20,185,746)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($4,345,000)	$0	$4,345,000
Storm Reserve Account	$13,721,000	$0	($13,721,000)
Extraordinary Storm Deferrals	$13,300,000	$0	($13,300,000)
Unamortized COVID-19 Regulatory Asset	$2,387,000	$0	($2,387,000)
Total Rate Base Adjustments			**($25,063,000)**

1

West Penn Rate District	Company Claim	I&E Recommended Allowance	I&E Adjustment
O&M Expenses:			
Rate Case Expense	$288,000	$175,932	($112,068)
Pension Expense	($1,823,000)	$6,321,000	$8,144,000
OPEB Expense	$936,598	$11,211	($925,387)
Storm Reserve Account	$14,241,000	$3,986,000	($10,255,000)
Extraordinary Storm Deferrals	$7,799,000	$4,679,000	($3,120,000)
COVID-19 Expense	$3,308,000	$1,416,600	($1,891,400)
Vegetation Management Expense	$71,395,000	$42,970,000	($28,425,000)
EV Pilot	$2,719,000	$1,876,000	($843,000)
Total O&M Adjustments			**($37,427,855)**
Rate Base Adjustments:			
Capitalized Pension and OPEB Cost	($4,030,000)	$0	$4,030,000
Storm Reserve Account	$28,483,000	$0	($28,483,000)
Extraordinary Storm Deferrals	$15,597,000	$0	($15,597,000)
Unamortized COVID-19 Regulatory Asset	$6,616,000	$0	($6,616,000)
Total Rate Base Adjustments			**($46,666,000)**

RATE CASE EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR RATE CASE EXPENSE.

A. In contrast to the Company's claimed 36-month amortization of rate case expense,[1] I recommended that it be normalized over 59 months. While the Company stated that it anticipates filing base rate cases every three years going forward, its historic filing frequency precisely computes to a 59-month average.

[1] I&E Statement No. 4, pp. 7-8.

For the reasons explained in my direct testimony, normalization is the appropriate treatment for this expense to allow for the transformation of this operating expense into a normal test year allowance. My recommendation produced an FPFTY allowance of $508,677. My recommendation was further broken down for the rate districts as follows: Met-Ed = $142,576, or a reduction of $91,424 ($234,000 - $142,576); Penelec = $142,983 or a reduction of $91,017 ($234,000 - $142,983); Penn Power = $47,186 or a reduction of $29,814 ($77,000 - $47,186); and West Penn = $175,932 or a reduction of $112,068 ($288,000 - $175,932).[2]

Furthermore, as described in my direct testimony, there are numerous recent cases where the Commission agreed that a historic filing frequency produces a more accurate allowance.[3]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness Patricia Larkin disagrees with my recommendation.

Q. PLEASE SUMMARIZE MS. LARKIN'S RESPONSE.

A. Ms. Larkin asserts that FirstEnergy anticipates filing rate cases every three years and thus should be granted a three-year interval for rate case expense. She mentions new investment in plant and equipment, the Long-Term Infrastructure Improvement Plans, and a potential future Distribution System Improvement

[2] I&E Statement No. 4, pp. 9-11.
[3] I&E Statement No. 4, pp. 12-14.

Charge (DSIC). She opines that with a 5% cap on existing distribution revenues, the DSIC cap could be reached within two to three years. She points out that except for Met-Ed, the rate districts are all at their respective DSIC caps. Thus, she asserts that a 59-month filing interval is not likely to represent the time between this base rate filing and a subsequent one.[4]

Q. DO YOU AGREE WITH MS. LARKIN'S RESPONSE?

A. No. The Company's claimed three-year filing interval is based on speculation and is not supported. Her mention of DSIC caps being met after the Company has refrained from filing a rate case for the past five years does little to support her argument. If anything, the fact that FirstEnergy has been able to refrain from filing base rate cases, given that situation, for the past eight years[5] does more to support my recommendation for a 59-month filing interval.

Q. SUMMARIZE MS. LARKIN'S RESPONSE TO THE BASE RATE CASE OUTCOMES YOU MENTIONED IN SUPPORT OF A HISTORIC FILING FREQUENCY FOR RATE CASE EXPENSE.

A. She opines that the PPL Electric Utilities' (PPL) 2012 base rate case decision supports a normalization period far shorter than the one I calculated (presumably for FirstEnergy).[6]

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4 FE PA Statement No. 3-R, pp. 19-20.
5 I&E Statement No. 4, p. 11.
6 FE PA Statement No. 3-R, p. 20.

Q. DO YOU AGREE THAT THE PPL DECISION SUPPORTS A SHORTER FILING INTERVAL FOR FIRSTENERGY?

A. No. This is simply false. As stated in my direct testimony, the Commission granted PPL permission in 2012 to normalize its rate case expense over a 24-month period based on the expected timing of future base rate case filings.[7] That base rate case was filed on March 30, 2012; however, PPL did not file its next rate case until March 31, 2015, which was 36 months after the 2012 rate case filing. In contrast, I&E's recommended normalization period in that proceeding was a 32-month interval based on the Company's historic filing frequency.[8] I&E's recommendation in that instance produced a much more accurate result than the Company's stated future intention to file a rate case.[9] Thus, I disagree with Ms. Larkin that the outcome in the 2012 PPL rate case supports her recommendation, which is also based on future speculation. Additionally, I cited numerous other cases in my direct testimony that support my recommendation based on historic filing frequency.[10] All of the other rate cases cited in my direct testimony are more current than the PPL decision that Ms. Larkin attempts to use in support of the Company's claim.

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7 *PA PUC v. PPL Electric Utilities Corporation*, Docket No. R-2012-2290597, Opinion and Order, pp. 47-48 (Order Entered December 28, 2012).
8 I&E Statement No. 2, pp. 13-14 at Docket No. R-2012-2290597.
9 I&E Statement No. 4, p. 12.
10 I&E Statement No. 4, pp. 12-14.

Q. DOES MS. LARKIN REFUTE YOUR RECOMMENDATION FOR NORMALIZATION AS OPPOSED TO AMORTIZATION FOR RATE CASE EXPENSE?

A. No. Ms. Larkin explains that she mistakenly used the term amortization in some places when discussing the Company's rate case expense claim and she accepts that normalization is the proper term.[11]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I stand by my recommendation as presented in direct testimony and summarized above.

PENSION AND OPEB EXPENSE AND RELATED RATE BASE CLAIM

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR PENSION AND OPEB EXPENSE AND THE RELATED RATE BASE CLAIM.

A. I recommended a total pension expense allowance of $19,657,000, broken down as follows: Met-Ed = $4,644,000, or a reduction of $6,816,000 ($11,460,000 - $4,644,000); Penelec = $5,651,000, or a reduction of $9,021,000 ($14,672,000 - $5,651,000); Penn Power = $3,041,000, or a reduction of $939,000 ($3,980,000 - $3,041,000); and West Penn = $6,321,000 or an increase of $8,144,000

[11] FE PA Statement No. 3-R, p. 20.

($1,823,000 + $6,321,000). This recommendation was based on a historic five-year cash contribution average using 2019 through 2023 in the average[12] as opposed to the Company's newly requested delayed recognition method,[13] which has never been approved for use by a Pennsylvania public utility for ratemaking purposes.

I recommended a total allowance of $39,694 for OPEB expense, broken down as follows: Met-Ed = $10,686, or a decrease of $4,039,818 ($4,050,504 - $10,686); Penelec = $16,137 or an increase of $6,398,035 ($6,381,898 + $16,137); Penn Power = $1,660 or a decrease of $424,132 ($425,792 - $1,660); and West Penn = $11,211 or a decrease of $925,387 ($936,598 - $11,211). This recommendation was based on using the Company's ongoing method (up to the instant filing where requested methodology is changing) based on recovery of the service cost component.[14]

Finally, I recommended a complete disallowance of the Company's claimed capitalized pension and OPEBs that were included in rate base, since those rate base claims were tied to the Company's proposed change to a delayed recognition method and due to the Commission's previous rejection of capitalized pension and OPEB claims in rate base.[15]

[12] I&E Statement No. 4, pp. 20-22.
[13] I&E Statement No. 4, pp. 16-18.
[14] I&E Statement No. 4, p. 20 and pp. 23-24.
[15] I&E Statement No. 4, p. 21 and pp. 25-27.

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA Tracy Ashton disagrees with my recommendation.

Q. PLEASE SUMMARIZE MS. ASHTON'S RESPONSE.

A. Ms. Ashton asserts that a recovery method for pension and OPEB expense should not be adopted solely on the perception that it is more simplistic. Instead, she opines that her method should be adopted because it is based on the "expense the Company incurs" and that a cash contribution method can also be complex. She further explains how the required contributions are determined for all of FE PA including its subsidiaries, because FirstEnergy maintains only one plan. She explains that contributions can be made voluntarily at any time and by any participating subsidiary. She points to changing legislation over the years with respect to pension funding, volatility in calculating funding requirements, and potential deferral of contributions. Despite all these complexities, the Company continues to offer its employees a defined benefit pension plan and incurs associated costs.[16]

Q. WHAT IS YOUR RESPONSE TO MS. ASHTON'S CONCERNS?

A. The simplistic manner is not the main reason for my recommendation. Cash contributions are known and measurable based on requirements to bring the fund

[16] FE PA Statement No. 4-R, pp. 3-4.

to or keep it at a fully funded status. This is true even when certain subsidiaries delay or opt to make contributions, and the Company can provide amounts attributable to FE PA ratepayers for historic years. As far as the determination of cash contributions being potentially complex, actuaries are generally quite qualified to deal with such complexities and the results, actual contributions made, are not subject to manipulation and allow for analysis by parties in base rate proceedings. As far as historic legislative and accounting changes surrounding pension plans go, actuaries are equipped to deal with those too and would have taken those changes into consideration when determining recommended cash contributions.

Q. ARE YOU AWARE OF ANY OTHER LARGE PENNSYLVANIA UTLITIES THAT OFFER DEFINED BENEFIT PENSION PLANS TO NEWLY HIRED EMPLOYEES.

A. No. If necessary, the Company has the option of closing its plan to new hires if funding is viewed as too complicated. However, I am not making that recommendation one way or the other as it would be more of a management decision.

Q. HAS MS. ASHTON EXPRESSED ANY OTHER CONCERNS ABOUT YOUR RECOMMENDATION?

A. She explains the intent of the proposed delayed recognition method for pension

and OPEB expenses is to recognize and recover the cost in the current period and that cash contributions are not representative of the current period costs. She compares her recommendation to a typical accrual method.[17]

Q. WHAT IS YOUR RESPONSE TO HER CONCERNS?

A. I disagree with her contention that the amortization of future gains and losses is appropriate, because cash contributions are what is expended in each year, and those cash contributions are based on analysis and recommendations made by actuaries to maintain adequate funding. They are more straightforward and measurable to analyze. My position remains that ratepayers should only be required to fund the actual monies spent to maintain sufficient funding. Ms. Ashton's proposed method is a modified version of that required for GAAP financial statement purposes.

GAAP and ratemaking methods for pension and OPEB expense allowance determination do not need to match, and adding some modified version of GAAP to the mix is not recommended.

Q. IF YOUR RECOMMENDATION IS APPROVED, WHAT DOES MS. ASHTON OPINE WOULD BE THE RESULT FOR PENSION EXPENSE?

A. If my recommended five-year historic average is adopted for pension expense, Ms.

[17] FE PA Statement No. 4-R, p. 4.

Ashton opines that the Company will not be able to recover over $633 million in contributions that were made from 2014 to 2018. If my recommendation is adopted, she asserts that it should be modified to reflect a ten-year average as opposed to my recommended five-year average.

Q. IS HER SUGGESTED TEN-YEAR AVERAGE FOR AN ALTERNATIVE RECOMMENDATION LOGICAL?

A. No. First, any thought of allowing the Company to recover contributions made from 2014 to 2018 is highly improper and would represent retroactive ratemaking. Secondly, my recommended five-year average of historic contributions constitutes an estimate for a FPFTY allowance, not recovery of five years of historic contributions.

Q. IF YOUR RECOMMENDATION FOR OPEB EXPENSE IS APPROVED, WHAT IS MS. ASHTON'S CONCERN?

A. She opines that my OPEB expense allowance based on recovering OPEB service costs lacks support other than noting that the Company has made no payments into the OPEB plans from 2014 to 2023. She states that OPEB plans are not governed by federal laws that require contributions to OPEB plans and that the OPEB benefits are paid out of the trust assets supporting the obligation or from Company cash. She explains that OPEB service costs represent the present value of benefits earned by employees during the current period based on salary growth levels but

that changes in interest rates and inflation over time have resulted in the recovery of service costs alone being insufficient to pay OPEB benefits.[18]

Q. WHAT IS YOUR RESPONSE TO HER CONCERNS ABOUT OPEB BENEFITS?

A. As stated in my direct testimony, the Company has not demonstrated the need for additional funding given that no contributions have been made to OPEB plans over the past ten years. Recommending the service cost as the allowance is in line with prior claims made by the Company. Ms. Ashton's explanation assumes that interest rates and inflation will increase or remain high but based on the general analysis of I&E witness DC Patel and my conversations with him, my understanding is that is unlikely to happen.

Q. WHAT IS MS. ASHTON'S POSITION RELATED TO YOUR RECOMMENDATION TO DISALLOW RATE BASE TREATMENT FOR THE TIMING DIFFERENCE BETWEEN HER DELAYED RECOGNITION METHOD AND IMMEDIATE RECOGNITION?

A. Due to our difference in opinion on the appropriate method of recovery for ratemaking purposes, Ms. Ashton understands that rate base treatment would not be necessary if her recommended methodology is rejected.

[18] FE PA Statement No. 4-R, pp. 5-6.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. Ms. Ashton and I have two distinctly different opinions on what is proper for ratemaking purposes for pension and OPEB allowances. For the reasons explained above and in my direct testimony, I have no changes to my recommendations related to pension/OPEB expenses and the disallowance of any rate base treatment.

PROPOSED PENSION AND OPEB NORMALIZATION MECHANISM

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE COMPANY'S PROPOSED PON MECHANISM.

A. I recommended a complete disallowance of the proposed regulatory asset/liability treatment of future over/under recoveries of "approved pension expense" due to: (1) the routine, non-extraordinary nature of such O&M expenses as pensions and OPEBs; (2) the request not meeting the general requirements for regulatory asset/liability treatment; (3) the proposed PON Mechanism resulting in retroactive recovery of variances for such routine expenses; (4) the proposed PON Mechanism discouraging scrutiny of the claims for accuracy and prudency; (5) the fact that a company with such a mechanism may potentially add higher cost benefits that may receive less scrutiny in this scenario; and (6) I pointed out a similar request that was recently denied by the Commission.[19]

[19] I&E Statement No. 4, pp. 28-33.

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness Tracy Ashton disagrees with my recommendation.

Q. PLEASE SUMMARIZE MS. ASHTON'S RESPONSE.

A. Ms. Ashton assumes that I believe the Company is capable of forecasting future activity with respect to macroeconomic factors, including interest rates, market performance of plan assets, etc. She explains that the Company has proposed the PON mechanism to moderate impacts on the income statement for items that are outside of the Company's control. Additionally, she states that the Commission would retain full authority to determine the prudency of any future pension and OPEB expenses and make determinations of recovery using the PON mechanism and that refunds to customers would result when rates had been set too high.[20]

Q. DO YOU AGREE WITH MS. ASHTON'S ASSERTIONS RELATED TO THE PROPOSED PON MECHANISM?

A. No. I reiterate that pensions and OPEBs are routine operating expenses for utilities, and those utilities should not be afforded guaranteed retroactive recovery/refund of such expenses for ratemaking purposes. I strongly disagree with such treatment for ratemaking purposes for the reasons explained above and in my direct testimony.

[20] FE PA Statement 4-R, p. 7.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No.

Q. ARE THERE ANY RECENT COMMISSION ORDERS THAT SUPPORT YOUR RECOMMENDATION?

A. Yes. In the recent Pennsylvania-American Water Company base rate case, the Commission ruled that,[21]

> We agree with the ALJs and I&E that pension and OPEB costs are not extraordinary, unanticipated, or non-recurring. R.D. at 131 (citing I&E M.B. at 31-32). As discussed by I&E, pension and OPEB costs are routine expenses that can be forecasted on an annual basis and are part of contractual agreements with past employees. *See*, I&E M.B. at 32. Therefore, costs for pension and OPEB expense do not qualify for deferred accounting treatment. Indeed, as noted by the ALJs, the OCA, and PAWLUG, to allow deferred recovery for such routine costs would raise concerns of single-issue ratemaking. *See*, R.D. at 131 (citing OCA M.B. at 44-45; PAWLUG M.B. at 7-8).

ROUTINE STORM EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR ROUTINE STORM EXPENSE.

A. I accepted the Company's claim for routine storm expense (a total of $52,802,000, further broken down among the rate districts as: Met-Ed = $25,319,000; Penelec = $10,954,000; Penn Power = $3,215,000; and West Penn = $13,315,000[22]) since

[21] *PA Public Utility Commission et al. vs. Pennsylvania-American Water Company* at Docket Nos. R-2023-3043189 (Water) and R-2023-3043190 (Wastewater) et al., Opinion and Order, p. 128 (Order Entered July 22, 2024).

[22] FE PA Exhibit PML-1, p. 41, Adjustment IS-5, Supporting Schedule 1.

storm expense fluctuates from year to year due to unpredictable weather conditions. Thus, I accepted the proposed five-year historic average of actual expenses, which normalizes wide fluctuations and produces a reasonable FPFTY allowance for this expense. As noted by the Company, this five-year average excludes extraordinary storms,[23] which ensures no double-recovery of those costs in rates.[24]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Not directly since I accepted the Company's routine storm expense claim. However, while IBEW Local 777 witness Daulph Kline does not address my recommendation directly, IBEW Local 777 does address storm expense.

Q. SUMMARIZE AN AREA OF CONCERN BROUGHT UP BY IBEW LOCAL 777 WITNESS KLINE.

A. IBEW Local 777 Witness Kline discusses labor-related storm expense discussing how Met-Ed employees can be dispatched to other states to assist with storm restoration, for example, most recently to Texas to assist with the response to Hurricane Beryl, and how these employees can be deployed for months at a time.[25]

[23] FE PA Exhibit PML-1, p. 41, Adjustment IS-5, Supporting Schedule 1.
[24] I&E Statement No. 4, p. 34.
[25] IBEW Local 777 Rebuttal Testimony of Daulph Kline, pp. 6-7.

Q. WHAT IS YOUR CONCERN IN THIS REGARD?

A. I'm not aware of any claims made in this proceeding for work performed in other states. However, the Company should be required to ensure that any labor expenses associated with work performed outside of the FirstEnergy territory are not claimed for ratemaking in this proceeding.

STORM RESERVE ACCOUNT

Q. PLEASE RESTATE THE COMPANY'S CLAIMS ASSOCIATED WITH THE STORM RESERVE ACCOUNT.

A. The Company claimed an expense component for the annual expense and a rate base component for the unamortized balance. The total storm reserve expense claim is $69,477,000. This is further broken down among the rate districts as follows: Met-Ed = $33,282,000; Penelec = $15,093,000; Penn Power = $6,861,000; and West Penn = $14,241,000.[26]

The total unamortized balance included in the Company's rate base claim is $138,955,000. This rate base claim is further broken down between the rate districts as follows: Met-Ed = $66,565,000; Penelec = $30,186,000; Penn Power = $13,721,000; and West Penn = $28,483,000.[27]

[26] FE PA Exhibit PML-1, p. 56, Adjustment IS-10.
[27] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE PROPOSED STORM RESERVE ACCOUNT.

A. I recommended that the Company be required to cease the use of a storm reserve account, that the associated expense claim be disallowed, and that the corresponding rate base claim for the unamortized balance be disallowed. In my recommendation, I stated that a five-year average of routine storm expense is sufficient in minimizing any yearly impact on the Company's income statement. However, while I disagreed with the claims made, I stated that if the Commission decides to allow the storm reserve related claim, the amounts should be amortized over five years in line with the Company's historic base rate filing frequency as opposed to three years.[28]

Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witnesses John Hawkins and Patricia Larkin disagree with my recommendation.

<u>Response to FE PA witness John Hawkins</u>:

Q. PLEASE SUMMARIZE MR. HAWKIN'S RESPONSE.

A. Mr. Hawkins asserts that due to the yearly volatility of storms, the storm reserve account allows for recovery of those expenses while allowing the utility to earn an

[28] I&E Statement No. 4, pp. 37-40.

appropriate rate of return. He states that FirstEnergy is not like "another" Pennsylvania electric distribution company that has a rider mechanism permitting automatic recovery of storms costs not recovered in base rates. He suggests that the Company should be granted a rider mechanism if the storm reserve account is disallowed.[29] Then he summarizes how the storm reserve treatment came to be agreed upon in the 2014 settlement and was addressed again in the 2016 settlement, which was a concession by the Company given that it had originally requested a storm cost rider mechanism.[30] He opines that the Company still has incentive to control costs even with a storm reserve account.[31]

Q. DO YOU AGREE WITH MR. HAWKINS'S ASSERTIONS?

A. Not entirely. Volatility from year to year for a routine operating expense in and of itself does not support reserve account treatment when a simple multi-year historic average can smooth out the year-to-year fluctuations. As for "the other utility" that received approval for a storm expense rider, I assert the following. Each electric distribution company's claims must be evaluated on a case-by-case basis specific to the individual utility. I presume he is referencing PPL Electric Utilities (PPL). What was granted to PPL over ten years ago (via different witnesses, Commissioners, etc.) should not be construed as support for a similar rider for FirstEnergy in this proceeding. Finally, if the Commission is swayed by the

[29] FE PA Statement No. 12-R, p. 42.
[30] FE PA Statement No. 12-R, p. 43.
[31] FE PA Statement No. 12-R, p. 43.

Company's reference to the PPL decision, it should also consider another historic decision for the Metropolitan Edison Company and Pennsylvania Electric Company, wherein the ALJ found in favor of the Office of Trial Staff (now I&E) that the proposed storm damage rider should be rejected, [32] and the Commission accepted that recommendation.[33]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION IN RESPONSE TO MR. HAWKINS'S REBUTTAL TESTIMONY?

A. Yes. I will address an update to my recommendation following the response to Ms. Larkin below.

<u>Response to Patricia Larkin</u>:

Q. SUMMARIZE MS. LARKIN'S RESPONSE CONCERNING RATE BASE TREATMENT OF UNAMORTIZED BALANCES.

A. Ms. Larkin states she is informed by counsel that the question of whether a utility can earn a return on an unamortized balance is discretionary and that the Company believes it is appropriate to grant this request. She points to Mr. Hawkins's rebuttal testimony for the reason why and opines there would be an adverse impact on the Company's operations if the request is not allowed. She opines that not

[32] *PA Public Utility Commission et al. v. Metropolitan Edison Company et al. and Pennsylvania Electric Company et al.* at Docket Nos. R-00061366, R-00061367, etc., Recommended Decision, pp. 165-172, dated October 31, 2006.

[33] <u>*Pennsylvania Pub. Util. Comm'n*</u> *et al. v. Metropolitan Edison Company et al. and Pennsylvania Electric Company et. al*, Docket No. R-00061366, 2007 WL 496359, p. 88 (Jan. 11, 2007).

allowing rate base treatment for the unamortized balances and the storm reserve expense would result in a $188.3 million increase (for disallowing any recovery of the storm reserve account and disallowance of rate base treatment for unamortized extraordinary storm damage) to FE PA's revenue requirement, seemingly indicating the full amount for the storm reserve would be recovered in a single year and every year thereafter until the next rate case is filed, although she did not clearly explain this.[34]

Q. DO YOU AGREE WITH MS. LARKIN'S RESPONSE CONCERNING RATE BASE TREATMENT OF THE UNAMORTIZED BALANCE?

A. No. Ms. Larkin gives no explanation why it would be appropriate to claim in rate base any unamortized balance associated with the proposed storm reserve account and unamortized extraordinary storm deferrals, which represents an unamortized operating expense from prior years, generally properly characterized as retroactive ratemaking except that there is the term in the prior settlement agreements from approximately ten years ago.

Her second point about increasing yearly expenses by $188.3 million if recovery of the requested storm reserve is not allowed is highly inappropriate. This would equate to allowing storm expense "overages" for ten years' worth of expense, all in a single year which is extremely improper and not just and

[34] FE PA Statement No. 3-R, p. 12.

reasonable on any level.

Q. SUMMARIZE MS. LARKIN'S RESPONSE CONCERNING THE EXPENSE CLAIM FOR AMORTIZATION OF THE STORM RESERVE.

A. Ms. Larkin states that FirstEnergy's predecessor companies established the storm reserve accounting as a part of the Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745 et al. that indicated,

> Expenses related to storm damage, excluding those expenses related to damage from extraordinary storm events, will be recorded in the Storm Reserve Account in order to eliminate any impact of such expenses on the Company's income statement…. Both revenues received and costs incurred by the [Predecessor Companies] in support of other regulated utilities, including other jurisdictional and non-jurisdictional affiliated companies, for assisting during storm events will be reflected in the reserve account.[35]

She opines that the Company's claim is in line with the terms of the settlement in that proceeding and that OCA and I&E supported the settlement.[36]

She disagrees with my recommendation because I&E was one of the parties in the 2016 base rate cases where amounts were recorded in the storm reserve accounts and not disputed. Since the Company did not make a claim for the storm reserve in 2016, she opines that this is the first available opportunity to make a claim, disagreeing with a blanket rejection of such claim.[37]

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[35] *PA Public Utility Commission v. Metropolitan Edison Company*, *et al.*, Joint Petition for Partial Settlement of Rate Investigation at Docket Nos. R-2014-2428745, et al., p. 8 (February 3, 2015).
[36] FE PA Statement No. 3-R, pp. 22-23.
[37] FE PA Statement No. 3-R, p. 23.

Q. IN THE EVENT THAT THE COMMISSION ALLOWED A CLAIM FOR STORM RESERVE EXPENSE, DID MS. LARKIN AGREE WITH YOUR SUGGESTED AMORTIZATION PERIOD?

A. No. Since the suggested five-year amortization period aligned with my 59-month normalization period recommendation for rate case expense and she also disagrees with that, she disagrees with my suggestion of five years for a storm reserve for the same reasons.[38]

Q. DO YOU AGREE WITH MS. LARKIN'S RESPONSE ABOUT THE AMORTIZATION PERIOD FOR STORM RESERVE EXPENSE?

A. No. I do have a change to my overall recommendation for storm reserve expense and will address that in more detail below. However, it should be noted that upon reflection, I am changing my recommended amortization period to ten years which is more in line with the time it took for FirstEnergy to accumulate the balances.

Q. WHAT OTHER CHANGES DO YOU HAVE TO YOUR RECOMMENDATION FOR STORM RESERVE EXPENSE?

A. I will address an update to my recommendation in response to Mr. Hawkins and Ms. Larkin in a single section directly below wherein I withdraw my recommendation for a complete disallowance of storm reserve expense in this

[38] FE PA Statement No. 3-R, p. 24.

proceeding. The rationale and related calculation for my updated recommendation, including recommended exclusion of 2024 expenses, are explained in the summary section below.

Summary of Storm Reserve Recommendation:

Q. PLEASE SUMMARIZE YOUR UPDATED RECOMMENDATION FOR STORM RESERVE EXPENSE.

A. My updated recommendation for storm reserve expense is as follows. I recommend a total storm reserve expense allowance of $18,949,000, further broken down among the rate districts as follows: Met-Ed = $8,889,000 or a reduction of $24,393,000 ($33,282,000 - $8,889,000); Penelec = $4,128,000 or a reduction of $10,965,000 ($15,093,000 - $4,128,000); Penn Power = $1,947,000 or a reduction of $4,914,000 ($6,861,000 - $1,947,000); and West Penn = $3,986,000 or a reduction of $10,255,000 ($14,241,000 - $3,986,000).

Additionally, I continue to recommend a complete disallowance of the total unamortized balance included in the Company's rate base claim of $138,955,000, which is further broken down between the rate districts as follows: Met-Ed = $66,565,000; Penelec = $30,186,000; Penn Power = $13,721,000; and West Penn = $28,483,000.

Q. WHAT IS THE BASIS FOR YOUR UPDATED RECOMMENDATION?

A. While I generally disagree with a reserve account for operating expenses like

storm expense for an electric distribution company, the fact that prior I&E has previously gone along with this treatment in 2014 and 2016 for settlement purposes has caused me to reconsider my recommendation. Thus, I accept the Company's assertion that a full disallowance of storm reserve expense up through 2023 would be improper under these circumstances. I do suggest, however, that the Commission allow the parties to review all future claims to determine whether continuation of such recovery is warranted on a case-by-case basis. As mentioned above, I am modifying the recommended amortization period to ten years, starting the amortization in the FPFTY 2025, to be more in line with the time it took to accumulate the balance. I continue to recommend no rate base treatment for any unamortized balance for the same reasons explained in my direct testimony and as summarized above. In short, the Company's claimed rate base treatment for the unamortized balance should be entirely disallowed because FirstEnergy should not be allowed to earn a return on prior years' storm expenses for any amount whatsoever.

Q. HOW DID YOU CALCULATE YOUR UPDATED RECOMMENDATION?

A. I amortized the Company's total claim for the storm reserve balance as of 2023, over a ten-year period as mentioned above, as follows:

$ in Thousands	Per FE PA Ex. PML-7, p. 56 Adj. IS-10 Company Claim for Storm Reserve (Expense)	I&E Recommended Allowance	I&E Recommended Adjustment
Met-Ed	33,282	8,889	(24,393)
Penelec	15,093	4,128	(10,965)
Penn Power	6,861	1,947	(4,914)
West Penn	14,241	3,986	(10,255)
Total FE PA	69,477	18,949	(50,528)

Q. WHY ARE YOU ADJUSTING YOUR RECOMMENDATION TO EXCLUDE 2024 EXPENSES FROM THE CALCULATION?

A. The 2024 claim is a projection which should be entirely disallowed in this proceeding for the basic reason that the full year amount is not known and measurable. A partial year should not be used to estimate the total amount for a full year that has not yet transpired. The entire premise of deferrals is based on costs that are known.

Q. DO YOU HAVE ANY ADDITIONAL RECOMMENDATIONS ASSOCIATED WITH POTENTIAL FUTURE STORM RESERVE CLAIMS IN SUBSEQUENT BASE RATE PROCEEDINGS?

A. Yes. I recommend that any proposed recovery associated with the actual storm reserve balance from 2024 onward should be kept separate from the amount addressed in this proceeding for actual expenses incurred through 2023. Additionally, the Company should be required to present a full accounting by year

for actual storm expenses incurred for 2024 and beyond, along with a full calculation of the Company's storm reserve account balance claim. Further, I recommend that the Commission disallow any reserve account amount for recovery or refund that exceeds two times the routine storm expense amount as broken down by operating division and agreed to in this proceeding. Additionally, I reiterate that FirstEnergy should not be allowed to record any storm reserve account balances in rate base. By capping the storm reserve accounts at two times the routine annual expense, both ratepayers and the Company will be protected from the impact of overly large balances should the period between filings be lengthy.

In future proceedings, the parties should also consider discontinuation of this mechanism if it is determined to be no longer necessary.

EXTRAORDINARY STORM DEFERRALS

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR EXTRAORDINARY STORM DEFERRALS.

A. I recommended total extraordinary storm damage expense allowance of $17,019,000, further broken down among the rate districts as follows: Met-Ed = $6,714,000 or a reduction of $4,477,000 ($11,191,000 - $6,714,000); Penelec = $1,635,000 or a reduction of $1,090,000 ($2,725,000 - $1,635,000); Penn Power = $3,990,000 or a reduction of $2,660,000 ($6,650,000 - $3,990,000); and West Penn = $4,679,000 or a reduction of $3,120,000 ($7,799,000 - $4,679,000).

Additionally, I recommended a complete disallowance of the total unamortized balance included in the Company's rate base claim of $56,729,000, which was further broken down between the rate districts as follows: Met-Ed = $22,381,000; Penelec = $5,451,000; Penn Power = $13,300,000; and West Penn = $15,597,000. This recommendation was based on a five-year amortization period in alignment with the Company's historic base rate filing frequency. [39]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness Patricia Larkin disagrees with my recommendation.

Q. PLEASE SUMMARIZE MS. LARKIN'S RESPONSE CONCERNING RATE BASE TREATMENT OF THE UNAMORTIZED BALANCE FOR EXTRAORDINARY STORM DEFERRALS.

A. Ms. Larkin states she is informed by counsel that the question of whether a utility can earn a return on an unamortized balance is discretionary and that the Company believes it is appropriate to grant this request. She points to Mr. Hawkins's testimony for the reason why and opines there would be an adverse impact on the Company's operations if the request is not allowed. She opines that not allowing the rate base treatment for the unamortized balances and the storm reserve expense would result in a $188.3 million increase (for disallowing any recovery of the

[39] FE PA Exhibit PML-1, p. 20, Adjustment RB-5.

storm reserve account and disallowance of rate base treatment for unamortized extraordinary storm damage) to FE PA's revenue requirement, seemingly indicating the full amount for the storm reserve would be recovered in a single year and every year thereafter until the next rate case is filed, although she did not clearly explain this.[40]

Q. DO YOU AGREE WITH MS. LARKIN CONCERNING RATE BASE TREATMENT FOR UNAMORTIZED EXTRAORDINARY STORM DEFERRALS?

A. No. Ms. Larkin gives no explanation why it would be appropriate to claim in rate base any unamortized balance for extraordinary storm deferrals, representing an unamortized operating expense from prior years.

Her second point about increasing yearly expenses by $188.3 million if recovery of the requested storm reserve and disallowance of rate base treatment for extraordinary storms is not allowed is highly improper. As stated above, this would equate to allowing storm expense "overages" for ten years' worth of expense, all in a single year which is highly improper, thus not just and reasonable on any level.

[40] FE PA Statement No. 3-R, p. 12.

Q. DOES MS. LARKIN ADDRESS ANY OTHER AREAS ASSOCIATED WITH YOUR RECOMMENDED EXTRAORDINARY STORM DEFERRAL ALLOWANCE?

A. Yes. She disagrees with my recommended amortization period of five years that aligns with my recommendation for rate case expense. To the contrary, she recommends a three-year amortization period in line with the Company's claim for rate case expense and due to FE PA anticipating that it will file rate cases every three years.[41]

Q. WHAT IS YOUR RESPONSE TO MS. LARKIN'S CONTINUED ASSERTION THAT THE COMPANY ANTICIPATES FILING RATE CASES EVERY THREE YEARS, AND THUS, A THREE-YEAR AMORTIZATION SHOULD BE ALLOWED FOR EXTRAORDINARY STORM DEFERRALS?

A. For the same reasons I disagree with the Company's claim for a three-year normalization of rate case expense, I disagree with a three-year amortization for extraordinary storm deferrals. The Company's historic base rate filing frequency supports my five-year amortization for this expense, and it would be unreasonable to allow any shorter timeframe given that it would allow for over-recovery of this expense between rate filings. In contrast, if my recommended five-year

[41] FE PA Statement No. 3-R, p. 24.

amortization is accepted for extraordinary storm deferrals, but the Company files a rate case earlier than that (which is purely speculative at this point), FE PA would still be allowed to claim the remaining unamortized balances for extraordinary storm deferrals in its next rate filing.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION FOR EXTRAORDINARY STORM DEFERRALS?

A. No. I have no changes to my recommendation as stated in direct testimony and summarized above.

<u>COVID-19 REGULATORY ASSET AMORTIZATION</u>

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE COVID-19 REGULATORY ASSET AMORTIZATION.

A. I recommended a total COVID-19 deferred expense allowance of $6,074,814, further broken down among the rate districts as follows: Met-Ed = $1,264,085 or a reduction of $843,915 ($2,108,000 - $1,264,085); Penelec = $2,110,234 or a reduction of $1,407,766 ($3,518,000 - $2,110,234); Penn Power = $715,864 or a reduction of $477,136 ($1,193,000 - $715,864); and West Penn = $1,984,432 or a reduction of $1,323,568 ($3,308,000 - $1,984,432).

Additionally, I recommended a complete disallowance of the total unamortized balance included in the Company's rate base claim of $20,255,000, which is further broken down between the rate districts as follows: Met-Ed =

$4,216,000; Penelec = $7,036,000; Penn Power = $2,387,000; and West Penn = $6,616,000.[42]

In line with my recommended amortization for extraordinary storm deferrals, I recommended a five-year amortization period that closely aligns with the Company's recent historic filing frequency. However, I recommended disallowance of any rate base treatment for the unamortized balance as this would be inappropriate for an O&M-related expense.

Additionally, I recommended disallowance of the Company's request to defer late payment charge waivers and reconnect charge waivers and cited a case where these claims were disallowed.[43]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. FE PA witness Patricia Larkin disagrees with my recommendation.

Q. SUMMARIZE MS. LARKIN'S RESPONSE CONCERNING THE COMPANY'S EXPENSE CLAIM FOR COVID-19 RELATED DEFERRALS.

A. She states that the Company used the three-year recovery period set for other utilities. She opines that FE PA anticipates filing rate cases every three years, thus, this interval should be approved. Additionally, she asserts that my

[42] I&E Statement No. 4, pp. 46-47.
[43] I&E Statement No. 4, pp. 47-48.

arguments related to waived late payment charges and reconnection fees should be rejected since the Company incurred these costs because of directives imposed by the Commission related to the pandemic, referring to these costs as extraordinary non-recurring expenses.[44] She opines that my recommendation is inconsistent with the public policy directives of the Commission and that costs were only incurred because of the pandemic which was outside of the Company's control.[45]

Q. DO YOU AGREE WITH MS. LARKIN'S ASSERTIONS RELATED TO THE COMPANY'S COVID-19 RELATED EXPENSE DEFERRAL CLAIM?

A. No. I have explained above more than once why I disagree with the Company's three-year recovery period, and the COVID-19 related regulatory asset amortization is no different. A recovery period should not be based on what other utilities were granted, because FirstEnergy's filing frequency is far different from most other large public utilities. I also continue to disagree with Ms. Larkin concerning the Company's request to recover lost revenues for deferred late payment charge waivers and reconnection charge waivers. Citations made by Ms. Larkin[46] address *expenses* associated with the pandemic, and nothing mentioned suggests that the disputed revenue-related items should be deferred for future recovery.

[44] FE PA Statement No. 3-R, p. 26.
[45] FE PA Statement No. 3-R, p. 27.
[46] FE PA Statement No. 3-R, p. 27.

Q. SUMMARIZE MS. LARKIN'S RESPONSE CONCERNING THE COMPANY'S PROPOSED RATE BASE TREATMENT FOR THE UNAMORTIZED BALANCE ASSOCIATED WITH COVID-19 RELATED DEFERRALS.

A. Ms. Larkin opines that since the Company was following the directive of the Commission to keep all electricity flowing during the pandemic while incurring related costs to do so that the Company experienced a delay in recovery of related cash outlays for "significant intervals" referring to such costs as investments and arguing about the time value of money and drawing a comparison to cash working capital.[47]

Q. ARE YOU PERSUADED BY MS. LARKIN'S ARGUMENTS RELATED TO THE PROPOSED RATE BASE TREATMENT FOR UNAMORTIZED COVID-19 RELATED EXPENSE?

A. No. I disagree with the comparison to cash working capital since these claimed expenses represent past expenses that will no longer be incurred in future periods, and I stand by my assertion in direct testimony that it would be improper for the Commission to allow rate base treatment for unamortized balances of historic operating expenses regardless of whether they are characterized as extraordinary due to the pandemic.

[47] FE PA Statement No. 3-R, p. 14.

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. Yes. In response to Ms. Larkin's point that I had an error in my calculation due to the late payment charge waiver and reconnection charge waiver amounts being shown in thousands of dollars when other figures were not, I have a correction to my recommendation. However, I continue to disagree with Ms. Larkin on the substance of my arguments as stated above and in direct testimony.

Q. PLEASE SHOW YOUR CORRECTED RECOMMENDATION.

A. My corrected recommendation is shown below, including adjustments to the Company's claimed expense amounts and my recommended complete disallowance for rate base treatment of any unamortized balance.

	Met-Ed	Penelec	Penn Power	West Penn	Total FE PA
Total COVID-19 Deferral Claim (Ref. FE PA Exhibit PML-1, p. 57, Adj. IS-10)	$ 6,323,000	$10,554,000	$ 3,580,000	$ 9,925,000	$30,383,000
I&E-Remove Late Payment Charge Waivers	$ (2,568,000)	$ (2,828,000)	$ (676,000)	$ (2,831,000)	$ (8,903,000)
I&E-Remove Reconnect Charge Waivers	$ (9,000)	$ (4,000)	$ (3,000)	$ (11,000)	$ (27,000)
I&E-Adjusted Totals	$ 3,746,000	$ 7,722,000	$ 2,901,000	$ 7,083,000	$21,453,000
I&E Recommendation Amortized over Five Years	$ 749,200	$ 1,544,400	$ 580,200	$ 1,416,600	$ 4,290,600
Company Claim based on Three Years	$ 2,108,000	$ 3,518,000	$ 1,193,000	$ 3,308,000	$10,128,000
I&E Recommended Adjustment	$ (1,358,800)	$ (1,973,600)	$ (612,800)	$ (1,891,400)	$ (5,836,600)
I&E-Recommended Total Disallowance of Rate Base Claim (Ref. FE PA Exhibit PML-1, p. 20, Adj. RB-5)	$ 4,216,000	$ 7,036,000	$ 2,387,000	$ 6,616,000	$20,255,000

VEGETATION MANAGEMENT EXPENSE

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR VEGETATION MANAGEMENT EXPENSE.

A. I recommended a total allowance of $113,250,000, broken down as follows: Met-Ed = $25,830,000, or a reduction of $28,619,000 ($54,449,000 - $25,830,000); Penelec = $34,260,000, or a reduction of $25,365,000 ($59,625,000 - $34,260,000); Penn Power = $10,190,000, or a reduction of $10,437,000 ($20,627,000 - $10,190,000); and West Penn = $42,970,000, or a reduction of $28,425,000 ($71,395,000 - $42,970,000). My recommendation was based on the minimum regulatory required budget as provided by the Company.[48] Even accepting this budget amount would allow for a 16% increase over the most recent two-year historic average of 2022 and 2023 expenses.[49] I indicated that a total allowance of $113,250,000 is more in line with the Company's recent demonstrated experience compared to the claim which represents a 111% increase over the most recent two-year historic average of 2022 and 2023.[50] I asserted that, in my opinion, the Company has not demonstrated that its minimum regulatory required budget could not focus on areas that would allow for the most efficient use of resources while addressing the most critical areas. Thus, nearly doubling the Company's budget for vegetation management is imprudent and should not be

[48] I&E Exhibit No. 4, Schedule 7, p. 3.
[49] I&E Exhibit No. 4, Schedule 7, pp. 4-5.
[50] I&E Exhibit No. 4, Schedule 7, pp. 4-5.

allowed. Finally, I provided data that showed most tree-related service interruptions were caused by trees outside the Company's right of way.[51]

Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION?

A. FirstEnergy witnesses John Hawkins and Jason De Stigter, and IBEW Local 777 witness Daulph Kline disagree with my recommendation.

Response to FirstEnergy witness John Hawkins:

Q. SUMMARIZE MR. HAWKINS'S RESPONSE.

A. He states that each witness who addressed vegetation management also addressed FirstEnergy's vegetation-related outages. He mentions the Company has explained the need to conduct more extensive vegetation management, that the "minimum regulatory budget" only addresses the minimum amount needed to comply with the Commission-approved vegetation management plan, and that the minimum budget will not be enough to address the needs the Company is faced with. He expresses the need for all electric distribution companies to clear trees and limbs within and off the right of way (OROW), citing a Pennsylvania Electric Reliability Report from 2022[52] (2022 Report) by quoting an excerpt about OROW trees and related damages but mainly commenting about trees within the right of way.[53] He discusses how the benefits of vegetation management are difficult to

[51] I&E Statement No. 4, pp. 50-51.
[52] electric-reliability-report_final.pdf (pa.gov), accessed July 26, 2024.
[53] FE PA Statement No. 12-R, pp. 11-13.

quantify but that he has confidence that increasing the program will reduce exposure in multiple ways and improve the conditions of the community as a whole.[54] He also points to FE PA witness Jason De Stigter's benefit cost analysis.[55]

Q. DO YOU AGREE WITH MR. HAWKINS?

A. Not fully. While I accept that there is a direct relationship with overgrown vegetation and outages, I do not feel confident that the Company has resolved my concern about gaining approval and access to OROW trees which contribute to most outages, and furthermore, why the Company would not encourage landowners to address those trees on their own property before having all ratepayers fund the work. This concern is magnified by the following statement in the 2022 Report on p. 38,

> FirstEnergy notes that they are limited in their ability to legally address all forms of OROW tree management. However, priority OROW trees are identified when significantly encroaching the corridor and removed when customer consent is obtained or easement rights permit.

Again, on page 40 of the 2022 Report, it states, "Met-Ed is limited in its ability to legally address all forms of OROW tree management." The same statements are made in the 2022 Report concerning Penelec (pp. 53 and 55), Penn Power (pp. 61 and 63), and West Penn (pp. 96-97). It is not abundantly clear how

[54] FE PA Statement No. 12-R, pp. 13-14.
[55] FE PA Statement No. 12-R, pp. 13-14.

simply doubling a budget will address the access issue, and it does not address my concern that property owners should be encouraged to remove their own trees that pose a serious risk.

Q. DOES MR. HAWKINS ATTEMPT TO ADDRESS THE CONCERN ABOUT THE COMPANY NOT ATTEMPTING TO HAVE PROPERTY OWNERS ADDRESS THEIR OROW TREES?

A. He addresses OCA by stating, "The Company noted that it is not often economical to seek damages in these situations…" which could increase other legal expenses.[56] However, this response makes it sound like he is talking about trying to seek recovery for damages after they occur. He also responds to me directly by indicating that OROW trees being the major reason for outages merely supports the Company's claim and it shows that the minimum regulatory requirement is insufficient.[57] However, I address my concerns herein about ratepayers being required to fund the removal of trees from individual property owners without proactive effort being made to have those property owners address and pay for their own property maintenance.

[56] FE PA Statement No. 12-R, p. 26.
[57] FE PA Statement No. 12-R, p. 38.

Response to FirstEnergy witness Jason De Stigter:

Q. SUMMARIZE MR. DE STIGTER'S RESPONSE.

A. Mr. De Stigter performed a benefit cost analysis (BCA) as presented by FirstEnergy witness Wade Smith (FE PA Statement No. 2) and further explained by FirstEnergy witness John Hawkins (FE PA Statement No. 12-R).[58] He asserts that the BCA monetizes the reliability improvement benefit stream of the enhanced vegetation management program based on numerous assumptions. He states that Mr. Hawkins' testimony describes the safety and reliability benefits while his own testimony monetizes the reliability benefits that can *be reasonably anticipated to occur* if authorized, while going into detail explaining how his analysis was performed.[59] In short, he recommends that the Company's full claim should be adopted.[60]

Q. WHAT CONCERNS DO YOU HAVE ABOUT THE EXPLANATION PROVIDED BY FE PA WITNESS DE STIGTER?

A. First, he admits that the analysis is based on numerous assumptions and that the positive outcome is merely anticipated. Secondly, he states that the enhanced program will be more proactive by deploying proven solutions over two five-year trim cycles,[61] or ten years in total, which would far exceed the projected period in

[58] FE PA Statement No. 14-R, pp. 2-3.
[59] FE PA Statement No. 14-R, pp. 4-16.
[60] FE PA Statement No. 14-R, p. 17.
[61] FE PA Statement No. 14-R, p. 7.

this case, so to presume that they would spend the full budget in what would be a portion of a new five-year trim cycle wherein proven solutions are identified and deployed supports my opinion that the Company cannot spend the annual vegetation management budget it proposes in the FPFTY. My recommendation would allow a 16% increase in vegetation management expense over the most recent two-year historic average of 2022 and 2023 expenses, and as stated in my direct testimony, the total recommended allowance of $113,250,000 is in line with demonstrated experience.[62] I understand that progress needs to be made, but throwing roughly double the money at the problem seems in contrast to finding a more focused approach to tackling higher risk trees in a more proactive manner. Also, it does not appear that Company witness Stigter addresses my concern about most of the trees being outside of the utility's right of way.

Q. DO YOU AGREE WITH FE PA WITNESS STIGTER?

A. No. I am not disputing his qualifications or expertise in performing the analysis, however, for the reasons explained herein and in my direct testimony, I have no changes to my recommendation. I have concerns that the increased budget does not explain the potential lack of access of OROW trees and that ratepayers should not be required to fund such vegetation management expense without the Company pursuing property owners' funding work needing to be addressed on

[62] I&E Statement No. 4, p. 50.

their land.

Response of IBEW Local 777 witness Daulph Kline:

Q. SUMMARIZE IBEW LOCAL 777 WITNESS KLINE'S RESPONSE.

A. Witness Kline asserts that vegetation management is critical to providing safe and reliable service to Met-Ed ratepayers, supporting the full claim to maintain a four-year maintenance cycle to reduce service disruptions, increasing worker safety, and benefitting Met-Ed ratepayers. Witness Kline also encourages the Company to bring contracted positions in-house for tree trimming.[63]

Q. DO YOU AGREE WITH WITNESS KLINE?

A. No. As stated above, for the reasons explained herein and in my direct testimony, I have no changes to my recommendation. I reiterate that I have concerns that the increased budget does not explain the potential lack of access of OROW trees and that ratepayers should not be required to fund such vegetation management expense without the Company pursuing property owners' funding work needing to be addressed on their land.

[63] Local 777 Rebuttal Testimony of Daulph Kline, pp. 10-11.

Summary of Vegetation Management Expense Recommendation:

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. For the reasons explained above concerning access and who should pay for OROW trees, I have no changes to my recommended allowance as presented in direct testimony and summarized above. The Company admits that its minimum regulatory budget complies with the Commission-approved 2025-2026 FE PA Biennial I&M Plan.[64]

With respect to using in-house staff versus contractors, I will leave that negotiation between the Company and Local 777; however, if the Company brings positions in house, it should ensure that there will be no duplication of claims for ratemaking now or in the future between payroll/benefits expenses and vegetation management expense.

Q. DO YOU HAVE ANY ADDITIONAL COMMENTS CONCERNING VEGETATION MANAGEMENT?

A. Yes. If the Commission decides to allow an amount above my recommendation, I agree with OCA witness Konidena that detailed annual reporting for the enhanced vegetation management program should be required.[65] The Company asserts that it does track vegetation management expenses under its existing maintenance program and will specifically track expenses to the proposed enhanced vegetation

[64] FE PA Statement No. 12-R, p. 17.
[65] FE PA Statement No. 12-R, p. 15 and OCA Statement No. 7, pp. 32 and 41.

management program.[66] Mr. Hawkins indicates that if the entire claim is approved, the Company is willing to provide annual reports including, cost, mileage, volume of work, type of work, reliability impact, and updated outage information.[67] However, it does not appear that the Company has committed to submitting annual detailed reporting to the Commission, which I recommend be submitted within 60 days of the close of each calendar year between now and the next base rate filing, comparing actual expenses with amounts approved in this base rate proceeding. To be clear, however, this should not be interpreted as my acceptance of the Company's claim, and any reporting established in this proceeding should not be limited to "if the entire claim is approved" as Mr. Hawkins proposes.

ELECTRIC VEHICLE PILOT

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE PROPOSED ELECTRIC VEHICLE PILOT.

A. I recommended an allowance of $5,160,000, broken down as follows: Met-Ed = $1,327,000 or a reduction of $597,000 ($1,924,000 - $1,327,000); Penelec = $1,581,000 or a reduction of $711,000 ($2,292,000 - $1,581,000); Penn Power = $376,000 or a reduction of $169,000 ($545,000 - $376,000); and West Penn = $1,876,000 or a reduction of $843,000 ($2,719,000 - $1,876,000).

[66] FE PA Statement No. 12-R, p. 22.
[67] FE PA Statement No. 12-R, p. 29.

My recommendation accepted the assertion that it is beneficial for the community to expand public charging infrastructure and aid governmental and nonprofit agencies especially where public transportation is concerned,[68] but I disagreed that with the recovery of costs for the proposed dealership EV toolkit of $320,000[69] and the EV residential rebates of $2,000,000 since car dealerships should need no help marketing EVs. I recommended disallowance of the residential rebates because the related installation of EV supply equipment (e.g., related in-home plugs/wiring for charging) would be taken advantage of by only a subset of ratepayers, and those rebates would be paid for in part by FirstEnergy low and moderate-income customers who do not need an ad campaign for EVs to determine they will not purchase such vehicle due to even slightly higher prices than gasoline fired engines. Ratepayers should not be required to fund such rebates as it is akin to the argument generally made for charitable contributions in that ratepayers should not be required to fund something that they do not necessarily agree with. I stated that some ratepayers would likely have a strong aversion to EVs and should not have to pay a part of the rebates for (generally) their more urban and/or "well-off" neighbors.

Finally, I referenced a Company-provided map of EV registrations in Pennsylvania that clearly shows concentrations in limited areas.[70]

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[68] This acceptance was made despite that many ratepayers will not make use of or benefit from such equipment.
[69] I&E Exhibit No. 4, Schedule 8, p. 1.
[70] I&E Statement No. 4, pp. 53-55.

Q. DID ANY WITNESSES RESPOND TO YOUR RECOMMENDATION?

A. OCA witness Barbara Alexander and FE PA witness Mark Jones disagree with my recommendation to allow only part of the Company's request.

Response to OCA witness Barbara Alexander:

Q. SUMMARIZE MS. ALEXANDER'S RESPONSE.

A. Ms. Alexander points to the footnote in my direct testimony indicating that some ratepayers may not benefit from or make use of such programs I had indicated acceptance of. Ms. Alexander agrees with my recommended disallowance of the rebates to subsidize EV charging equipment for residential customers and the dealer toolkit program; however, she disagrees with the remaining programs for reasons stated in her direct testimony. Additionally, she argues that my assertion that it is beneficial to support EV charging systems in the community does not consider the existence of federally funded programs to achieve this objective. She argues that my footnote referenced above indicates my awareness that these programs are in their infancy and may only be valuable to a small set of residential customers. She asserts that I do not account for the lack of any reasonable evaluation plan by the Company. She asserts that FirstEnergy has not provided details for how the program will be implemented or the background information that would identify the distribution system planning and coordination with state officials. Finally, she opines that my recommendation is overly broad without

justification to incur ratepayer funding for a program that is not justified in terms of rates for distribution services.[71]

Q. DO YOU AGREE WITH MS. ALEXANDER?

A. No. While I highlighted my concerns about some ratepayers not benefiting from potential programs, it could also be stated that many ratepayers do not benefit from extensive low-income program benefits, but it is important to weigh all the pros and cons of any potential program and the costs and benefits of such programs. I would also state that future federal funding for such EV-related programs is uncertain given the potential results of our upcoming Presidential election in the United States. However, I agree with Ms. Alexander that federal or other grant funding should be pursued prior to charging ratepayers for such programs and it should be a prerequisite for potential recipients to utilize such funding first. Her concern about the potential lack of any reasonable evaluation plan by the Company is addressed in the following subsection below in response to FE PA witness Mark Jones. While she asserts that my recommendation is overly broad, my response is that the Company is making this proposal, and it is up to FirstEnergy to adequately (or inadequately) support the request before the Commission.

[71] OCA Statement No. 6-R, pp. 1-4.

Response to FE PA witness Mark Jones:

Q. SUMMARIZE FE PA WITNESS JONES'S RESPONSE TO YOUR GENERAL RECOMMENDATION.

A. He does not directly address my recommended disallowance of dealer toolkit costs and residential EV rebates but addresses my recommendation while addressing Ms. Alexander's recommended full disallowance of the entire pilot program. He asserts that some components of the program are not tied directly to the vehicles themselves or vehicle ownership. He opines that education and advisory programs can help optimize electrification of fleets, helping to streamline the process, etc. He states that the grant assistance program can bring in state and federal funding, and both the residential and commercial rebate programs would help to ensure that charging equipment is properly and safely installed, and that the load growth resulting from the rebate programs would result in future revenue requirements being spread over larger energy demand, resulting in lower demand and energy rates for customers in the future.[72]

He draws a comparison to a pilot program already approved by the Commission for Duquesne Light Company (Duquesne) that encourages deployment of EV charging stations, EV registration incentives, customer education, and development of fast charging stations for electric bus evaluation. He admits that Duquesne's pilot includes programs for public, workplace, multi-

[72] FE PA Statement No. 8-R, pp. 41-42.

unit dwellings, fleet and transit system charging, and specific outreach related to the low-income population. Then he references PECO Electric's Public Benefit Program which was made available to incentivize EV charging projects for a broader range of public purposes and charging technologies.[73] He points to continued federal funding lacking any type of guarantee.[74]

Q. WHAT IS YOUR RESPONSE TO MR. JONES'S ASSERTIONS MENTIONED ABOVE?

A. Pointing to what is available in the other Pennsylvania public utilities' pilot programs tends to support my assertion that the pilot should not be focused on wiring and plugs inside ratepayers' homes or helping dealerships with marketing material on how to promote EV sales to ratepayers.

Q. HOW DID MR. JONES ATTEMPT TO ALLEVIATE CONCERNS ABOUT POTENTIAL HARM TO LOW-INCOME CUSTOMERS?

A. He asserts that the cost of EVs is coming more in line with gasoline vehicles, that money will be saved on gasoline and car maintenance, and he references potential federal rebates and tax credits for EV purchases. He discusses available affordable Level 1 charging, the pilot's proposed assistance with barriers to entry for home charging, commercial and public charging rebates to assist in low-

[73] FE PA Statement No. 8-R, pp. 42-43.
[74] FE PA Statement No. 8-R, p. 44.

income and rural areas, and that FE PA will allocate 35% of its approved marketing dollars and promotional efforts directly to Environmental Justic Area Communities as defined by the PA Department of Environmental Protection.[75]

Q. DOES HIS RESPONSE ALLAY YOUR CONCERNS RELATED TO ANY IMPACT ON LOW-INCOME CUSTOMERS?

A. No. I continue to recommend that any approved program focuses more on public transportation and commercial transportation as opposed to aiding in the sale of EVs by dealerships and funding wiring and plugs in the homes of ratepayers who choose to purchase EVs. It seems possible that EV rebates could be on the way out, depending on the results of our next Presential election, thus, those rebates cannot be factored in with any certainty.

Q. DOES MR. JONES DISCUSS ANY OTHER POTENTIAL BENEFITS TO THE EXPANSION OF EVs?

A. Yes. He discusses a reduced impact on the environment, such as reduced air pollution and related health impacts and reduced greenhouse gas (GHG) emissions that contribute to climate change. He asserts that 29% of all GHG emissions come from the transportation sector.[76]

[75] FE PA Statement No. 8-R, pp. 45-46.
[76] FE PA Statement No. 8-R, pp. 46-47.

Q. WOULD HAVING EVERYONE DRIVE ELECTRIC VEHICLES SOLVE CLIMATE CHANGE ISSUES AND ELIMINATE GREENHOUSE GAS EMISSIONS?

A. It could reduce GHG emissions but would not eliminate them partly due to electricity generation largely requiring fossil fuels.[77]

Q. DOES MR. JONES ATTEMPT TO ALLEVIATE CONCERNS ABOUT FUTURE REPORTING RELATED TO THE PROPOSED EV PILOT PROGRAM?

A. Mr. Jones states that the Company plans to track metrics within each component of approved programs as detailed in his rebuttal testimony and indicates that FirstEnergy plans to file a report with the Commission by the end of the second quarter of the following year showing the prior year's results.[78]

Q. IS FILING A SINGLE REPORT AT THE END OF THAT SECOND QUARTER SUFFICIENT?

A. No. The Company should be required to document annual results for every single year from implementation between approval of any EV pilot program up to the filing of the next base rate case. I recommend that the Commission require the Company to share this information with I&E and other parties in this proceeding

[77] Electricity in the U.S. - U.S. Energy Information Administration (EIA), accessed July 24, 2024.
[78] FE PA Statement No. 8-R, pp. 49-50.

so that the results and effectiveness of programs can be evaluated to determine whether funding is excessive and/or continuation of the program is warranted. There may come a time when any approved program should cease, and this information would be necessary to make that determination.

Summary of My Recommendation:

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION?

A. No. I have no changes to my recommendation for the reasons explained in my direct testimony and summarized above.

REFUND TO CUSTOMERS

Q. SUMMARIZE YOUR RECOMMENDATION IN DIRECT TESTIMONY FOR THE PROPOSED REFUND TO CUSTOMERS.

A. I recommended a total of $14,622,703 or an increase of $1,026,519 ($14,622,703 - $13,596,184) to the Company's claim based on the 8% interest rate used in calculating interest on customer deposits,[79] and consistent with the most recently issued Interest Rate Notice published by the Pennsylvania Department of Revenue on December 23, 2023.[80] This recommendation for an 8% interest rate was made in lieu of the Company's proposed interest rate referred to by FE PA as the legal statutory interest rate per 41 P.S. § 202.[81] I also recommended that the Company

[79] FE PA Exhibit PML-1, p. 45, Adjustment IS-6.
[80] I&E Exhibit No. 4, Schedule 9, p. 1.
[81] FE PA Statement No. 1, p. 20.

be required to submit the suggested informational filing to all parties in this proceeding (and not simply "the Commission"), not more than 30 days after the completion of the refund distribution.[82]

Q. DID ANY WITNESS RESPOND TO YOUR RECOMMENDATION?

A. Yes. FE PA witness Joanne Savage disagrees with my recommendation.

Q. SUMMARIZE MS. SAVAGE'S RESPONSE.

A. Ms. Savage states that she is advised by counsel that Section 1312(a) of the Public Utility Code states that "in any proceeding involving rates," Commission-ordered refunds for overcollections shall be computed "with interest at the legal rate from the date of each such excessive payment," and that when the "legal rate of interest" is used in statute, the General Assembly has clarified that the interest rate is "six percent per annum." 41 P.S. § 202. Thus, she asserts that my recommendation conflicts with statute.[83] Furthermore, she opines that my recommendation is improper because my recommended interest rate was only in effect two times in the past 18 years.[84] Finally, she accepts my recommendation related to reporting to the parties in the instant proceeding, to confirm the actual

[82] I&E Statement No. 4, pp. 58-60.
[83] FE PA Statement No. 1-R, p. 16.
[84] FE PA Statement No. 1-R, pp. 16-17.

refunds distributed to ratepayers no more than 30 days after completion of the refund distribution.[85]

Q. DO YOU HAVE ANY CHANGES TO YOUR RECOMMENDATION UPON CONSIDERATION OF MS. SAVAGE'S RESPONSE?

A. Yes. Upon consideration of the facts presented, even though I disagree with Ms. Savage's comparison to historic interest rates, I withdraw my recommendation, other than the reporting recommendation that Ms. Savage accepts.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

[85] FE PA Statement No. 1-R, pp. 17-18.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3047068
	:	
FirstEnergy Pennsylvania Electric Company Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, Vanessa Okum, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 1 (PROPRIETARY/Non-Proprietary);
- I&E Exhibit No. 1 (PROPRIETARY/Non-Proprietary);
- I&E Statement No. 1-R (PROPRIETARY/Non-Proprietary);
- I&E Exhibit No. 1-R;
- I&E Statement No. 1-SR (PROPRIETARY/Non-Proprietary); and
- I&E Exhibit No. 1-SR.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

_*/s/*Vanessa Okum_____
Vanessa Okum
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: August 14, 2024

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3047068
	:	
FirstEnergy Pennsylvania Electric Company Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, D. C. Patel, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 2,
- I&E Exhibit No. 2, and
- I&E Statement No. 2-SR

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/DCPatel
D. C. Patel
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: August 14, 2024

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3047068
	:	
FirstEnergy Pennsylvania Electric Company Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, Joseph Kubas, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 3 (PROPRIETARY/Non-Proprietary);
- I&E Exhibit No. 3,
- I&E Statement No. 3-SR; (PROPRIETARY/Non-Proprietary); and
- I&E Exhibit No. 3-SR.

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

_/s/ Joseph Kubas

Joseph Kubas
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: August 15, 2024

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	
	:	
v.	:	Docket No. R-2024-3047068
	:	
FirstEnergy Pennsylvania Electric Company Base Rates	:	

WITNESS VERIFICATION
THE BUREAU OF INVESTIGATION AND ENFORCEMENT

I, Christine Wilson, on behalf of the Bureau of Investigation and Enforcement, hereby verify that the documents preliminarily identified as:

- I&E Statement No. 4,
- I&E Exhibit No. 4 – PROPRIETARY and NON-PROPRIETARY,
- I&E Statement No. 4-R, and
- I&E Statement No. 4-SR

were prepared by me or under my direct supervision and control. Furthermore, the facts contained therein are true and correct to the best of my knowledge, information and belief and I expect to be able to prove the same at an Evidentiary Hearing in this matter. This Verification is made subject to the penalties of 18 Pa. C.S. § 4904 relating to unsworn falsification to authorities.

/s/ Christine Wilson
Christine Wilson
Pennsylvania Public Utility Commission
Bureau of Investigation and Enforcement

Dated: August 15, 2024