



Docket No. 13-2100-EL-RDR

**Compliance Audit of the 2013 Delivery Capital Recovery (DCR) Riders
of Ohio Edison Company,
The Cleveland Electric Illuminating Company,
and The Toledo Edison Company**

Submitted on April 9, 2014

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DISCLAIMER

The word *audit* is intended, as it is commonly understood in the utility regulatory environment, to mean a regulatory review, a field investigation, or a means of determining the appropriateness of a financial presentation for regulatory purposes. It is not intended in its precise accounting sense as an examination of booked numbers and related source documents for financial reporting purposes. Neither is the term *audit* in this case an analysis of financial statement presentation in accordance with the standards established by the American Institute of Certified Public Accountants. The reader should distinguish regulatory reviews such as those that Blue Ridge performs from financial audits performed by independent certified public accountants.

This document and the opinions, analyses, evaluations, and recommendations are for the sole use and benefit of the contracting parties. There are no intended third-party beneficiaries, and Blue Ridge shall have no liability whatsoever to third parties for any defect, deficiency, error, or omission in any statement contained in or in any way related to this document or the services provided.

This report was prepared based in part on information not within the control of the consultant, Blue Ridge Consulting Services, Inc. While it is believed that the information is reliable, Blue Ridge does not guarantee the accuracy of the information relied upon.

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ORGANIZATION OF BLUE RIDGE'S REPORT

This report is organized according to the following major sections: Executive Summary, Overview of Investigation, and Findings and Recommendations. The report also contains appendices. The Executive Summary provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations that are presented in more detail in the body of the report.

The Overview of Investigation provides the following: background; project purpose; project scope; audit standard; information reviewed; description of the Rider DCR Compliance Filings reviewed; and a brief summary of the variance analyses, transactional testing, and other analyses. The Overview also includes an update on the recommendations from the prior compliance audit.

The Findings and Recommendations section documents Blue Ridge's analysis that led to our observations, findings, and recommendations regarding the components that comprise Rider DCR. In several instances, Blue Ridge has used information obtained from the prior audits of the 2011 and 2012 Rider DCR in this report. The information used is labeled to show that it was obtained during the prior audits and is provided with the workpapers supporting this report. Blue Ridge prefaced each area with the specific tasks planned to accomplish that area's review. Scope Area 1 includes an overview of the processes' and controls' policies and procedures that affect the categories that feed into the Rider DCR calculations. A variance analysis reviews the significant changes in net plant by individual FERC account.

Scope Area 1 reviews each component of Rider DCR. The Rider DCR specific exclusions are addressed in the section labeled Riders LEX, EDR, AMI, and General Exclusions and followed by an analysis of gross plant-in-service, accumulated reserve for depreciation, accumulated deferred income taxes, depreciation expense, property tax expense, allocated Service Company plant and reserve, commercial activity tax and income taxes, and the return component. Scope Area 1 concludes with a review of the calculation of revenue requirements, followed by a review of the projections for the first quarter 2014.

Scope Area 2 addresses the Commission order in 10-388-EL-SSO requirement that net capital additions for plant in service for General Plant shall be included in the DCR so long as there are no net job losses at the Companies or with respect to FirstEnergy Service Company employees, who provide support for distribution services provided by the Companies and are located in Ohio, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

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EXECUTIVE SUMMARY

The FirstEnergy Service Company, on behalf of the three Ohio-regulated operating companies—The Cleveland Electric Illuminating Company (CE, CEI, or CECO), Ohio Edison Company (OE or OECO), and The Toledo Edison Company (TE or TECO) (collectively, FirstEnergy or the Companies)—prepared and submitted Compliance Filings regarding the Commission-approved Delivery Capital Recovery Rider (DCR) for 2013. Blue Ridge Consulting Services, Inc. (Blue Ridge) was retained to perform a compliance audit of the Filings.

BACKGROUND

Ohio's electric law, Senate Bill 221, requires electric utilities to provide consumers with a standard service offer (SSO) consisting of either a market rate offer (MRO), Section 4928.142 Revised Code, or an electric security plan (ESP), Section 4928.142 Revised Code. FirstEnergy filed an application for approval of an ESP on March 23, 2010. A majority of the parties in the case entered into an original stipulation and two supplemental stipulations (collectively, the Combined Stipulation), and, after a hearing, the Public Utilities Commission of Ohio (Commission) issued an Opinion and Order approving the Combined Stipulation in its entirety.

As part of its Opinion and Order, the Commission approved the establishment of the Delivery Capital Recovery (DCR) Rider, effective January 1, 2012, to be updated and reconciled quarterly. The Opinion and Order allowed the Companies the opportunity to recover property taxes, commercial activity tax, and associated income taxes, and to earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plant, including allocated general plant from FirstEnergy Service Company, which was not included in the rate base determined in the Opinion and Order of January 21, 2009, in Case No. 07-551-EL-AIR (last rate case). On April 13, 2012, FirstEnergy filed an application for its next ESP, which was largely an extension of the Combined Stipulation, which the Commission approved, with modifications, on July 18, 2012, in Case No. 12-1230-EL-SSO.

Under the agreement, FirstEnergy agreed to submit to an annual audit review of its Rider DCR for the purpose of determining accuracy and reasonableness of the amounts for which recovery is sought. The agreement also stipulated that, at the Commission's discretion, either an independent third party auditor or the Commission's Staff would conduct the annual audit review.

The Commission's Request for Proposal (RFP) sought proposals to audit and attest to the accuracy and reasonableness of FirstEnergy's compliance with its Commission-approved Rider DCR since the Companies' last Rider DCR Compliance Audit. Blue Ridge submitted a proposal and was selected to perform the 2013 compliance audit. Blue Ridge also performed the 2011 and 2012 Rider DCR compliance audits covering plant in service since the last distribution rate case (the audits covered 6/1/2007 through 12/31/2012).

PURPOSE OF PROJECT

As defined in the RFP, the purpose of the project included the following:

- Audit and attest to the accuracy and reasonableness of FirstEnergy's compliance with its Commission-approved Rider DCR with regard to the return earned on plant in service since the Companies' last Rider DCR Compliance Audit

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- Identify capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions to ensure they are excluded from Rider DCR
- Identify, quantify, and explain any significant net plant increase within individual accounts

PROJECT SCOPE

The project scope as defined in the RFP addresses two areas:

Scope Area 1: Determine if FirstEnergy has implemented its Commission-approved DCR Rider and is in compliance with the Combined Stipulation agreement set forth in *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 10-388-EL-SSO, et al., Opinion and Order (Case No. 10-388).

Scope Area 2: Examine the effects of the merger between FirstEnergy and Allegheny Energy to determine that there are no net job losses at the Companies or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio, per Commission order in 10-388-EL-SSO, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

As required by the RFP, Blue Ridge reviewed appropriate information associated with the stipulation and prior cases associated with the implementation of Rider DCR. During the course of the audit, Blue Ridge reviewed the compliance filings, developed transactional testing using statistically valid sampling techniques, and performed other analyses to allow Blue Ridge to determine whether the costs included in the Rider DCR were not unreasonable.

FINDINGS AND RECOMMENDATIONS

SCOPE Area 1

Objective: Determine if the Companies implemented their Commission-approved DCR Rider and if the Companies are in compliance with the Combined Stipulation agreement set forth in the Opinion and Order issued in Case No. 10-388-EL-SSO

OVERALL IMPACT OF FINDINGS ON RIDER DCR REVENUE REQUIREMENTS

Blue Ridge's review found several items that have an impact on Rider DCR Revenue Requirements, including removal of several work orders that should not have been in the DCR and other adjustments found during the detailed transactional work order testing and field inspections. Blue Ridge is recommending that gross plant be reduced by \$5,988,478 and the reserve be increased by \$155,721 for a net plant reduction of \$6,144,199. Explanations of the issues are provided in the appropriate sections. The flow through of these adjustments has the following impact on Rider DCR.

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Table 1: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement

Company	As Filed Total	AMI, ATSI, Generation Exclusions	Work Order Adjustments	Modified DCR	Change in Rider DCR
CEI	\$ 90,972,782	\$ (434,258)	\$ (15,862)	\$ 90,522,661	\$ (450,121)
OE	\$ 90,759,689	\$ (135,950)	\$ (43,873)	\$ 90,579,866	\$ (179,823)
TE	\$ 24,731,649	\$ -	\$ (437,233)	\$ 24,294,417	\$ (437,233)
Total	\$ 206,464,120	\$ (570,208)	\$ (496,968)	\$ 205,396,944	\$ (1,067,176)

Blue Ridge evaluated specific areas associated with the categories of costs included in the Rider DCR that would allow us to determine whether any of the costs being proposed for inclusion in the Rider DCR were unreasonable. A brief summary of that review follows:

PROCESSES AND CONTROLS

Beginning from a basis of last year's review of the 2012 FirstEnergy Rider DCR processes and controls, Blue Ridge reviewed documents relied upon for that audit, supplemented with changes to those processes and controls that the Companies have made since that audit. Based on the documents reviewed, Blue Ridge was able to update its understanding of the Companies' processes and controls that affect each of the plant balances and expense categories within Rider DCR. Blue Ridge found that the Companies' cost controls were adequate and not unreasonable.

Development of Rider DCR Compliance Filing

The process for compiling and calculating Rider DCR schedules parallels that of previous years except for one change of note regarding the inclusion of Removal Work in Progress (RWIP) that is now included in the Rider DCR reserve balances. The Companies explained that the prior treatment of RWIP resulted in a timing lag between when the un-unitized retirement activity was recognized as a credit to gross plant and when the un-unitized removal activity was recognized as a reduction to the reserve. With the change, both un-unitized retirements and removal activity are recognized in net plant for the purposes of Rider DCR. Blue Ridge found the Companies' explanation to be not unreasonable.

Internal Audit and SOX Compliance

During one of the internal audits performed at the Companies, a finding was noted and is still in process of resolution. When a funding project Work Breakdown Structure (WBS) is changed, both charges and reimbursements should follow. The current system, however, moves labor and material charges to the new project, but any applicable Contribution in Aid of Construction (CIAC) remains with the original project. The problem is currently addressed through a manual journal entry; however, a programming change is planned to be included in the PowerPlant Upgrade Project later this year. Blue Ridge recommends that FirstEnergy carefully monitor the current manual process used by Accounting Policy and Control to move CIACs to ensure that the CIACs are applied to the correct work orders and FERC accounts.

Additionally, FirstEnergy conducted several SOX compliance tests during 2013 in which two control deficiencies related to AFUDC rates in PowerPlant were noted. The identical deficiencies had to do with a December issue with the handling of AFUDC in PowerPlant due to a system configuration change requirement. A temporary control is being put into place until a final resolution is implemented as part of the PowerPlant upgrade in August 2014. Blue Ridge recommends that the resolution to this issue be reviewed in the next DCR audit.

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VARIANCE ANALYSIS

To support identifying, quantifying, and explaining any significant net plant increases within individual accounts, Blue Ridge compared Plant-in-Service account balances (FERC 300-series accounts) for 2013 to those of 2012.

The following table is a summary schedule of the net plant changes by classification of plant (i.e., Transmission, Distribution, General, and Intangible Plant). As this table shows, FirstEnergy's operating companies increased net plant (including allocation of Service Company Plant) by \$62.1 million, \$98.4 million, and \$32.1 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 2.4%, 3.4%, and 3.0% for CE, OE, and TE, respectively.

Table 2: Adjusted Plant from 12/31/2012 to 12/31/2013

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 2012	Adjusted Balance 2013	Difference (c)-(b)	% (d)/(b)
1	<u>The Cleveland Electric Illuminating Company</u>				
2	Transmission	\$ 402,073,781	\$ 404,406,007	\$ 2,332,227	0.6%
3	Distribution	1,986,796,019	2,032,809,244	46,013,225	2.3%
4	General	139,461,313	147,968,643	8,507,329	6.1%
5	Other	47,513,861	47,736,942	223,081	0.5%
6	Service Company Allocated	68,071,119	73,129,621	5,058,502	7.4%
7	Total Cleveland Electric Illuminating Company	\$ 2,643,916,093	\$ 2,706,050,457	\$ 62,134,364	2.4%
8	<u>Ohio Edison Company</u>				
9	Transmission	\$ 205,691,183	\$ 207,528,587	\$ 1,837,404	0.9%
10	Distribution	2,377,366,810	2,463,071,418	85,704,608	3.6%
11	General	153,879,764	158,454,379	4,574,615	3.0%
12	Other	62,326,793	62,524,971	198,178	0.3%
13	Service Company Allocated	82,490,124	88,620,131	6,130,007	7.4%
14	Total Ohio Edison Company	\$ 2,881,754,675	\$ 2,980,199,486	\$ 98,444,812	3.4%
15	<u>The Toledo Edison Company</u>				
16	Transmission	\$ 21,081,920	\$ 21,122,574	\$ 40,654	0.2%
17	Distribution	886,179,925	902,685,571	16,505,646	1.9%
18	General	85,995,119	100,266,353	14,271,234	16.6%
19	Other	23,427,959	22,000,375	(1,427,584)	-6.1%
20	Service Company Allocated	36,310,984	39,009,326	2,698,342	7.4%
21	Total Toledo Edison Company	\$ 1,052,995,907	\$ 1,085,084,198	\$ 32,088,292	3.0%
22	FirstEnergy Ohio Operating Companies	\$ 6,578,666,674	\$ 6,771,334,142	\$ 192,667,467	2.9%

Blue Ridge examined specific account variances from 2012 to 2013. The variance analysis identified several of the land accounts as having significant variances. FirstEnergy noted that the differences in the land account balances are primarily due to an alternate method of calculating ATSI Land Lease values. After further review, the Companies have determined that the previous methodology used is more appropriate and will be used in future filings. A reconciliation calculation will be included in the next filing. Blue Ridge agrees and recommends with FirstEnergy that the ATSI Land Lease calculation methodology should revert to the previous methodology for future filings and a reconciliation calculation should be included in the next filing.

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Through questioning the variance of one account, the Companies noted that two work orders involved in the variance, totaling \$1,918,816, and related to Rider AMI should have been excluded from the Rider DCR plant balances. Additionally, another \$243,145 of work order activity was related to the Smart Grid project. This total of \$2,161,961 overstated gross plant and the reserve was overstated by \$33,130. The Companies indicated that they will include an adjustment in their next Rider DCR filing to reverse the cumulative impact. Blue Ridge agrees and recommends with FirstEnergy that an adjustment should be made in the next Rider DCR filing regarding this account to remove the AMI projects.

Blue Ridge also examined end-of-year 2012 DCR Compliance Filing Plant in Service balances to the 2012 FERC Form 1 balances. Only one variance resulted due to a reconciling item between the General Ledger and the PowerPlant detail. Blue Ridge believes the explanation to be not unreasonable.

Blue Ridge also investigated plant additions, retirements, transfers, and adjustments in order to understand changes to the unadjusted plant balances. FirstEnergy's responses regarding the variances in plant account balances were largely as a result of normal work order activity and are not uncommon among utilities. In general, total plant balances for each of the Companies increased at a not unreasonable rate.

With the exception of the finding that Rider DCR gross plant and reserve included work orders related to Rider AMI that should not have been included in the Rider DCR, we believe that the amount of net plant increase over the period is not unreasonable.

RIDER LEX, EDR, AMI, AND GENERAL EXCLUSIONS

The Combined Stipulation requires that capital additions recovered through Commission-approved Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from Rider DCR and the annual cap allowance.

Blue Ridge found several instances of projects that should have been excluded from Rider DCR, but were not. These include AMI projects discussed in the Variance section of this report and plant associated with ATSI. In addition, generation projects were included in the Rider DCR that should have been excluded. The cumulative impact of removing these projects reduces the Rider DCR gross plant by \$2,887,413 and reduces the reserve by an estimated \$97,090 for a net plant reduction of \$2,790,323. The Companies indicated that an adjustment would be made in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR gross plant and reserve.

GROSS PLANT IN SERVICE

The Rider DCR Compliance Filings include the following gross plant in service incremental change for each company.

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Table 3: Actual 2012 and Actual 2013 Gross Plant in Service Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	2,643,916,093	2,706,050,456	62,134,363
OE	2,881,754,675	2,980,199,487	98,444,812
TE	1,052,995,907	1,085,084,199	32,088,292
Total	6,578,666,674	6,771,334,142	192,667,467

Blue Ridge's review of gross plant through transactional testing and field inspections of selected work orders had several findings that impact the gross plant included in the Rider DCR. The impact of the combined findings would reduce gross plant by \$3,101,065 and increase the reserve by \$252,812 for a net plant reduction of \$3,353,877.

Additional Validation Testing from Sampled Work Orders

The Companies provided a list of work orders that support gross plant in service for December 2012 through December 2013. Blue Ridge selected a sample of 110 work orders from the Companies' and the Service Company's population of addition and replacement work orders from 12/1/12 through 12/31/13 for testing using the probability-proportional-to-size (PPS) sampling techniques and professional judgment.

Blue Ridge had the following observations:

1. Work orders with specific work scope contained reasons that the work was being performed and project justification.
2. The work orders were properly approved in accordance with Companies' procedures detailed in the Level of Signature Authority (LOSA) document.
3. Most project actual costs were within +/- 15% of the project budget. Project costs greater than 15% over budget contained reasonable explanations for the overruns. With the exception of several work orders that improperly accrued AFUDC (discussed later in this report), the work order costs were properly supported and the categories of costs were reasonable.
4. The work order detail properly indicated that cost of removal was charged for replacement work orders. Salvage is recorded on an aggregate basis in a blanket workorder unless equipment is sold. We did not see any instance in which equipment was sold and the project received the credit.
5. Assets were charged to the proper FERC account (300 account) except as discussed below (i.e., #4 under findings related to transactional testing performed on the work order sample).
6. The Companies provided descriptions of all IT projects. Procedures are in place that describe how internal use software is to be accounted for in accordance with generally accepted accounting principles (GAAP). Blue Ridge found that the procedure is adequate and, if used, would yield an accurate split between capital and expense.
7. Most work order actual in-service dates were in line with estimated in-service dates or had reasonable explanations for the delay. Several exceptions are discussed later in this report (i.e., #7 under findings related to transactional testing performed on the work order sample).

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8. Work orders tested were unitized within a reasonable time period from the date of completion.

Blue Ridge had the following findings related to the transactional testing performed on the work order sample:

1. Several work orders reviewed should have been excluded from the Rider DCR due to association with ATSI and a generation plant/sale leaseback agreement.
2. Three replacement work order retirements were not recorded on a timely basis following the new assets' installation. The delays resulted in an over accrual of depreciation expense of \$4,256 and an associated overstatement of the reserve.
3. Three work orders were set up to receive AFUDC, but were not eligible for AFUDC. Utility plant is overstated by approximately \$36,459, and the reserve is overstated by approximately \$3,688. Therefore, net plant is overstated by approximately \$32,771.

The Company stated that IT is working with accounting personnel to review the process for project setup to ensure all required information is provided to avoid including AFUDC for capital upgrade fees.

Blue Ridge recommends that the Companies complete the process revision to ensure that AFUDC is not accrued on projects that are not eligible. Blue Ridge also recommends that Companies review the entire population of utility plant included in the Rider DCR to ensure other similar fees have not accrued AFUDC.

4. Two work orders were reclassified as a result of the unitization process, which understated the reserve by \$281,105.
5. One work order was closed in error, which overstated gross plant by \$88,450.
6. Transfers between transmission and distribution resulted in an overstatement of the reserve of \$11,195.
7. One work order had AFUDC accrued past the projects in service date. The impact is an overstated gross plant of \$74,959 and an overstated reserve of \$1,811.

Blue Ridge found that from the work order transactional testing, 15 work orders require adjustments to either gross plant and/or the reserve. Corrections to gross plant flow through the Rider DCR calculations affecting depreciation expense, property tax, income taxes, and the return on rate base. The impact of the combined findings from the sample work order transactional testing would reduce gross plant by \$199,868 and increase the reserve by \$260,156 for a net plant decrease of \$460,024. We recommend that the Companies correct the errors identified by Blue Ridge and adjust Rider DCR accordingly.

Field Inspections

Blue Ridge selected three projects for field verification from the work order sample. The physical observation confirmed that the assets were installed and used and useful. However, it was determined that a portion of the costs of the Toledo Edison Plaza Building upgrades associated with leasehold improvements for a tenant are not jurisdictional to the Rider DCR and should be excluded. Blue Ridge recommends that the project costs be removed from the Rider DCR. The result would reduce gross plant by \$2,901,197 and the reserve reduced by \$7,344 for a net plant reduction of \$2,893,853.

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Joint Build Projects

The Companies completed several projects under the Joint Build Agreement involving the installation of fiber optic cable within the Companies' electric power space. Blue Ridge found nothing to indicate that the projects under the Joint Build Agreement included within the Rider DCR were inappropriate.

Insurance Recoveries

FirstEnergy stated that there were no insurance recoveries charged to capital for any of the Companies for the period December 1, 2012, through December 31, 2013. In addition, there are no 2013 pending insurance recoveries not recorded or accrued that would be charged to the Companies.

Work Order Backlog

Blue Ridge found that the Companies have made significant progress in reducing the unitization backlog from the prior audits. The Companies should continue their efforts to reduce the overall work order backlog.

ACCUMULATED RESERVE FOR DEPRECIATION

The Rider DCR Compliance Filings include the following accumulated reserve for depreciation ("reserve") incremental change for each company from actual 2012 to actual 2013.

Table 4: Actual 2012 and Actual 2013 Reserve for Depreciation Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	(1,067,601,103)	(1,098,013,774)	(30,412,670)
OE	(1,118,005,105)	(1,158,106,675)	(40,101,570)
TE	(506,705,680)	(519,919,664)	(13,213,984)
Total	(2,692,311,889)	(2,776,040,112)	(83,728,224)

The Companies' Reserve includes a new line item for Removal Work in Progress (RWIP). The amounts reduce the Reserve, which results in an increase to net plant. As mentioned in the Processes and Controls section, the Companies explained that the prior treatment of RWIP resulted in a timing lag between when the un-unitized retirement activity was recognized as a credit to gross plant and when the un-unitized removal activity was recognized as a reduction to the reserve. With the change, both un-unitized retirements and removal activity are recognized in net plant for the purposes of Rider DCR. Blue Ridge found the Companies' explanation to be not unreasonable.

Blue Ridge found several adjustments that should be made to the reserve balances to ensure that net plant is appropriately reflected in the DCR. The specific adjustments are discussed in the Variance, Exclusions, and Gross Plant in Service sections.

ACCUMULATED DEFERRED INCOME TAXES

The Rider DCR Compliance Filings include the following accumulated deferred income taxes (ADIT) incremental change for each company.

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Table 5: Actual 2012 and Actual 2013 ADIT Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	(450,759,024)	(459,354,961)	(8,595,937)
OE	(480,833,726)	(483,336,490)	(2,502,765)
TE	(140,194,547)	(135,457,342)	4,737,205
Total	(1,071,787,297)	(1,078,148,794)	(6,361,496)

The incremental change is supported by the actual and estimated ADIT Schedules. Blue Ridge concludes that the ADIT is not unreasonable.

DEPRECIATION EXPENSE

The Rider DCR Compliance Filings include depreciation expense for each company as shown in the following table.

Table 6: Actual 2012 and Actual 2013 Depreciation Expense Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	83,822,967	86,146,016	2,323,049
OE	84,162,093	87,705,721	3,543,628
TE	33,806,159	34,460,384	654,224
Total	201,791,219	208,312,121	6,520,901

Blue Ridge found that the calculation of depreciation expense is not unreasonable. However, the Rider DCR uses plant in service balances to develop the depreciation expense component of the revenue requirements. The revised gross plant should flow through the Rider DCR model in order to ensure that the appropriate amount of depreciation expense is included within the Rider DCR.

As was found in prior audits, the depreciation accrual rates are from a study using balances as of May 31, 2007. Blue Ridge recommended, and Staff and the Companies agreed, that an updated depreciation study would be conducted and submitted to Staff no later than June 1, 2015.

PROPERTY TAX EXPENSE

The Rider DCR Compliance Filings include the following incremental property tax expense for each company.

Table 7: Actual 2012 and Actual 2013 Property Tax Expense Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	92,056,840	99,931,823	7,874,983
OE	83,009,015	89,907,692	6,898,677
TE	26,981,834	29,165,334	2,183,500
Total	202,047,689	219,004,850	16,957,161

Blue Ridge found that the calculation of property tax is not unreasonable. However, the Rider DCR uses plant in service balances to develop the property tax component of the revenue

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requirements. The revised gross plant should flow through the Rider DCR model to ensure that the appropriate amount of property tax is included within the Rider DCR.

SERVICE COMPANY

Several errors were identified during the transactional testing of the sampled work orders related to the Service Company that the Companies should correct. However, Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable. The specific adjustments are discussed in the Gross Plant in Service section of this report.

COMMERCIAL ACTIVITY TAX AND INCOME TAXES

The Rider DCR Compliance Filings include the following incremental commercial activity tax (CAT) and income tax expense for each company.

Table 8: Actual 2012 and Actual 2013 CAT and Income Tax Expense Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	6,542,389	7,250,753	708,363
OE	6,203,041	7,838,815	1,635,774
TE	669,836	1,355,724	685,888
Total	13,415,266	16,445,291	3,030,025

Although the adjustments discussed in other sections of this report will impact the final Commercial Activity Tax and income tax included within the DCR, Blue Ridge found that the commercial activity tax and income tax are correctly calculated and are not unreasonable.

RETURN

The Rider DCR Compliance Filings include the following calculated return on rate base at 8.48% for each company.

Table 9: Actual 2012 and Actual 2013 Return on Rate Base Incremental Change

Company	12/31/12	12/31/13	Incremental
CEI	18,477,941	20,439,097	1,961,157
OE	17,725,125	22,460,621	4,735,496
TE	1,841,152	3,843,503	2,002,351
Total	38,044,218	46,743,222	8,699,003

Although the adjustments discussed in other sections of this report may impact the final return included within the DCR, Blue Ridge found that the calculation of the return component of the DCR is not unreasonable.

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RIDER DCR CALCULATION

The Compliance Filing Summary Schedules pull together the various components allowed within Rider DCR and calculate the revenue requirements based upon the actual 12/31/13 and estimated 3/31/14 balances.

Although Blue Ridge found that the balances used in the Rider DCR calculations should be adjusted, Blue Ridge found that the Rider DCR calculation is not unreasonable.

FirstEnergy provided a summary of the Annual Rider DCR Revenue To-Date in compliance with the Commission's order. Blue Ridge found that the Companies' DCR revenues are under the adjusted annual cap. However, Blue Ridge recommends that the Companies include a comparison of the annual DCR revenue to the adjusted annual cap taking into account prior years' under and over collections.

PROJECTIONS

The Compliance Filings includes projections for the first quarter 2014. To develop the first quarter 2014 estimates, the Companies used estimated plant in service and reserve balances as of 3/31/14 from the 2014 Forecast Version 12. The Companies' budgets are not established on an individual FERC account basis. FirstEnergy developed a workpaper that allocated the budget to the FERC accounts used in Rider DCR based upon the most recent actual gross plant FERC balances. The estimated 3/31/14 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate recommendations from the March 2013 Rider DCR Audit Report, and to remove the pre-2007 impact of a change in pension accounting.

Blue Ridge found that the projected amounts included within the first quarter 2014 are not unreasonable. In addition, the projected amounts will be reconciled to the actual amounts and the Rider DCR revenue requirement will be adjusted to actual in the next quarter's Rider DCR Compliance Filings.

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Scope Area 2

Objective: Determine if the merger between FirstEnergy Corp and Allegheny Energy created net job losses at the Companies or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio, per Commission order in 10-388-EL-SSO, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

FirstEnergy Corporation merged with Allegheny Energy, Inc. effective on February 25, 2011. According to the Opinion and Order in Case No. 10-388-EL-SSO, the Commission agreed not to review the merger because it was an all stock transaction and no change would result in control of the Companies. However, regarding the merger, the Commission did order the following:

“Net capital additions for plant in service for general plant shall be included in Rider DCR provided that there are no net job losses at the Companies as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.”

This contingency was reiterated when the Commission extended the Rider DCR by its Order in Case No. 12-1230-EL-SSO.

Based on the FirstEnergy headcount data reviewed, Blue Ridge found that there were no net job losses at the Companies or with respect to FirstEnergy Service Company employees, who provide support for distribution services provided by the Companies and are located in Ohio, per Commission Order in 10-388-EL-SSO, as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

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OVERVIEW OF INVESTIGATION

The FirstEnergy Service Company, on behalf of the three Ohio-regulated operating companies—The Cleveland Electric Illuminating Company (CE, CEI, or CECO), Ohio Edison Company (OE or OECO), and The Toledo Edison Company (TE or TECO) (collectively, FirstEnergy or the Companies)—prepared and submitted Compliance Filings regarding the Commission-approved Delivery Capital Recovery Rider (DCR) for 2013. Blue Ridge Consulting Services, Inc. (Blue Ridge) was retained to perform a compliance audit of the Filings.

BACKGROUND

Ohio's electric law, Senate Bill 221, requires electric utilities to provide consumers with a standard service offer (SSO) consisting of either a market rate offer (MRO), Section 4928.142 Revised Code, or an electric security plan (ESP), Section 4928.142 Revised Code. FirstEnergy filed an application for approval of an ESP on March 23, 2010. A majority of the parties in the case entered into an original stipulation and two supplemental stipulations (collectively, the Combined Stipulation), and, after a hearing, the Public Utilities Commission of Ohio (Commission) issued an Opinion and Order approving the Combined Stipulation in its entirety.

As part of its Opinion and Order, the Commission approved the establishment of the Delivery Capital Recovery (DCR) Rider, effective January 1, 2012, to be updated and reconciled quarterly. The Opinion and Order allowed the Companies the opportunity to recover property taxes, commercial activity tax, and associated income taxes, and to earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plant, including allocated general plant from FirstEnergy Service Company, which was not included in the rate base determined in the Opinion and Order of January 21, 2009, in Case No. 07-551-EL-AIR (last rate case). On April 13, 2012, FirstEnergy filed an application for its next ESP which was largely an extension of the Combined Stipulation, which the Commission approved, with modifications, on July 18, 2012, in Case No. 12-1230-EL-SSO.

Under the agreement, FirstEnergy agreed to submit to an annual audit review of its Rider DCR for the purpose of determining accuracy and reasonableness of the amounts for which recovery is sought. The agreement also stipulated that, at the Commission's discretion, either an independent third party auditor or the Commission's Staff would conduct the annual audit review.

Excerpts of the Rider DCR provisions within the Opinion and Orders and Combined Stipulation are included within Appendix A. Appendix B contains a list of abbreviations and acronyms used within this report.

The Commission's Request for Proposal (RFP) sought proposals to audit and attest to the accuracy and reasonableness of FirstEnergy's compliance with its Commission-approved Rider DCR since the Companies' last Rider DCR Compliance Audit. Blue Ridge submitted a proposal and was selected to perform the 2013 compliance audit. Blue Ridge also performed the 2011 and 2012 Rider DCR compliance audits covering plant in service since the last distribution rate case (the audits covered 6/1/2007 through 12/31/2012). The recommendations accepted by the Commission from the prior report are discussed later in this document.

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PURPOSE OF PROJECT

As defined in the RFP, the purpose of the project included the following:

- Audit and attest to the accuracy and reasonableness of FirstEnergy's compliance with its Commission-approved Rider DCR with regard to the return earned on plant-in-service since the Companies' last Rider DCR Compliance Audit
- Identify capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions to ensure they are excluded from Rider DCR
- Identify, quantify, and explain any significant net plant increase within individual accounts

PROJECT SCOPE

The project scope as defined in the RFP will address two areas:

Scope Area 1: Determine if FirstEnergy has implemented its Commission-approved Rider DCR and is in compliance with the Combined Stipulation agreement set forth in *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 10-388-EL-SSO, et al., Opinion and Order (Case No. 10-388).

Scope Area 2: Examine the effects of the merger between FirstEnergy and Allegheny Energy to determine that there are no net job losses at the Companies or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio, per Commission order in 10-388-EL-SSO, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

AUDIT STANDARD

Blue Ridge used the following standard during the course of the audit: "The audit shall include a review to confirm that the amounts for which recovery is sought are not unreasonable. The determination of whether the amounts for which recovery is sought are not unreasonable shall be determined in light of the facts and circumstances known to the Companies at the time such expenditures were committed."¹

INFORMATION REVIEWED

Blue Ridge reviewed the following information outlined in the RFP:

- Case Nos. 10-388-EL-SSO and 12-1230-EL-SSO and related stipulation agreements
- Case No. 11-5428-EL-RDR, Compliance Audit of the Delivery Capital Recovery (DCR) Rider
- Applicable testimony
- All additions, retirements, transfers, and adjustments to current date value of plant in service that have occurred for the actual year ended December 31, 2013. The information was included in the February 4, 2014, quarterly filing

¹ Case No. 10-0388-EL-SSO Second Supplemental Stipulation, July 22, 2010, page 4.

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- All appropriate documentation relating to the Companies' compliance with its Commission-approved DCR Rider
- Documentation relating to compliance with Finding (22) in Commission's Finding and Order in Case Nos. 11-5428-EL-RDR and comments filed jointly by Staff and FirstEnergy in 12-2855-EL-RDR

During the audit process, Blue Ridge requested and was provided additional information. A list of the data requested is included as Appendix C. Electronic copies of the information obtained was provided on a compact diskette to Staff.

RIDER DCR COMPLIANCE FILINGS REVIEWED

On November 1, 2013, FirstEnergy Service Company, on behalf of the CEI, OE, and TE, submitted various schedules, bill impacts, and tariff pages that provide the detailed calculations related to plant in service, accumulated depreciation reserve, income taxes, commercial activity taxes, property taxes, rate base, depreciation expense, and the resulting revenue requirement related to the Rider DCR (Compliance Filings) as contemplated within the Combined Stipulation and Order. These schedules included actual amounts through September 30, 2013, and projected balances for the fourth quarter 2014. Blue Ridge used these initial Compliance Filings to initiate its review.

In early February 2014, FirstEnergy submitted actual, year-ended-December 31, 2013, Rider DCR Compliance Filings. These February filings included actual amounts through the end of 2013 and projected balances for the first quarter of 2014 (through March 31, 2014). Unless otherwise specified, this report focuses upon the February 2014 filings.

The following summarizes Rider DCR Revenue Requirements requested by each of the FirstEnergy operating companies.

Table 10: Rider DCR Revenue Requirements Actual 12/31/13 with Projections through 3/31/14²

Operating Company	Revenue Requirements		
	Actual 12/31/2013	Projected 3/31/2014	Annual Based on 3/31/14
Cleveland Electric Illuminating Company	\$ 88,802,689	\$ 2,170,093	\$ 90,972,782
Ohio Edison Company	\$ 88,541,850	\$ 2,217,839	\$ 90,759,689
The Toledo Edison Company	\$ 24,202,945	\$ 528,704	\$ 24,731,649
Total	\$ 201,547,484	\$ 4,916,636	\$ 206,464,120

VARIANCE ANALYSES, TRANSACTIONAL TESTING, AND OTHER ANALYSES

To identify, quantify, and explain any significant net plant increases within the individual accounts, Blue Ridge performed account variance analyses. The Company was asked to explain any significant changes. The results of the analyses are included under the section labeled Variance Analysis.

In addition, Blue Ridge selected a sample of work orders from the population of work orders that support the gross plant in service for detailed transactional testing. The sample was selected using a statistically valid sampling technique that would allow conclusions to be drawn in regard to

² WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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the total population. Additional work orders were selected based on professional judgment. The results of the transactional testing are included in the section labeled Gross Plant in Service.

Blue Ridge also performed various analyses, including mathematical verifications and source data validation, of the multitude of schedules that support the Rider DCR Compliance Filings. The report addresses each component of the Rider DCR and the results of these analyses are included within each component's section.

A list of Blue Ridge's workpapers is included in Appendix D. Electronic copies were provided to the Staff of the Public Utilities Commission of Ohio and the Companies.

RECOMMENDATIONS FROM PRIOR COMPLIANCE AUDIT AND STATUS

Blue Ridge performed the 2012 Rider DCR compliance audit that covered capital additions during calendar year 2012. Blue Ridge's report included several findings and recommendations and was filed in Case No. 12-2855-EL-RDR. The following includes the recommendations from the 2012 audit, FirstEnergy's responses, and Blue Ridge's comments based upon observations from this compliance audit.

- a) On Page 14 of the Report, Blue Ridge recommended that the Companies include quantification of any increase in efficiency and savings within its Information Technology (IT) project justifications.

FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.³ The Companies elaborated that projects included in the 2013 budget that are subject to the current audit were planned in the second and third quarter 2012, and therefore, did not include quantification of any benefits due to the timing of the audit recommendation. Quantification of potential benefits will be included in future project justifications for IT projects that are justified on the basis of an increase in efficiency and savings.⁴

Blue Ridge's Comments: The Companies have agreed to the recommendation and compliance should be confirmed in the next Rider DCR compliance audit.

- b) On Page 14 of the Report, Blue Ridge found that of the 90 work orders tested, 12 had errors. On Page 15 of the Report, Blue Ridge found that Ohio Edison and Toledo Edison's Rider DCR inappropriately includes two Pennsylvania-related items in accumulated deferred income taxes (ADIT). The total estimated impact to the Rider DCR of Blue Ridge's findings associated with the work order transactional testing and ADIT is a reduction of approximately \$470,614 in the Rider DCR annual revenue requirement. Blue Ridge recommended that the Companies correct the errors identified by Blue Ridge and adjust Rider DCR accordingly. Rider DCR effective July 1, 2013, incorporates these adjustments.

³ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Ohio Operating Companies.

⁴ FirstEnergy response to Data Request BRC 3-1a CONFIDENTIAL.

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FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.⁵

Blue Ridge's Comments: Blue Ridge confirmed that the adjustments were appropriately made.⁶

- c) On Page 16, Blue Ridge recommended that the Commission consider an updated depreciation study be conducted as the last approved study was based on balances as of May 31, 2007. Staff recommends the Commission direct the Companies to submit this study to Staff no later than June 1, 2015.

FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.⁷ The Companies have had preliminary discussions on implementation and are working to meet the agreed-upon deadline.⁸

Blue Ridge's Comments: The Companies are working toward meeting the June 1, 2015, deadline, which occurs after the submission of this report. Blue Ridge recommends that this recommendation carry forward until completed.

- d) On Page 25, Blue Ridge recommended that the Companies continue to closely monitor IT project planning and implementation.

FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.⁹ The Companies elaborated that the IT Program Management Office meets twice a month to review and report on (1) Project completion percentage, (2) Schedule health, (3) Risk health, (4) Open issues, (5) Project dates (start/end) as well as any emergent issues or risks since the last Program Management Office meeting. In the second quarter 2014, the Program Management Office will add a Financial Health indicator to be covered at future meetings. For key projects, IT Senior Leadership and Project sponsors attend the review meeting.¹⁰

Blue Ridge's Comments: The Companies actions are not unreasonable.

- e) On Page 26, Blue Ridge recommended that the Companies continue their efforts to reduce the unitization backlog before the next audit to reduce the potential for over or under accrual of depreciation.

FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.¹¹ In 2013, the Companies reduced the total number of work

⁵ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Ohio Operating Companies.

⁶ FirstEnergy's response to Data Request BRC-1-10, Attachment 1-Confidential and BRC-4-4 Attachment 1-Confidential.

⁷ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.

⁸ FirstEnergy's response to Data Request 3-1-b.

⁹ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.

¹⁰ FirstEnergy's response to Data Request BRC 3-1c CONFIDENTIAL.

¹¹ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.

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orders across the Companies included in the backlog by 73% since the prior Rider DCR audit.¹²

Blue Ridge's Comments: Since the last audit, the Companies made significant progress in reducing the overall number of work orders pending unitization. Of significance is the Companies' reduction of the number of work orders that are 15 months or older from the last audit as shown in the following table. The number has been reduced as noted in the following chart.

Table 11: Change in Work Order Unitization Backlog (15 Months or Older) 2012-2013

Period	CEI	OE	TE	Total
12/31/12	6,826	9,987	6,540	23,353
12/31/13	497	615	234	1,346
% Change	93%	94%	96%	94%

Blue Ridge found that the Companies have made significant progress in reducing the unitization backlog from the prior audits. The Companies should continue their efforts to reduce the overall work order backlog.

- f) On Page 46, Blue Ridge recommended that the sample of December 2012 work orders be included in the test sample for the 2013 compliance audit.

FirstEnergy Response: Staff and the Companies agree that the Commission should adopt Blue Ridge's recommendation.¹³

Blue Ridge's Comments: Blue Ridge included the December 2012 work orders within the testing performed in connection with the 2013 compliance audit.

¹² FirstEnergy's response to Data Request BRC 3-1-d.

¹³ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.

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FINDINGS AND RECOMMENDATIONS

SCOPE AREA 1

Scope Area 1 Objective: Determine if the Companies implemented their Commission-approved DCR Rider and if the Companies are in compliance with the Combined Stipulation agreement set forth in the Opinion and Order issued in Case No. 10-388-EL-SSO

This section of the report addresses Scope Area 1 which considers whether the Companies implemented their Commission-approved DCR Rider and whether the Companies are in compliance with the Combined Stipulation agreement set forth in the Opinion and Order issued in Case No. 10-388-EL-SSO. The section includes an overview of the processes' and controls' policies and procedures that affect the plant balances and expense categories that feed into the Rider DCR calculations. Various variance analyses review the significant changes in net plant by individual FERC account.

Each component of Rider DCR is investigated separately. The specific exclusions are addressed in Riders LEX, EDR, AMI, and General Exclusions and are followed by our analysis of gross plant in service, accumulated reserve for depreciation, accumulated deferred income taxes, depreciation expense, property tax expense, allocated Service Company, commercial activity tax and income taxes, and the return component. Scope Area 1 concludes with a review of the calculation of revenue requirements, followed by a review of the projections for the first quarter 2014.

Blue Ridge's review found several items that have an impact on Rider DCR Revenue Requirements, including removal of several work orders that should not have been in the Rider DCR and other adjustments found during the detailed transactional work order testing and field inspections. Blue Ridge is recommending that gross plant be reduced by \$5,988,478 and the reserve be increased by \$155,721 for a net plant reduction of \$6,144,199. Explanations of the issues are provided in the appropriate sections. The flow through of these adjustments has the following impact on the DCR.

Table 12: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement¹⁴

Company	As Filed Total	AMI, ATSI, Generation Exclusions	Work Order Adjustments	Modified DCR	Change in Rider DCR
CEI	\$ 90,972,782	\$ (434,258)	\$ (15,862)	\$ 90,522,661	\$ (450,121)
OE	\$ 90,759,689	\$ (135,950)	\$ (43,873)	\$ 90,579,866	\$ (179,823)
TE	\$ 24,731,649	\$ -	\$ (437,233)	\$ 24,294,417	\$ (437,233)
Total	\$206,464,120	\$ (570,208)	\$ (496,968)	\$205,396,944	\$ (1,067,176)

Authority to Recover Components of Rider DCR

Blue Ridge reviewed the Commission Opinion and Order in Case No. 10-388-EL-SSO, dated August 25, 2010, the Combined Stipulation, and the Rider DCR relevant testimony and hearing transcripts. The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the authority for what should be included within Rider DCR. Section B.2 of the Combined Stipulation specifically states the following are to be included:

¹⁴ WP FEOH Adjustments to FE Rider DCR Compliance Filing 2-4-14 – Confidential.

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Effective January 1, 2012, a new rider, hereinafter referred to as Rider DCR ("Delivery Capital Recovery"), will be established to provide the Companies with the opportunity to recover property taxes, Commercial Activity Tax and associated income taxes and earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plant including allocated general plant from FirstEnergy Service Company that supports the Companies, which was not included in the rate base determined in the Opinion and Order of January 21, 2009 in Case No. 07-551-EL-AIR et al. ("last distribution rate case").¹⁵

The net capital additions included for recognition under Rider DCR will reflect gross plant in service not approved in the Companies' last distribution rate case less growth in accumulated depreciation reserve and accumulated deferred income taxes associated with plant in service since the Companies' last distribution rate case.¹⁶

The filing shall show the Plant in Service account balances and accumulated depreciation reserve balances compared to that approved in the last distribution rate case. The expenditures reflected in the filing shall be broken down by the Plant in Service Account Numbers associated with Account Titles for subtransmission, distribution, general and intangible plant, including allocated general plant from FirstEnergy Service Company that supports the Companies based on allocations used in the Companies' last distribution rate case. Net capital additions for Plant in Service for General Plant shall be included in the DCR so long as there are no net job losses at the Companies as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. For each account title the Companies shall provide the plant in service and accumulated depreciation reserve for the period prior to the adjustment period as well as during the adjustment period. The filing shall also include a detailed calculation of the depreciation expense and accumulated depreciation impact as a result of the capital additions. The Companies will provide the information on an individual Company basis.¹⁷

PROCESSES AND CONTROLS

- A. Review and update the processes and controls identified during the last audit that affect the costs in Rider DCR to validate that FirstEnergy exhibits reasonable management practices associated with the investment funded by Rider DCR
- B. Determine if the Companies' cost controls related to the items under review are adequate and reasonable.

Blue Ridge did not perform a management audit, but did review FirstEnergy's processes and controls to ensure that they were sufficient so as not to adversely affect the costs in Rider DCR. Beginning from a basis of last year's review of the 2012 FirstEnergy Rider DCR processes and controls, Blue Ridge reviewed documents relied upon for that audit, supplemented with changes to those processes and controls that the Companies have made since that audit. Based on the

¹⁵ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

¹⁶ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

¹⁷ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.

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documents reviewed, Blue Ridge was able to update its understanding of the Companies' processes and controls that affect each of the plant balances and expense categories within Rider DCR. Blue Ridge found that the Companies' cost controls were adequate and not unreasonable. The following is a summary of the areas Blue Ridge reviewed.

Policies and Procedures

Blue Ridge reviewed post-2012 modifications to policies, procedures, and/or process flow diagrams for the various processes that affect the categories that feed into the Rider DCR calculations.

1. Plant Account
 - a. Capitalization
 - b. Preparation and approval of work orders
 - c. Recording of CWIP including the systems that feed the CWIP trial balance
 - d. Application of AFUDC
 - e. Recording and closing of additions, retirements, cost of removal, and salvage in plant
 - f. Unitization process based on the retirement unit catalog
 - g. Application of depreciation
 - h. Contributions in Aid of Construction (CIAC)
2. Purchasing/Procurement
3. Accounts Payable/Disbursements
4. Accounting/Journal Entries
5. Payroll (direct charged and allocated to plant)
6. Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax)
7. Insurance Recovery
8. Property Taxes
9. Service Company Allocations
10. Budgeting/Projections

As a result of our review, Blue Ridge notes the following regarding processes that affect the Rider DCR.

Capitalization (1.a above); Plant Assets, including CWIP, Unitization, and Depreciation (1.c, 1.e, 1.f, 1.g); Accounting Entries, including Accounts Payable and Payroll (3, 4, 5)¹⁸

The Companies regard Capitalization as the procedure by which the total value of a capital asset of specified qualifications is assigned to its Balance Sheet classification of "Property, Plant and Equipment." This value is expensed to the Income Statement over its expected life by means of depreciation expense. Specifically, the Capitalization policy states, "Costs which result in additions or improvements of a permanent character which add value to the property shall be capitalized if a) the useful life is greater than one year and b) costs are greater than \$1,000 (excluding computer software). Computer software shall be capitalized for costs greater than \$5,000.... All other costs shall be expensed."¹⁹

¹⁸ FirstEnergy's response to 2011 audit Data Request BRC 1-3a, Attachment 1, Capitalization Policy- Confidential.

¹⁹ FirstEnergy's response to 2011 audit Data Request BRC 1-3a, Attachment 1, Capitalization Policy - Confidential.

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The Capitalization Policy also holds the relevant policies for plant additions, retirements, removal cost, and salvage applicable to Rider DCR. The policy provides the qualifications for capital additions, which include extensions, enlargements, expansions, or replacements made to an existing asset. Once an asset is capitalized, the Company tracks it using the Continuing Property Records (CPR). This CPR is a PowerPlant²⁰ ledger that contains a full audit trail for all plant transactions (additions, retirements, adjustments, inter & intra company transfers, etc.). Retirements (classified as such according to specific criteria) are accounted for by crediting their original cost to its plant account. The Retirement Unit Catalog is a listing within PowerPlant of all retirement units. Based on a specific set of criteria, these units are identified as retirement units to differentiate between replacements or additions chargeable to plant accounts (capital) and those chargeable to maintenance accounts (expense).

Construction work in process (CWIP) is the account to which capitalized costs are charged during the construction phase. Following construction, when the asset is ready to be placed into service, the cost is transferred to the completed construction not classified account (unclassified). Finally, after unitization, the asset is transferred to electric plant in service (classified).

FirstEnergy noted that no significant procedural or policy changes occurred in regard to the capitalization policy in 2013.²¹ However, FirstEnergy did revise Accounting Bulletin M-1 Employee Expense Accounts and the SOP #FE-EMP-EXP (FirstEnergy Corporate Employee Expense Reporting) both on September 3, 2013.²² The revisions were to incorporate purchasing card disclaimer and Professional Travel update. Blue Ridge reviewed the changes. Additionally, Accounts Payable Special Handling Checks policy was implemented on December 23, 2013.²³ Special handling checks are for instances in which an employee must deliver a check to the vendor directly rather than through automatic processing. This manual intervention does delay vendor payment, weaken the segregation of duty controls, and increases the risk for fraud. However, certain documents such as tax returns and other legal documents require such manual intervention. This policy provides the necessary procedural requirement to mitigate the involved risks.

Preparation and Approval of Work Orders^{24 25}

Blue Ridge reviewed both the Work Management Process flow diagram as well as the CREWS (Customer Request Work Scheduling System) Work Request Type Narratives. Elements such as project size and contractor involvement affect the process for managing the work. According to the CR in the CREWS name (*Customer Request*), the system would seemingly include only work specifically initiated by request of customers. However, the system does include routine preventive and corrective maintenance as well.

The CREWS Work Request Type Narratives categorize work based on area (e.g., Distribution, Forestry, Meter, Substation) and, then, within those categories, by more specific activity.

²⁰ "PowerPlant" is a commercially available computer software application used in plant accounting.

²¹ FirstEnergy's response to Data Request BRC Set 1-INT-005a-Confidential.

²² FirstEnergy's response to Data Request BRC Set 1-INT-005c and Set 1-INT-005 Attachment 1-Confidential and Attachment 2-Confidential.

²³ FirstEnergy's response to Data Request BRC Set 1-INT-005 Attachment 3-Confidential.

²⁴ FirstEnergy's response to 2011 audit Data Request BRC 1-3b, Attachment 1, Work Management Process - Confidential.

²⁵ FirstEnergy's response to 2011 audit Data Request BRC 1-3b, Attachment 2, CREWS Work Request Narratives – Confidential.

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FirstEnergy did not modify this process for its Ohio Operating Companies in 2013. However, one process change occurred for the Service Company. The Lotus Note WBS Request database was replaced by WBS Request Tool as part of the Office Productivity Project. However, the process and workflow for requesting a new WBS remains the same.²⁶

Application of AFUDC²⁷

FirstEnergy has a policy in place to account for capitalized financing costs during construction. Three conditions must be met: (1) expenditures for the asset must have been made; (2) activities necessary to prepare the asset for its intended use must be in progress; and (3) interest cost must be incurring. Interest capitalization ceases when any of these conditions ceases or, of course, when construction is complete.

FirstEnergy did not modify this process subsequent to the 2012 Rider DCR audit.²⁸

Contributions in Aid of Construction (CIAC)²⁹

Regarding Contributions in Aid of Construction, Blue Ridge examined the Companies' Invoicing Process Flow Chart that follows work initiation, authorization, scheduling, and completion in accordance with funding—invoicing, payment, and recording.

FirstEnergy did not modify this process subsequent to the 2012 Rider DCR audit.³⁰

Purchasing/Procurement³¹

Blue Ridge reviewed FirstEnergy's procedure by which the Companies' Supply Chain prepares, reviews, approves, and processes procurement documents for all materials, equipment, and services. The procedure applies to all business units and operating companies within FirstEnergy. The procedure identifies minimum requirements, exceptions, responsibilities, and actual process steps. Process steps include justifications, requisitions, approvals, buyer activity, sourcing strategy, bidding process, award, execution, and order maintenance. FirstEnergy modified their Enterprise Sourcing of Materials and Services procedure (SCPR-SRC001) in April 2012.³² However, no additional modifications occurred in 2013.³³

²⁶ FirstEnergy's response to Data Request BRC Set 1-INT-005a-Confidential.

²⁷ FirstEnergy's response to 2011 audit Data Request BRC 1-3d, Attachment 1, Accounting For Capitalized Financing Costs During Construction – Confidential.

²⁸ FirstEnergy's response to Data Request BRC Set 1-INT-005a-Confidential.

²⁹ FirstEnergy's response to 2011 audit Data Request BRC 1-3e, Attachment 1, Invoicing Process Flow Chart – Confidential.

³⁰ FirstEnergy's response to Data Request BRC Set 1-INT-005a-Confidential.

³¹ FirstEnergy's response to 2011 audit Data Request BRC 1-3h, Attachment 1, Procedure for Enterprise Sourcing of Materials and Services – Confidential.

³² FirstEnergy's response to 2012 Data Request BRC 1-3b Attachment 1, Procedure for Enterprise Sourcing of Materials and Services – Confidential.

³³ FirstEnergy's response to Data Request BRC Set 1-INT-005b-Confidential.

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Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax)³⁴

In its Accounting for Income Taxes procedure, the Company confirmed that tax reporting and disclosing of both current and future income taxes in their financial statements is in accordance with generally accepted accounting principles.

FirstEnergy did not modify this process subsequent to the 2012 Rider DCR audit.³⁵

Insurance Recovery³⁶

According to the Company, Insurance Risk Management (IRM) coordinates all large property and non-subrogation insurance recoveries. IRM oversees the process from notification to them by field personnel when an event occurs, through evaluation, claim, gathering of costs and expenses, and settlement, and finally culminating in ensuring proper accounting of recoveries.

FirstEnergy did not modify this process subsequent to the 2012 Rider DCR audit.³⁷

Property Taxes³⁸

Blue Ridge examined the FirstEnergy desktop procedure for Ohio Property Tax returns. The procedure addresses steps taken in producing property tax schedules.

FirstEnergy did not modify this process subsequent to the 2012 Rider DCR audit.³⁹

Service Company Allocations

According to the Stipulation in Case 10-388-EL-SSO, expenditures reflected in the quarterly filing will be "broken down by the Plant in Service Accounts Numbers associated with Account Titles for subtransmission, distribution, general and intangible plant, including allocated general plant from FirstEnergy Service Company that supports the Companies based on allocations used in the Companies' last distribution rate case."⁴⁰ The most recent base distribution rate case is Case No. 07-0551-EL-AIR. There have been no changes to these allocation factors since the time of the 2012 Rider DCR audit.⁴¹

³⁴ FirstEnergy's response to 2011 audit Data Request BRC 1-3m, Attachment 1, Income Tax Policy and Procedure – Confidential.

³⁵ FirstEnergy's response to Data Request BRC 1-INT-005f-Confidential.

³⁶ FirstEnergy's response to 2011 audit Data Request BRC 1-3f.

³⁷ FirstEnergy's response to Data Request BRC Set 1-INT-005g-Confidential.

³⁸ FirstEnergy's response to 2011 audit Data Request BRC 1-3n, Attachment 1, Ohio Property Tax Returns – Confidential.

³⁹ FirstEnergy's response to Data Request BRC Set 1-INT-005h-Confidential.

⁴⁰ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.

⁴¹ FirstEnergy's response to Data Request BRC Set 1-INT-005i-Confidential.

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Budgeting/Projections^{42 43 44}

The Rider DCR Compliance Filings include three months of projected data for the first quarter 2014. The estimate is based upon the March 2014 Budget. Blue Ridge reviewed the Companies' capital budget process to understand whether that process was sound and results in reasonable projections of expected capital expenditures that would be included in the Rider DCR. Blue Ridge sought to understand the Companies' processes and practices for justifying and approving the capital funds that would be expended on FirstEnergy's transmission, distribution, general, and intangible gross plant. The policies, procedures, and process flow diagrams showing key controls related to, among other things, capital budgeting and projections were reviewed. Blue Ridge also reviewed whether the cost controls were adequate and reasonable.

The budgeting activity of the Companies, with regard to its impact on Rider DCR, rests within a well-documented process flow. Capital Portfolio development and capital management highlight the process steps from business unit initiation, through decision points, and to the final consolidation and approvals necessary to complete the process. The Capital Planning cycle is aligned with the Integrated Business Planning calendar. The Capital Management Group guides the process, including entering the business units' settled capital target into the capital planning database, allowing the business units to structure their portfolios accordingly.

FirstEnergy's capital budgeting is known internally as "Multi-Year Enterprise Capital Portfolio."⁴⁵ Individual business unit programs drive the approval of the capital budgets at the business unit level.⁴⁶ In addition, the procedure for creating and acquiring approval for the capital portfolio states, "Business Units will utilize internal review and approval processes to analyze and create a prioritized Capital Portfolio."⁴⁷

FirstEnergy did not modify this process subsequent to the 2011 Rider DCR audit.⁴⁸

Development of Rider DCR Compliance Filings

The Rider DCR schedules are compiled and calculated using Microsoft Excel® spreadsheets by a Rates Analyst within the FirstEnergy Service Company's Rates and Regulatory Affairs Department. The Analyst coordinates the gathering of the data and performs the calculations and relies on the

⁴² FirstEnergy's response to 2011 audit Data Request BRC 1-3c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Confidential.

⁴³ FirstEnergy's response to 2011 audit Data Request BRC 1-3c, Attachment 2, FE Capital Portfolio Development and Capital Management Procedure – Confidential.

⁴⁴ FirstEnergy's response to 2011 audit Data Request BRC 1-3c, Attachment 3, Energy Delivery Capital Allocation Process – Confidential.

⁴⁵ FirstEnergy's response to 2011 audit BRC 1-3c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Confidential.

⁴⁶ FirstEnergy's response to 2011 audit Data Request BRC 1-3c, Attachment 2, FE Capital Portfolio Development and Capital Management Procedure – Confidential.

⁴⁷ FirstEnergy's response to 2011 audit Data Request BRC 1-3c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Section C.2 – Confidential.

⁴⁸ FirstEnergy's response to Data Request BRC Set 1-INT-005j CONFIDENTIAL.

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provider of the information for accuracy. The Rider DCR Compliance filings are comprised of a number of schedules. The schedules and information source are summarized as follows:⁴⁹

- Revenue Requirements Summary – calculated by the Rates Department
- DCR Revenue Requirement Calculation – gross plant, reserve, ADIT, depreciation, and property tax expense roll up from detailed schedules; commercial activity tax (CAT) and income tax rates are provided by the Tax Department; and revenue requirements are calculated by the Rates Department
- Plant in Service – Plant Accounting
- Reserve for Depreciation – Plant Accounting
- Accumulated Deferred Income Taxes (ADIT) Balances – Tax Department
- Depreciation Accrual Rates – Plant Accounting provides the gross plant balances; accrual rates are based upon the rates established in Case No. 07-551-EL-AIR, et al.
- Property Tax Calculations – Tax Department
- Summary of Exclusions – primarily from Plant Accounting
- Service Company Allocation Summary – gross plant, reserve, ADIT, depreciation and property tax expense roll up from detailed schedules; allocations are based upon last distribution rate case, Case No. 07-551-EL-AIR, et al.
- Service Company Depreciation Accrual Rates – rates are based upon the weighted average of the approved depreciation rates for the three Ohio Operating Companies
- Service Company Property Tax Rate – rates are based upon the weighted average of the property tax rates for the three Ohio Operating Companies; True Value Percentages & Capitalized Interest Workpaper – Tax Department
- Intangible Depreciation Expense – intangible plant balances provided by Plant Accounting; accrual rates are based on the last distribution rate case, Case No. 07-551-EL-AIR, et al.
- Rider DCR/Rate Design – the Case No. 10-388-EL-SSO Combined Stipulation provides the rate design for Rider DCR
- 2014 Billing Units – Forecasting group in the Rates Department (The most recent forecast was used)
- Typical Bill Comparisons – prepared by the Rates Department to reflect the updated rates for Rider DCR
- Rider DCR Tariff – prepared by the Rates Department to reflect the updated rates for Rider DCR

After the Analyst prepares the Rider DCR schedules, they undergo a three-tiered review process. The Analyst completes the initial review. The Manager of Revenue Requirements (who is also trained to prepare the Rider DCR filings) and the Director of OH Rates and Regulatory Affairs complete reviews two and three prior to submission to the Commission. The Vice President of Rates and Regulatory Affairs reviews the filing as needed.

The description of this process parallels the process from previous years; however, FirstEnergy has made one change of note regarding the inclusion of Removal Work in Progress

⁴⁹ Summary of the process repeats process as recorded in previous Rider DCR Compliance Audit Reports. See Compliance Audit of the 2011 and 2012 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company.

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(RWIP) in the Rider DCR reserve balances.⁵⁰ FirstEnergy explained the reason for this change as follows:⁵¹

The gross plant balances included in Rider DCR are comprised of Accounts 101 (Plant In Service) and 106 (Construction Completed Not Yet Classified). Within the PowerPlant system, Reserve balances are comprised of Account 108 (Accumulated Provision for Depreciation of Electric Plant) and Removal Work in Progress (RWIP). Dollars spent on removal work are not moved from RWIP to Account 108 until the removal work is unitized. Prior to the Companies' August 2, 2013 Rider DCR filing, the Reserve balances used for Rider DCR consisted of the unitized Account 108 balances only, even though the Gross Plant balances included both unitized (Account 101) and un-unitized (Account 106) work. This treatment resulted in a timing lag between when the un-unitized retirement activity was recognized as a credit to gross plant and when the un-unitized removal activity was recognized as a debit to Reserve.

Starting with the Companies' August 2, 2013 Rider DCR filing, RWIP was included in rate base in order to remove this timing lag between when un-unitized retirements and un-unitized removal activity are recognized in net plant for the purposes of Rider DCR.

Internal Audit and SOX Compliance

Blue Ridge reviewed the list of internal audits performed in 2013 regarding controls that would affect Rider DCR.⁵² In particular, we examined and were, for the most part, satisfied with the findings and recommendations resulting from four audits: Audit No. 22632, Audit No. 23316, Audit No. 23365, and Audit No. 23475.⁵³ One concern remains with the Audit Report No. 22632.

A finding from that report is relevant to the Rider DCR for which resolution is still in progress. This issue relates to the true-up for Contribution in Aid of Construction (CIAC) – the reimbursements for some projects which require the customer to share in the cost. When a funding project Work Breakdown Structure (WBS) is changed, the system moves labor and material charges to the new project, but any applicable CIAC remains with the original project. However, when a funding project WBS is changed, both charges and reimbursements should follow.

Currently, charges and reimbursements remaining with the original project are monitored and moved via a manual journal entry by Accounting Policy and Control. Changes must be made to the PowerPlant program to ensure that the movement of remaining charges and reimbursement dollars to the new project operates as intended. This issue will be addressed as part of the PowerPlant 10.4.1 Upgrade Project.

The current risk, then, is that a CIAC could remain with the wrong project. The potential impacts of this possibility include the following:

1. If the CIAC belonged to a work order charged to a different FERC account, depreciation expense could be overstated or understated.

⁵⁰ FirstEnergy's response to Data Request BRC Set 9-INT-006.

⁵¹ FirstEnergy's response to Data Request BRC Set 4-INT-001 (a) CONFIDENTIAL.

⁵² FirstEnergy's response to Data Request BRC Set 1-INT-011 Confidential w attachment.

⁵³ FirstEnergy's response to Data Request BRC Set 3-INT-010 Confidential.

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2. The CIAC could be applied to an incorrect retirement unit in which case the potential exists that retirements could be under or overstated.
3. Charging CIACs to an incorrect FERC account could have an impact on the depreciation reserve balance for depreciation study purposes. If the misstatement were material, it could mean that an incorrect depreciation rate might be recommended based on an analysis of actual reserves to theoretical reserves.

Blue Ridge recommends that FirstEnergy carefully monitor the current manual process used by Accounting Policy and Control to move CIACs to ensure that the CIACs are applied to the correct work orders and FERC accounts.

Additionally, FirstEnergy conducted several SOX compliance tests during 2013.⁵⁴ The Property Accounting tests revealed two control deficiencies related to AFUDC rates in PowerPlant.⁵⁵ The deficiencies were identical having to do with a December issue with the handling of AFUDC in PowerPlant due to a system configuration change requirement. A temporary control is being put into place until a final resolution as part of the PowerPlant upgrade is put into place in August 2014. Therefore, Blue Ridge observed that FirstEnergy has noted the deficiencies and has responded with remediation efforts to resolve the problems. However, Blue Ridge recommends that the resolution to this issue be reviewed in the next DCR audit.

FirstEnergy Information Technology Overview

FirstEnergy manages Information Technology (IT) projects through a formalized process. The process includes standardized templates to describe and manage the three basic management categories for IT projects: charter (establishment), scorecard (status, health, issues, and risks), and changes (through change requests). IT's Project Management Office meets biweekly to review IT projects. During these biweekly reviews, the scorecard is used to help track the actual spend on the projects relative to the original budget.

IT project cost definition begins with project estimates for labor and other-than-labor costs. These estimates become the initial budget for the project. The project manager controls the project's refinement as the project scope is finalized. The project manager manages this refinement through a change control process in which justification for changes (resource hours, cost, and schedule) must be provided and approvals for the changes must be received from senior IT management. While a requested change may be for a specific project, the review and approval process also takes into consideration any impacts on the overall portfolio for IT projects. If changes to an individual project are approved, FirstEnergy manages the project according to the new forecast (both cost and schedule).⁵⁶

In the 2012 Rider DCR Audit report, Blue Ridge recommended that the Companies include quantification of any increase in efficiency and savings within its IT project justifications. Although the timing of last year's report was too late for projects in the 2013 budget, FirstEnergy has noted

⁵⁴ FirstEnergy's response to Data Request BRC Set 1-INT-012, Attachment 1-2013 Sox tests FEU Accounting-Confidential, Attachment 2-2013 Sox Tests Property Accounting-Confidential.pdf, and Attachment 3-2013 Sox Tests Disclosure-Confidential.pdf.

⁵⁵ FirstEnergy's response to Data Request BRC Set 9-002 Confidential.

⁵⁶ FirstEnergy's response to Data Request BRC Set 1-INT-032-Confidential.

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that quantifications of potential benefits will be included in future project justifications for IT projects that are justified on the basis of an increase in efficiency and savings.⁵⁷

Blue Ridge also recommended that the Companies continue to closely monitor IT project planning and implementation. FirstEnergy responded that the IT Program Management Office meets twice a month to review and report on (1) Project completion percentage, (2) Schedule health, (3) Risk health, (4) Open issues, (5) Project dates (start / end) as well as any emergent issues or risks since the last Program Management Office meeting. In Q2 2014, the Program Management Office will be adding a Financial Health indicator to be covered at future meetings. IT Senior Leadership and Project sponsors for key projects attend these review meetings.

Joint Owned Facilities⁵⁸

The Companies completed projects under a Joint Build Agreement. These projects involve the installation of fiber optic cable within the Companies' electric power space to help secure transmission of information to and from the Companies' substations, which enhances the Companies' ability to identify and manage power outages. In addition to direct communication with the Companies' substations, these assets are used for internal network communications supporting electric utility operations.

Depending on the primary beneficiary, a Company can budget such Joint Build Agreement projects through its normal individual capital budgeting process or through the normal IT budgeting process at FirstEnergy Service Company. For example, if a new substation is constructed in one of a Company's service territories, the fiber optic cable necessary to facilitate communication with that substation could be included in that Company's capital budget for the project. Alternatively, other projects under the Joint Build Agreement may support corporate communication systems, where the installed fiber optic cable may serve multiple operating companies. In those cases, the Service Company budgets the projects through its normal IT budgeting process.

Regardless of where the budgeting occurs, FirstEnergy Companies complete Joint Build Agreement projects and then record and close them to capital in a manner consistent with other comparable projects. A WBS element is created in SAP and established in the PowerPlant system. If appropriate, a user status on the WBS will also establish the WBS as a capital work order in the PowerPlant system. As charges are accumulated on the WBS elements, the capital portion settles to account 107 – Construction Work in Progress and triggers Allowance for Funds Used During Construction (AFUDC). When the project is completed, the capital amount plus the accumulated AFUDC is placed in service, which triggers a journal entry moving dollars from account 107 to account 106 (in-service not classified). Furthermore, a non-unitized asset is created in the PowerPlant system. Once considered in-service, the amounts are also recorded in the appropriate FERC sub- account(s). The capital work order is ultimately unitized, which assigns the dollars to the proper utility account and retirement unit (asset). A journal entry is passed to SAP crediting account 106 (in-service not classified) and debiting account 101 (in-service classified). For purposes of Rider DCR, only those amounts that are in-service and not recovered through Rider AMI are included in the Rate Base balances used to derive the revenue requirements.

⁵⁷ FirstEnergy's response to Data Request BRC Set 3-INT-001 (a) (c) – Confidential.

⁵⁸ FirstEnergy's response to Data Request BRC Set 1-INT-030-Confidential.

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Conclusion

Blue Ridge was able to obtain an understanding of the Companies' processes and controls that affect each of the categories within Rider DCR. Furthermore, we were satisfied with actions taken with regard to internal audits and the process and control of the prior Rider DCR recommendations. However, the remediation to the deficiencies in the SOX audit testing, which FirstEnergy expects to implement by August 2014, should be reviewed in the next DCR audit. Blue Ridge concluded that FirstEnergy's and the Companies' controls were adequate and not unreasonable.

VARIANCE ANALYSIS

C. Perform a variance analysis to determine the reasonableness of any changes in plant in service balances including additions, retirements, transfers, and adjustments

Year 2013 to Year 2012 Account Comparison

To support identifying, quantifying, and explaining any significant net plant increases within individual accounts, Blue Ridge compared Plant-in-Service account balances (FERC 300-series accounts) for 2013 to those of 2012.

The following table is a summary schedule of the net plant changes by classification of plant (i.e., Transmission, Distribution, General, and Intangible Plant). As this table shows, FirstEnergy's operating companies increased net plant (including allocation of Service Company Plant) by \$62.1 million, \$98.4 million, and \$32.1 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 2.4%, 3.4%, and 3.0% for CE, OE, and TE, respectively.

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Table 13: Adjusted Plant Change from 12/31/2012 to 12/31/2013^{59 60}

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 2012	Adjusted Balance 2013	Difference (c)-(b)	% (d)/(b)
1	<u>The Cleveland Electric Illuminating Company</u>				
2	Transmission	\$ 402,073,781	\$ 404,406,007	\$ 2,332,227	0.6%
3	Distribution	1,986,796,019	2,032,809,244	46,013,225	2.3%
4	General	139,461,313	147,968,643	8,507,329	6.1%
5	Other	47,513,861	47,736,942	223,081	0.5%
6	Service Company Allocated	68,071,119	73,129,621	5,058,502	7.4%
7	Total Cleveland Electric Illuminating Company	\$ 2,643,916,093	\$ 2,706,050,457	\$ 62,134,364	2.4%
8	<u>Ohio Edison Company</u>				
9	Transmission	\$ 205,691,183	\$ 207,528,587	\$ 1,837,404	0.9%
10	Distribution	2,377,366,810	2,463,071,418	85,704,608	3.6%
11	General	153,879,764	158,454,379	4,574,615	3.0%
12	Other	62,326,793	62,524,971	198,178	0.3%
13	Service Company Allocated	82,490,124	88,620,131	6,130,007	7.4%
14	Total Ohio Edison Company	\$ 2,881,754,675	\$ 2,980,199,486	\$ 98,444,812	3.4%
15	<u>The Toledo Edison Company</u>				
16	Transmission	\$ 21,081,920	\$ 21,122,574	\$ 40,654	0.2%
17	Distribution	886,179,925	902,685,571	16,505,646	1.9%
18	General	85,995,119	100,266,353	14,271,234	16.6%
19	Other	23,427,959	22,000,375	(1,427,584)	-6.1%
20	Service Company Allocated	36,310,984	39,009,326	2,698,342	7.4%
21	Total Toledo Edison Company	\$ 1,052,995,907	\$ 1,085,084,198	\$ 32,088,292	3.0%
22	FirstEnergy Ohio Operating Companies	\$ 6,578,666,674	\$ 6,771,334,142	\$ 192,667,467	2.9%

In our analysis of specific account variances from 2012 to 2013, Blue Ridge submitted questions and received responses from FirstEnergy regarding fourteen significant variances among the three FirstEnergy operating companies.⁶¹ Based on FirstEnergy's responses, Blue Ridge's review determined the following:

Regarding Plant in Service

1. CEI account 350 Transmission Plant Land & Land Rights: 2012 balance = \$7,560,063 and 2013 balance = \$5,478,594; difference = \$(2,081,468); decrease 27.5%

Analysis: FirstEnergy noted that the difference in account balance is primarily due to an alternate method of calculating ATSI Land Lease values. After further review, the Companies have determined that the previous methodology used is more appropriate and

⁵⁹ WP FE DCR CF Summary Variance 12 to 13 – Confidential.xls, tab – PIS Summary.

⁶⁰ Source data for the table and its supporting workpaper: 2012 adjusted balance – response to 2012 Data Request BRC 1-7 Attachment 1 FE Rider DCR Compliance Filing 2-1-13 Confidential; 2013 adjusted balance – response to 2013 Data Request BRC SET-1-INT-009 Attachment 1 - FE Rider DCR Compliance Filing 2-14-14 – Confidential.xlsx.

⁶¹ FirstEnergy's response to Data Requests BRC Set 8-INT-1-Confidential, Set 8-INT-2, and Set 8-INT-3.

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will be used in future filings (with a reconciliation calculation to be included in the next filing).⁶² When the methodology is adjusted for the 2013 balance, the variance is reduced to insignificance.

2. CEI account 389 General Plant Land & Land Rights: 2012 balance = \$1,557,505 and 2013 balance = \$2,470,389; difference = \$912,884; increase 58.6%

Analysis: FirstEnergy provided a listing containing two work orders that accounted for the increase in this account based on plant additions regarding land rights.

3. CEI account 397 General Plant Communication Equipment: 2012 balance = \$16,809,454 and 2013 balance = \$21,524,863; difference = \$4,715,408; increase 28.1%

Analysis: Upon review of this variance, the Companies discovered two work orders related to Rider AMI, totaling \$1,918,816 that should have been excluded from the Rider DCR plant balances. The Companies found additional work order activity totaling \$243,145 that is also related to the Smart Grid project. Therefore, the total gross plant that should have been excluded from Rider DCR is \$2,161,961.^{63 64}

Blue Ridge found that inclusion of these AMI project work orders in the Rider DCR results in a gross plant overstatement of \$2,161,961 and an overstated reserve of \$33,130.⁶⁵ The Companies stated that they are working to identify how such work orders were recorded in the depreciation groups specific to Rider DCR instead of groups specific to Rider AMI so corrective action can be implemented. The Companies indicated that they will include an adjustment in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR plant balances.⁶⁶

4. OE account 350 Transmission Plant Land & Land Rights: 2012 balance = \$8,266,520 and 2013 balance = \$6,819,668; difference = \$(1,446,853); decrease 17.5%

Analysis: As noted in #1 above, the change here is primarily attributable to the change in methodology for calculating ATSI Land Lease values. Reversal to the previous method along with accompanying reconciliation will be included in the next filing.

5. OE account 397 General Plant Communication Equipment: 2012 balance = \$17,811,875 and 2013 balance = \$21,666,415; difference = \$3,854,541; increase 21.6%

Analysis: FirstEnergy provided a list of the work orders making up the change to this account. The bulk of this variance is due to a blanket work order for ITS equipment. The project involves reconfiguring front-end processor architecture to support digital

⁶² FirstEnergy's response to Data Requests BRC Set 3-INT-6-Confidential.

⁶³ FirstEnergy's response to Data Request BRCS 8-001, c CONFIDENTIAL.

⁶⁴ While FERC account 397 includes most of the dollars associated with these work orders, the following other FERC accounts were also impacted: 355, 361, 362, 364, 365, 367, 368, 369, 370, and 373.

⁶⁵ FirstEnergy's response to Data Request BRC 13-2-Confidential and WP FEOH Adjustments to Plant and Reserve-Confidential.

⁶⁶ FirstEnergy response to Data Request BRCS 8-1,c CONFIDENTIAL.

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communications to critical substations, interconnections, and power—a regulatory requirement.⁶⁷

6. TE account 350 Transmission Plant Land & Land Rights: 2012 balance = \$1,719,414 and 2013 balance = \$974,053; difference = \$(745,361); decrease 43.3%

Analysis: As noted in #1 above, the change here is attributable to the change in methodology for calculating ATSI Land Lease values. Reversal to the previous method along with accompanying reconciliation will be included in the next filing.

Plant in Service variance conclusion: Blue Ridge agrees and recommends with FirstEnergy that an adjustment should be made in the next Rider DCR filing regarding account 397 General Plant Communication Equipment in #3 above to remove the AMI projects. Additionally, Blue Ridge agrees and recommends with FirstEnergy that the ATSI Land Lease calculation methodology should revert to the previous methodology for future filings and a reconciliation calculation should be included in the next filing. Besides these issues, Blue Ridge found that the other activity involved in the variances was not unreasonable.

Regarding Reserve

7. CEI account 369 Distribution Plant Services: 2012 balance = \$10,129,691 and 2013 balance = \$12,266,122; difference = \$2,136,431; increase 21.1%

Analysis: The difference of \$2,136,431 consists of a provision increase for depreciation of \$3,292,008, salvage of \$7,180, and an offset of (\$30,948) in cost of removal charges and (\$1,131,806) in retirements.

8. CEI account 370 Distribution Plant Meters: 2012 balance = \$30,855,908 and 2013 balance = \$23,398,096; difference = \$(7,457,812); decrease 24.2%

Analysis: The difference of (\$7,457,812) consists of a provision increase for depreciation of \$3,120,597 and an offset of (\$2,502,485) in cost of removal charges and (\$8,075,921) in retirements.

9. CEI account 391.2 General Plant Data Processing Equipment: 2012 balance = \$6,328,062 and 2013 balance = \$7,664,989; difference = \$1,336,927; increase 21.1%

Analysis: The difference of \$1,336,927 consists of a provision increase for depreciation of \$1,930,976 and an offset of (\$7,648) in cost of removal charges and (\$804,452) in retirements. In addition, adjustments from last year's Rider DCR audit (Case No. 12-2855-EL-RDR) increased reserve \$218,051.

10. OE account 391.2 General Plant Data Processing Equipment: 2012 balance = \$434,493 and 2013 balance = \$1,069,154; difference = \$634,661; increase 146.1%

Analysis: The difference of \$634,661 consists of a provision increase for depreciation of \$1,773,761 offset by (\$1,139,100) in retirements.

11. TE account 391.2 General Plant Data Processing Equipment: 2012 balance = \$3,645,962 and 2013 balance = \$4,379,694; difference = \$733,732; increase 20.1%

⁶⁷ FirstEnergy's response to Data Request BRC Set 2-INT-001, attachment 6 – Confidential.

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Analysis: The difference of \$733,732 consists of a provision increase for depreciation of \$971,431 and an offset of (\$2,645) in cost of removal charges and (\$235,054) in retirements.

12. TE account 399.1 General Plant Asset Retirement Costs for General Plant: 2012 balance = \$133,038 and 2013 balance = \$227,483; increase 71.0%

Analysis: The difference of \$94,445 consists of a provision increase for depreciation of \$94,445.

Reserve variance conclusion: The Reserve changed primarily as a result of the accrual of depreciation and retirements. That is expected. Blue Ridge finds no unusual or not reasonable activity in these changes.

Regarding Depreciation

13. CEI account 397 General Plant Communication Equipment: 2012 balance = \$1,260,709 and 2013 balance = \$1,614,365; difference = \$353,656; increase 28.1%

Analysis: FirstEnergy verified that no changes have been made to the depreciation accrual rates used for Rider DCR. Therefore, the change in depreciation is due to the activity as shown above in the Plant in Service section.

14. OE account 397 General Plant Communication Equipment: 2012 balance = \$890,594 and 2013 balance = \$1,083,321; difference = \$192,727; increase 21.6%

Analysis: (See response to #13 above.)

Depreciation variance conclusion: Blue Ridge found activity included to be not unreasonable.

Blue Ridge also investigated Gross Plant, Reserve, and ADIT year ending 2012 to year ending 2013 balance variances of the Service Company. Service Company balances are allocated to the three operating companies as follows: CE 14.21%, OE 17.22%, and TE 7.58%. Blue Ridge submitted requests regarding variances and received FirstEnergy's responses for these variances.⁶⁸ Based on FirstEnergy's responses, Blue Ridge's review determined the following:

1. Service Company Gross plant increased by \$35,598,182 (7.4%) in 2013. The increase included additions of \$46,366,884 and transfers of \$144,901, offset by retirements of \$(10,864,722), and the impact of recommendations from last year's Rider DCR audit report \$(48,881). Excluding work orders with net zero gross plant activity during 2013, the additions are broken down as follows: Software \$15,317,019; Data Processing & Equipment \$28,274,969; Structures \$1,491,929; Communications Equipment \$1,441,703; and Other \$(158,736).
2. Service Company Reserve increased by \$35,782,568 (23.1%) in 2013. The increase included the provision increase for depreciation of \$46,102,396, \$(28,291) in cost of removal, \$(10,864,722) in retirements, adjustments of \$1,533, the impact of recommendations from last year's Rider DCR audit report of \$733,343, Removal Work-In- Progress of (160,690), and other activity of (\$1,001).
3. Service Company ADIT increased by \$6,939,565 (8.7%) in 2013. The increase was primarily driven by increases in tax depreciation of \$9,327,399, increases in bonus tax depreciation of

⁶⁸ FirstEnergy's response to Data Requests BRC Set 8-INT-4-Confidential.

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\$6,283,246, increases in deferred income taxes associated with the capitalized portion of pension and other benefits of \$8,529,568, offset by increases in book depreciation resulting in reductions in ADIT of \$(17,218,986), and other activity of \$18,339.

Service Company variance conclusion: Blue Ridge reviewed accompanying lists of work orders and ADIT activity and nothing came to our attention that the activity was not routine or unreasonable.

Besides the year-end-to-year-end review, Blue Ridge also compared the year-end 2013 plant balances to the estimated first quarter 2014 balances. Blue Ridge submitted only one request and received FirstEnergy's response for the cited variance.⁶⁹ Based on FirstEnergy's response, Blue Ridge's review determined the following:

1. TE account 399.1 Asset Retirement Costs for General Plant: 2013 balance = \$227,482 and 1st Quarter 2014 balance = \$305,127; difference = \$77,644; increase 34.1%

Analysis: The change in balance was related to a change in future liability based on the need to remove asbestos from the Toledo Edison Plaza when it is no longer used. An external independent study was performed to determine the present value estimate of this need.

First quarter 2014 variance conclusion: FirstEnergy's explanation of this variance provided sufficient reason to determine that the activity was not unreasonable.

End-of-Year 2012 to Beginning-of-Year 2013 Verification

To verify the 2012 plant-in-service account balances in its DCR Compliance Filings were rolled forward to the beginning balances used for the 2013 DCR Compliance Filings,⁷⁰ Blue Ridge compared those balances. The examination found all balances to be identical (except for occasional rounding differences).⁷¹

End-of-Year 2012 to End-of-Year 2012 FERC Form 1 Comparison

Blue Ridge compared the 2012 plant-in-service account balances in the Companies' DCR Compliance Filings to their 2012 FERC Forms 1. The examination revealed a difference in Ohio Edison's account 364 – Distribution Poles, Towers, and Fixtures. Although the difference was not large, Blue Ridge asked the Companies for an explanation. FirstEnergy responded that in December 2012, an accrual was made in the General Ledger to move capital charges for transmission priority poles work from Ohio Edison distribution blanket work orders to ATSI. In 2013, this accrual was reversed on the General Ledger and actual charges recorded in PowerPlant. In preparing the 2012 FERC Form 1 this accrual was identified as a reconciling item between the General Ledger and the PowerPlant detail and the \$2,256,934 transfer out of account 364 was included in the Ohio Edison Form 1 filed in March 2013. The impact of this reconciling item was included in the actual March 31, 2013, gross plant and reserve balances included in the May 2, 2013, Rider DCR Compliance Filings. Blue Ridge believes the response to be not unreasonable.⁷²

⁶⁹ FirstEnergy's response to Data Requests BRC Set 8-INT-5-Confidential.

⁷⁰ FirstEnergy's response to 2012 Data Request BRC 1-11 Attachments Confidential.

⁷¹ WP FE DCR CF 2012 to FF1 2012 – Confidential.xlsx.

⁷² FirstEnergy's response to Data Request BRC Set 12-INT-1 – Confidential.

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Plant Additions, Retirements, Transfers, and Adjustments

Blue Ridge also investigated plant additions, retirements, transfers, and adjustments in order to understand changes to the unadjusted plant balances. In its examination, Blue Ridge asked several data requests concerning these items and received responses from FirstEnergy.

During our analysis of the sample work orders selected for testing, we noted that the Company made several adjustments between FERC accounts and between the Companies and ATSI (FirstEnergy's electric transmission subsidiary). The adjustment of assets between accounts and between companies included the accumulated depreciation that accrued on those assets up until the date of transfer. Adjustments between FERC accounts are not uncommon when work orders are analyzed. Adjustments between operating companies and ATSI are less common but result from the same work order analysis. The adjustments were adequately explained, and it does not appear that net plant was over or understated by any material amount for adjustments between FERC accounts and between operating companies and ATSI.

Blue Ridge had some other questions concerning the plant additions, retirements, transfers, and adjustments to which FirstEnergy provided adequate explanations as follows:⁷³

Regarding CEI

1. Account 353 Station Equipment: transfers/adjustments of \$172,316

Analysis: This was an asset location change only. It did not impact Utility Plant or the Accumulated Reserve for Depreciation, and, therefore, does not impact the DCR.

Regarding OE

2. Account 350 Land and Land Rights: Transfers/Adjustments of \$(181,636)

Analysis: This transfer properly supported and reduced the DCR. The depreciation reserve is not impacted since this is a non-depreciable account.

3. Account 360 Land and Land Rights: Negative Additions

Analysis: This was driven by reversals in account 106 as a result of the unitization of work orders during which some transmission plant assets were erroneously placed in the distribution plant account. This has no impact on the DCR.

4. Account 370 Meters: Retirements exceed Additions

Analysis: It is normal procedure to retire meters once per year. It is more cost beneficial to a company (and therefore its ratepayers) to perform this activity only once on an annual basis. Therefore, in any given year, retirements may exceed additions.

5. Account 389 Land and Land Rights: Transfers/Adjustments of \$(832,199)

⁷³ FirstEnergy's response to Data Requests BRC Set 3-INT-012 Confidential Plus Attachments.

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Analysis: This is a transfer to Plant Held For Future Use. This reduces the DCR. Since land and land rights is a non-depreciable account, the accumulated reserve for depreciation is not impacted.

Regarding TE

6. Account 370 Meters: Retirements exceed Additions

Analysis: It is normal procedure to retire meters once per year. It is more cost beneficial to a company (and therefore its ratepayers) to perform this activity only once on an annual basis. Therefore, in any given year, retirements may exceed additions.

Conclusion

FirstEnergy's responses regarding the variances in plant account balances were largely as a result of normal work order activity and are not uncommon among utilities. In general, total plant balances for each of the Companies increased at a not unreasonable rate. With the exception of the finding that CEI account 397 General Plant Communication Equipment included work orders related to Rider AMI, that should not have been included in the DCR, we believe that the amount of net plant increase over the period is not unreasonable.

Blue Ridge is recommending an adjustment to Rider DCR as it relates to the AMI work. The adjustment would reduce gross plant \$2,161,961 and reduce the reserve by \$33,130. The Companies stated that they are working to identify how such work orders were recorded in the depreciation groups specific to Rider AMI so corrective action can be implemented. The Companies indicated that they will include an adjustment in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR plant balances.

RIDER LEX, EDR, AMI, AND GENERAL EXCLUSIONS

D. Determine if capital additions recovered through Riders LEX, EDR, and AMI have been identified and excluded from Rider DCR

The Combined Stipulation requires that capital additions recovered through Commission-approved Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from Rider DCR and the annual cap allowance.⁷⁴ The Schedule within the Rider DCR Compliance Filings labeled as "Summary of Exclusions per Case No. 10-388-EL-SSO" identifies the capital additions recovered through Riders LEX, EDR, and AMI, and other general adjustments that have been excluded from Rider DCR. The other general adjustment includes exclusions for net plant related to ATSI, FirstEnergy's transmission subsidiary.

Blue Ridge found several instances of projects that should have been excluded from the DCR. These include AMI projects discussed in the Variance section of this report and plant associated with ATSI. In addition, generation projects were included in the DCR that should have been excluded. The cumulative impact of removing these projects reduces the DCR gross plant by \$2,887,413 and reduces the reserve by an estimated \$97,090 for a net plant reduction of

⁷⁴ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

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\$2,790,323.⁷⁵ The Companies indicated that an adjustment would be made in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR plant.

Line Extension Recovery Rider (Rider LEX)

Rider LEX includes deferred line extension costs during the period January 1, 2009, through December 31, 2011, including post-in-service carrying charges.⁷⁶

The Companies' Rider DCR Compliance Filings state, "As implemented by the Companies, Rider LEX will recover deferred expenses associated with the lost up-front line extension payments from 2009-2011. These deferred expenses are recorded as a regulatory asset, not as plant in service on the Companies' books. Therefore, there is no adjustment to plant in service associated with Rider LEX."⁷⁷

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include line extension work that should have been included in the Rider LEX. Blue Ridge did not identify any Rider LEX charges within Rider DCR.⁷⁸

Economic Development Rider (Rider EDR)

Rider EDR includes the cost of the electric utility plant, facilities, and equipment installed to reliably support The Cleveland Clinic Foundation's major expansion plans at its Main Campus located at 9500 Euclid Avenue in Cleveland, Ohio. Also included within the rider are the depreciation and taxes over a five-year period on a service rendered basis starting June 1, 2011.⁷⁹

The Companies' Rider DCR Compliance Filings stated that the exclusions related to Rider EDR(g) are determined by the WBS CE-000303. As discussed in the Gross Plant, Additional Validation Testing from Sampled Work Orders section of this report, FirstEnergy identified a work order⁸⁰ during the preliminary stages of work order testing (before the February 2014 filing was submitted) that is associated with Rider EDR and should be excluded from Rider DCR. The Company excluded the project in the February 4, 2014, filing in the Summary of Exclusions.

The Summary of Exclusions in the Compliance filings lists the following amounts associated with CE's Rider EDR(g). The negative amount results in an increase in plant in service.

⁷⁵ WP FEOH Adjustments to Plant and Reserve-Confidential.

⁷⁶ Case No. 08-0935-EL-SSO Stipulation and Recommendation, Section B.3, page 16.

⁷⁷ CEI, OE, and TE Rider DCR Compliance Filings dated 2/4/14, page 19.

⁷⁸ WP FEOH Sample Work Order Testing Matrix.

⁷⁹ Case No. 10-0388-EL-SSO Stipulation and Recommendation, Section F.2, pages 27-28.

⁸⁰ CE Work order 1326480 Ivy (IV) Sub-Replace two 138iV Circuit for (\$168,546).

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Table 14: Rider EDR(g) Costs Excluded from Rider DCR⁸¹

FERC Account	Actual 12/31/13		Estimated 3/31/14	
	Gross	Reserve	Gross	Reserve
353	-168,546	-	-168,546	-758
364	3,731	14	3,731	58
365	3,501	11	3,501	45
368	4,998	12	4,998	48
369	1,039	4	1,039	15
Total	-155,277	41	-155,277	-592

Slight difference from filing due to rounding

FirstEnergy explained that the negative exclusion for the Rider EDR(g), which increases net plant in the Rider DCR, is a credit due in part to an overhead re-spread. The credit was created by a CIAC.⁸² The credit should be a downward adjustment to Cleveland Clinic related gross plant, not a reduction to plant eligible for recovery under Rider DCR, and was therefore appropriately excluded from the Rider DCR balances. FirstEnergy further stated that the capital additions associated with the Cleveland Clinic project recovered through Rider EDR(g) are excluded from Rider DCR pursuant to the ESP 2 Order in Case No. 10-388-SSO. Furthermore, the Companies expect to make accounting adjustments so that these work orders will be removed from the Rider DCR gross plant and reserve balances as of March 3, 2014, and will therefore no longer need to be manually excluded.⁸³

The Company stated that there are no other EDR costs included in utility plant in service as of December 31, 2013.⁸⁴ The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include work for the Cleveland Clinic Foundation. Blue Ridge did not identify any additional Rider EDR charges within Rider DCR.⁸⁵

Advanced Metering Infrastructure Rider (Rider AMI)

Rider AMI includes FirstEnergy's Smart Grid Modernization Initiative. Key components include distribution automation; voltage control; substation relay-based protection; alternate pricing programs; communications and data infrastructure; and data collection, analysis, and reporting.⁸⁶

The Companies' Rider DCR Compliance Filings states that only CEI has an AMI project, so this exclusion does not affect OE or TE. Specific depreciation groups in PowerPlant and WBS CE-004000 determine exclusions related to Rider AMI. The Rider AMI gross plant and reserve balances are shown separately in the Company's workpapers to demonstrate that they are appropriately excluded from the balances that are recovered under Rider DCR.⁸⁷ The Summary of Exclusions in the Compliance filings lists the following amounts associated with Rider AMI that were excluded from Rider DCR:⁸⁸

⁸¹ CEI, OE, and TE Rider DCR Compliance Filings dated 2/4/14, page 19 and page 44.

⁸² FirstEnergy's response to Data Request BRC 2-001, att 1. Line 6 CONFIDENTIAL.

⁸³ FirstEnergy's response to Data Request BRC 3-4 CONFIDENTIAL.

⁸⁴ FirstEnergy's response to Data Request BRC 9-1e CONFIDENTIAL.

⁸⁵ WP FEOH Sample Work Order Testing Matrix - Confidential.

⁸⁶ Case No. 09-1820-EL-ATA, et. al., Application pages 5-7.

⁸⁷ FirstEnergy's response to Data Request 4-3.

⁸⁸ Ohio Edison Rider DCR Compliance Filing dated February 28, 2012, page 44.

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Table 15: CEI AMI Project Costs Excluded from Rider DCR⁸⁹

FERC Account	Actual 12/31/13		Estimated 3/31/14	
	Gross	Reserve	Gross	Reserve
303	6,510,528	196,229	6,510,528	365,312
362	1,437,734	117,380	1,437,734	152,640
364	207,471	54,022	207,471	79,014
365	2,298,514	349,669	2,298,514	404,332
367	13,029	1,574	13,029	1,900
368	212,402	27,375	212,402	32,685
370	11,847,178	762,891	14,981,095	1,101,818
Total	22,526,856	1,509,140	25,660,773	2,137,701

Slight difference from filing due to rounding

As discussed in the Variance section of the report, the Companies discovered projects totaling \$2,161,961 related to Rider AMI that should be excluded from the DCR. Blue Ridge found that inclusion of these AMI project work orders in the Rider DCR results in a gross plant overstatement of \$2,161,961 and an overstated reserve of \$33,130 resulting in net plant being overstated by \$2,128,831.⁹⁰ The Companies stated that they are working to identify how such work orders were recorded in the depreciation groups specific to Rider DCR instead of groups specific to Rider AMI so corrective action can be implemented. The Companies indicated that they will include an adjustment in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR plant balances.⁹¹

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include AMI work. Blue Ridge did not identify any additional Rider AMI charges within the DCR.⁹²

Other Riders

In addition to Riders LEX, EDR, and AMI, the Combined Stipulation requires that capital additions recovered through any other subsequent rider authorized by the Commission to recover delivery-related capital additions be identified and excluded from Rider DCR and the annual cap allowance.⁹³ In addition to the Riders DCR, LEX, EDR, and AMI, the Companies' tariffs include the following riders:

⁸⁹ CEI, OE, and TE Rider DCR Compliance Filings dated 2/4/14, page 19 and page 44.

⁹⁰ FirstEnergy's response to Data Request BRC 13-2-Confidential and WP FEOH Adjustments to Plant and Reserve-Confidential.

⁹¹ FirstEnergy response to Data Request BRCS 8-1,c CONFIDENTIAL.

⁹² WP FEOH Sample Work Order Testing Matrix - Confidential.

⁹³ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

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- | | |
|--|--|
| <ol style="list-style-type: none"> 1. Residential Distribution Credit 2. Transmission and Ancillary Service Rider 3. Alternative Energy Resource 4. School Distribution Credit 5. Business Distribution Credit 6. Hospital Net Energy Metering 7. Peak Time Rebate Program – CE 8. Universal Service 9. State kWh Tax 10. Net Energy Metering 11. Grandfathered Contract – CE 12. Delta Revenue Recovery 13. Demand Side Management 14. Reasonable Arrangement 15. Distribution Uncollectible 16. Economic Load Response Program 17. Optional Load Response Program 18. Generation Cost Reconciliation | <ol style="list-style-type: none"> 19. Fuel 20.. Delivery Service Improvement 21. PIPP Uncollectible 22. Non-Distribution Uncollectible 23. Experimental Real Time Pricing 24. Experimental Critical Peak Pricing 25. CEI Delta Revenue Recovery – CE 26. Experimental Critical Peak Pricing 27. Generation Service 28. Demand Side Management and Energy Efficiency 29. Deferred Generation Cost Recovery 30. Deferred Fuel Cost Recovery 31. Non-Market-Based Services 32. Residential Deferred Distribution Cost Recovery 33. Non-Residential Deferred Distribution Cost Recovery 34. Residential Electric Heating Recovery 35. Residential Generation Credit 36. Phase-In Recovery |
|--|--|

The Companies confirmed that the above riders do not include distribution capital additions or Service Company capital additions that are allocated to Rider DCR.⁹⁴ Blue Ridge reviewed the tariff for the above riders and found no indication that these tariffs would contain distribution plant.

General Adjustments

Consistent with Case No. 07-551-EL-AIR, the Companies removed land leased to ATSI, FirstEnergy's transmission subsidiary, from Rider DCR. The amounts are not jurisdictional to distribution-related plant in service and were excluded accordingly from each operating company.⁹⁵

Table 16: ATSI Land Lease (FERC Account 350) Excluded from Rider DCR⁹⁶

Company	Actual 12/31/13		Estimated 3/31/14	
	Gross	Reserve ⁹⁷	Gross	Reserve
CEI	59,306,092	0	59,306,092	0
OE	86,963,323	0	86,963,323	0
TE	16,373,799	0	16,373,799	0
Total	162,643,214	0	162,643,214	0

The amounts associated with the ATSI land lease in the 2013 Compliance Filings changed from what was approved in Case No. 07-551-EL-AIR as shown in the following table.

⁹⁴ FirstEnergy's response to Data Request BRC-3-7.

⁹⁵ CEI, OE, and TE Rider DCR Compliance Filings dated 2/4/14, page 19 and page 44.

⁹⁶ CEI, OE, and TE Rider DCR Compliance Filings dated 2/4/14, page 19 and page 44.

⁹⁷ The amounts removed are associated with land, thus there is no depreciation reserve.

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Table 17: ATSI Land Lease-Change in Amounts from Case No. 07-551-EL-AIR and Prior Audits

Description	CEI	OE	TE
Case No 07-551-EL-AIR Approved			
Staff Report	64,744,646	93,234,013	17,061,251
Exhibit TJF-1	(7,478,215)	(7,943,389)	(1,432,451)
Staff Agrees	57,266,431	85,290,624	15,628,800
12/31/11 Rider DCR Amounts	57,266,431	85,290,624	15,628,800
12/31/12 Rider DCR Amounts	57,227,343	85,471,094	15,628,438
12/31/13 Rider DCR Amounts	59,306,092	86,963,323	16,373,799
Difference 2013 vs. Approved	2,039,661	1,672,699	744,999

The Company reiterated its response in the 2012 audit that the changes were attributed to additions, retirements, and other activity regarding the ATSI land lease.⁹⁸ The ATSI land lease amounts as of 12/31/11 were equal to the ATSI land lease amounts from the Companies' 2007 distribution rate case. The ATSI land lease amount used as of 12/31/12 reflected only the 2012 activity in FERC Plant Account 350-Land and Land Rights added on to the 12/31/12 Rider DCR ATSI land lease values.

The Companies updated their methodology for identifying the ATSI land lease values as of 9/30/13 (the November 1, 2013, Rider DCR Compliance Filings) and 12/31/13 (the February 4, 2014, Rider DCR Compliance Filings). Upon further review while preparing the Companies' response to a data request, the Companies determined that the initial approach used is more appropriate and that they will reflect this methodology in future filings. The Company intends to include a reconciliation calculation in the Rider DCR revenue requirement in the next filing such that it reflects the revenues that would have been collected in Q4 2013 and Q1 2014 under the original methodology.

The following table compares the ATSI land lease values used in the November 1, 2013, and the February 4, 2014, Rider DCR Compliance Filings to the values under the original methodology.

Table 18: ATSI Land Lease in 11/1/13 and 2/4/14 Filing Compared to Original Methodology

November 1, 2013 Rider DCR Compliance Filing				
9/30/2013 ATSI Land Lease	CEI	OE	TE	Total
Updated Methodology	\$ 59,306,092	\$ 86,963,323	\$ 16,373,799	\$ 162,643,214
Original Methodology	\$ 57,224,624	\$ 85,516,470	\$ 15,628,438	\$ 158,369,532
February 4, 2014 Rider DCR Compliance Filing				
12/31/2013 ATSI Land Lease	CEI	OE	TE	Total
Updated Methodology	\$ 59,306,092	\$ 86,963,323	\$ 16,373,799	\$ 162,643,214
Original Methodology	\$ 57,224,624	\$ 85,516,470	\$ 15,628,438	\$ 158,369,532

⁹⁸ FirstEnergy's response to 2012 Data Request BRC 9-23.

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The change between ATSI land lease values as of 12/31/12 and 12/31/13 (using the original methodology) is entirely attributed to the additions, retirements, and transfers that took place in 2013 in FERC Account 350-Land and Land Rights.⁹⁹

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include ATSI Land Lease. As discussed in the Gross Plant, Additional Validation Testing from Sampled Work Orders section of this report, Blue Ridge found a work order¹⁰⁰ that is not jurisdictional to Rider DCR and should have been charged to ATSI. FirstEnergy made an adjustment to transfer this work order to ATSI in January 31, 2014.¹⁰¹ The impact to the 4th Quarter 2013 DCR is reduction in gross plant of \$368,629 and an estimated reduction to the reserve of \$5,483 for a reduction to net plant of \$363,146.¹⁰²

Other than the work order identified above, Blue Ridge found no other ATSI Land Lease amounts included within the sample work orders that should have been removed.¹⁰³

Generation

As discussed in the Gross Plant, Additional Validation Testing from Sampled Work Orders section of this report, a generation work order¹⁰⁴ was identified that should not have been included within the DCR. The Company stated that going forward, starting with the next Rider DCR filing, the Companies will manually exclude this work order from Rider DCR gross plant and reserve balances. The Company intends to include a reconciliation calculation in the Rider DCR revenue requirement in the next filing to reflect the revenues that should have been excluded in prior quarters if the generation work order had been excluded from DCR gross plant and reserve from the time it went into service.¹⁰⁵

Blue Ridge reviewed the total population of work orders provided by the Companies from 2007 (Date Certain) to 2013 to see if there were any additional generation-related work orders that should have been excluded. Blue Ridge found a number of work orders that appear to be generation related. The Companies reviewed the list and identified additional generation work orders that should have been excluded from the DCR. The Companies will include an adjustment in their next Rider DCR filing to reverse the impact of the inclusion of these work orders in the Rider DCR plant balances.

The following generation workorders will be reversed from the DCR.

⁹⁹ FirstEnergy's response to Data Request BRC 3-6 CONFIDENTIAL.

¹⁰⁰ OE Work order 13305906 for \$368,629.

¹⁰¹ FirstEnergy's response to Data Request BRC 2-1, Attachment 5 Updated CONFIDENTIAL.

¹⁰² WP FEOH Adjustments to Plant and Reserve-Confidential.

¹⁰³ WP FEOH Sample Work Order Testing Matrix - Confidential.

¹⁰⁴ OE Work order GN-00028341-1 for \$120,066.

¹⁰⁵ FirstEnergy response to Data Request BRCS 5-3, b.

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Table 19: Generation Work Orders to Be Excluded from Rider DCR

#	Year	Company	FERC Plant Account	Work Order	In Service Date	Gross	Reserve	Net
1	2013	OECO	303 - Misc intangible plant	GN-0002834-1	Jun-13	120,066	9,307	110,759
2	2010	OECO	30300 - Misc. Intangible Plant	GN-0002923	Apr-10	31	17	14
3	2011	OECO	30300 - Misc. Intangible Plant	GN-0003487-2	Oct-11	71,848	22,700	49,148
4	2011	OECO	30300 - Misc. Intangible Plant	GN-0003487-2	Dec-11	(42)	(12)	(30)
5	2012	OECO	30300 - Misc. Intangible Plant	GN-0003487-2	Jun-12	(148)	(33)	(115)
6	2013	OECO	303 - Misc intangible plant	GN-0004590-1	Jun-13	25,231	1,956	23,275
7	2013	OECO	303 - Misc intangible plant	GN-0004590-1	Jun-13	12,615	978	11,637
8	2008	OECO	35300 - Station Equipment	GN-0000537	Feb-08	46,402	5,999	40,403
9	2009	OECO	35300 - Station Equipment	GN-0000537	Feb-09	(33,362)	(3,577)	(29,785)
10	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0000231	Nov-10	5,349	635	4,714
11	2007	OECO	39110 - Office Furn., Mech. Equip.	GN-0001454	Feb-07	20	5	15
12	2007	OECO	39110 - Office Furn., Mech. Equip.	GN-0001454	May-07	66,352	16,724	49,628
13	2007	OECO	39110 - Office Furn., Mech. Equip.	GN-0001454	Dec-07	178	41	137
14	2008	OECO	39110 - Office Furn., Mech. Equip.	GN-0001454	Jun-08	(23,625)	(4,978)	(18,647)
15	2012	OECO	39110 - Office Furn., Mech. Equip.	GN-0001646	Aug-12	91	5	86
16	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Mar-10	7,135	1,029	6,106
17	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Apr-10	15,022	2,119	12,903
18	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	May-10	18,213	2,512	15,701
19	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Jul-10	209	27	182
20	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Aug-10	270	35	235
21	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Oct-10	15,106	1,843	13,263
22	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Nov-10	1,330	158	1,172
23	2010	OECO	39110 - Office Furn., Mech. Equip.	GN-0003201	Dec-10	8,532	987	7,545
24						<u>356,823</u>	<u>58,477</u>	<u>298,346</u>

The removal of these inappropriately included generation work orders from the DCR will reduce Ohio Edison's gross plant by \$356,823 and reduce the reserve by \$58,477 for a reduction to net plant of \$298,346.¹⁰⁶

Conclusion

Blue Ridge found several instances of projects that should have been excluded from the DCR. These include AMI projects discussed in the Variance section of this report and plant associated with ATSI. In addition, generation projects were included in the DCR that should have been excluded. The cumulative impact of removing these projects reduces the DCR gross plant by \$2,887,413 and reduces the reserve by an estimated \$97,090 for a reduction to net plant of \$2,790,323.¹⁰⁷ The Companies indicated that an adjustment would be made in their next Rider DCR filing to reverse the cumulative impact of the inclusion of these work orders in the Rider DCR plant.

GROSS PLANT IN SERVICE

- E. Determine if the Companies' recovery of the incremental change in Gross Plant are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following gross plant in service incremental change for each company.

¹⁰⁶ FirstEnergy's response to Data Request BRC 14-1, Attachment 1-Confidential and WP FEOH Adjustments to Plant and Reserve-Confidential.

¹⁰⁷ WP FEOH Adjustments to Plant and Reserve-Confidential.

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Table 20: Actual 2012 and Actual 2013 Gross Plant in Service Incremental Change¹⁰⁸

Company	12/31/12	12/31/13	Incremental
CEI	2,643,916,093	2,706,050,456	62,134,363
OE	2,881,754,675	2,980,199,487	98,444,812
TE	1,052,995,907	1,085,084,199	32,088,292
Total	6,578,666,674	6,771,334,142	192,667,467

Actual and Estimated Schedules B-2.1 support the incremental change in gross plant in service for transmission, distribution, and general plant. Other plant includes intangibles that are supported on separate schedules within the filings. The plant balances developed on these schedules are used throughout the Rider DCR revenue requirement calculations.

The Companies stated that there were no large replacement programs in 2013 in comparison to prior year spend levels of similar programs. Each company had normal, recurring replacement programs in 2013, including Pole Replacement, Underground Cable Replacement, Feeder Repair/Replacement, Worst Performing Circuit/CEMI Program, and Downtown Network Upgrades.¹⁰⁹

Blue Ridge's review of gross plant through transactional testing of the work order sample and field inspections had several findings that impact the gross plant included in the DCR. The impact of the combined findings would reduce gross plant by \$3,101,065 and increase the reserve by \$252,812 for a net plant reduction of \$3,353,877.¹¹⁰

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations included in the actual and estimated schedules that support gross plant and also verified that gross plant balances rolled forward to the revenue requirement calculation correctly. We did not identify anything in the mathematical computations as unreasonable.¹¹¹

Source Data Validation

Blue Ridge traced the values used for actual 12/31/13 and estimated 3/31/14 gross plant in service balances to source documentation. The actual 12/31/13 balances reconciled to the supporting documents.

The workpaper supporting the estimated 3/31/14 gross plant in service balances is based upon 2014 Forecast Version 12. The Companies' budgets are not established on an individual FERC account basis. FirstEnergy developed a workpaper that allocated the budget to the FERC accounts used in Rider DCR based upon the most recent actual gross plant FERC balances.¹¹² Blue Ridge found the allocation methodology used to develop the first quarter estimate well documented and reasonable. The balances used in Rider DCR reconciled to the source documentation.

¹⁰⁸ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁰⁹ FirstEnergy's response to Data Request BRC-1-14.

¹¹⁰ WP FEOH Adjustments to Plant and Reserve-Confidential.

¹¹¹ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹¹² FirstEnergy's response to Data Request 1-10 Attachment 1-Confidential.

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Change in Pension Accounting

Schedule B-2.1 includes a note that plant in service is adjusted to remove the cumulative pre-2007 impact of a change in pension accounting. In the prior audit, FirstEnergy explained the adjustment as follows:

Effective in the fourth quarter of 2011, FirstEnergy Corp. (FE) elected to change its method of recognizing actuarial gains and losses for its defined benefit pension plans and other postretirement plans (OPEB). Previously, FE recognized actuarial gains and losses as a component of Accumulated Other Comprehensive Income (AOCI) within the Consolidated Balance Sheets on an annual basis. Actuarial gains and losses that were outside a specific corridor were subsequently amortized from AOCI into earnings over the remaining service life of affected employees within the related plans. Under the new methodology, which is preferable under GAAP, FE has elected to immediately recognize net actuarial gains and losses in earnings, subject to capital labor rates, in the fourth quarter of each reporting year as gains and losses occur and whenever a plan is determined to qualify for a re-measurement during a reporting year. The cumulative impact of this change in accounting methodology was reflected in FE's 2011 year-end financial results. Net plant in service was impacted by the appropriate capitalized portion of actuarial gains and losses recognized as a result of this accounting methodology change.¹¹³

Blue Ridge found FirstEnergy's explanation to be not unreasonable. In addition, Blue Ridge compared the Change in Pension Accounting amounts in the 2012 audit to the amounts in the filing under review in this audit and found that the amounts were the same.¹¹⁴

Additional Validation Testing from Sampled Work Orders

The Companies provided a list of work orders that support gross plant in service for December 2012¹¹⁵ through December 2013. Blue Ridge selected a sample from these work orders for transactional testing. The following table provides the number of work orders provided by the Companies from which the sample was selected:

Table 21: Number of Work Orders by Company

Period	CEI	OE	TE	Service Company	Total
12/1/12-12/31/12 ¹¹⁶	38,758	46,848	17,144	51	102,801
1/1/13-12/31/13 ¹¹⁷	61,081	81,421	28,449	169	171,120

Blue Ridge selected 110 work orders from the Companies' and the Service Company's population of addition and replacement work orders from 12/1/12¹¹⁸ through 12/31/13¹¹⁹ for

¹¹³ FirstEnergy's response to 2011 audit Data Request BRC 14-1.

¹¹⁴ WP FEOH Pre-Date Certain Pension Impact Analysis - CONFIDENTIAL.

¹¹⁵ In the prior audit, the December 2012 work order population was provided late not allowing sufficient time to select and test samples from that population. Blue Ridge recommended that the December 2012 work orders be included in this year's annual compliance audit.

¹¹⁶ FirstEnergy's response to Data Request BRC Set-1-INT-001 Attachment 2 – CONFIDENTIAL.xlsx.

¹¹⁷ FirstEnergy's response to Data Request BRC Set-1-INT-001 Attachment 1 – CONFIDENTIAL.xlsx.

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testing using the probability-proportional-to-size (PPS) sampling techniques¹²⁰ and professional judgment. The following table identifies the number of work orders selected for each company and the Service Company.

Table 22: Number of Work Orders Selected for Additional Testing

Period and Company	Total # of Work Orders Selected for Testing
December 2012	
Cleveland Electric	3
Ohio Edison	2
Toledo Edison	2
Service Company	2
December 2012 Total	9
2013	
Cleveland Electric	29
Ohio Edison	37
Toledo Edison	19
Service Company	16
Grand Total	110

The testing of work orders included reviews of project justifications, project actual vs. budgeted cost, variance explanations, properly charged FERC account, reasonableness of the in-service dates in comparison to the estimated in-service date, and the actual detailed cost to determine that if AFUDC was charged on the work order it was appropriate and asset retirements were recorded on a timely basis for replacement work orders. The results of the detailed transaction testing performed on the work order sample are included in the workpapers.¹²¹ Specific observations and findings about the testing are listed below.

Blue Ridge had the following observations:¹²²

1. Work orders with specific work scope contained reasons that the work was being performed and project justification.
2. The work orders were properly approved in accordance with Companies' procedures detailed in the Level of Signature Authority (LOSA) document.
3. Most project actual costs were within +/- 15% of the project budget. Project costs greater than 15% over budget contained reasonable explanations for the overruns.¹²³ With the exception of several work orders that improperly accrued AFUDC (i.e., #3 a, b, and c under findings discussed below), the work order costs were properly supported and the categories of costs were reasonable.

¹¹⁸ WP BRCS Set 2-December 2012 Work orders Confidential.xlsx.

¹¹⁹ WP BRCS Set 2-2013 Work orders Confidential.xlsx.

¹²⁰ WP 1.E Sample Size Calculation based Work Orders through 12-31-13-Confidential.xlsx.

¹²¹ WP FEOH Sample Work Order Testing Matrix – Confidential.

¹²² WP FEOH Sample Work Order Testing Matrix - Confidential.

¹²³ WP FEOH Sample Work Order Testing Matrix – Confidential (note 4).

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4. The work order detail properly indicated that cost of removal was charged for replacement work orders. Salvage is recorded on an aggregate basis in a blanket workorder unless equipment is sold. We did not see any instance in which equipment was sold and the project received the credit.
5. Assets were charged to the proper FERC account (300 account) except as discussed below (i.e., #4 a and b under findings related to transactional testing performed on the work order sample).
6. The Companies provided descriptions of all IT projects. Procedures are in place that describe how internal use software is to be accounted for in accordance with generally accepted accounting principles (GAAP). Blue Ridge found that the procedure is adequate and, if used, would yield an accurate split between capital and expense.
7. Most work order actual in-service dates were in line with estimated in-service dates or had reasonable explanations for the delay. Several exceptions are discussed later in this report (i.e., #7 under findings related to transactional testing performed on the work order sample).
8. Work orders tested were unitized within a reasonable time period from the date of completion.

Blue Ridge had the following findings related to the transactional testing performed on the work order sample:

1. Blue Ridge reviewed the work order descriptions and the FERC accounts in which activity was recorded to determine if costs associated with ATSI Land Lease and Riders LEX, EDR, and AMI were properly excluded from the Rider DCR. The following work orders should not have been in the Rider DCR.
 - a. CE Work Order 13264806 Ivy (IV) Sub-Replace two 138iV Circuit for (\$168,546): This is a Rider EDR work order identified by FirstEnergy during the preliminary stages of work order testing before the Rider DCR filing for the rates effective on April 1, 2014 was submitted. The Company stated the amount would be excluded in the Summary of Exclusions.¹²⁴ Blue Ridge confirmed that the Company properly removed the amount in its February 4, 2014, filing. The in-service date was 12/19/13; thus there was no impact to prior Rider DCR filings and no additional adjustment required. As discussed in the Exclusion section of this report, the Companies expect to make accounting adjustments so that these work orders will be removed from the Rider DCR gross plant and reserve balances as of March 31, 2014, and will therefore no longer need to be manually excluded.¹²⁵
 - b. OE Work Order 13305906: This work order is not jurisdictional to Rider DCR and should not have been charged to Ohio Edison. FirstEnergy made an adjustment to transfer this work order from Ohio Edison in January 2014.¹²⁶ As of December 31, 2013, gross plant is overstated by \$368,629. With an in-service date of 5/23/13, depreciation would be overstated by approximately \$5,483 (7 months at 2.55%

¹²⁴ FirstEnergy response to Data Request BRCS 2-1, Attachment 5, CECO, Line 22 CONFIDENTIAL.

¹²⁵ FirstEnergy's response to Data Request BRC 3-4 CONFIDENTIAL.

¹²⁶ FirstEnergy's response to Data Request BRC 2-1, Attachment 5 Updated CONFIDENTIAL.

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depreciation accrual rate). The Reserve would be overstated by the amount of overstated depreciation.

- c. OE Work Order GN-00028341-1: This generation work order was allocated to Ohio Edison in accordance with the terms of a generation plant/sale leaseback agreement and should not be included in the Rider DCR. This specific work order causes gross plant to be overstated by \$120,066 and the reserve overstated by \$9,307. As discussed in the Exclusions section of this report, additional generation work orders were identified and will be removed from the Rider DCR by the Companies.

Going forward starting with the next Rider DCR filing, the Companies will manually exclude generation from Rider DCR gross plant and reserve balances. The Company intends to include a reconciliation calculation in the Rider DCR revenue requirement in the next filing to reflect the revenues that should have been included in prior quarters if the generation work orders had been excluded from Rider DCR gross plant and reserve from the time they went into service.¹²⁷

- 2. Several replacement work order retirements were not recorded on a timely basis following the new assets' installation. In general, retirements should take place at the same time new assets are added to replace them. In some instances, the gap can span a month but should not be any longer since depreciation is calculated monthly. The Company should not depreciate the old asset and new asset at the same location. When the new assets are recorded (booked) the old assets should be retired. The delays resulted in an over accrual of depreciation expense of \$4,256 and an associated overstatement of the Reserve. These work orders included the following:
 - a. OE Work Order OE-001090-S-3 Total mobile # 13 Substation: Assets were placed in service in April 2013 and the retirements were recorded in September 2013. The depreciation expense impact associated with the delay in booking the retirement is an overstatement of \$68.¹²⁸
 - b. OE Work Order OE-001657-F CA Fairlawn Complex drives: Assets were placed in service in December 2012 and the retirements were recorded in April 2013. The depreciation expense impact associated with the delay in booking the retirement is an overstatement of \$3,031.¹²⁹
 - c. TE Work Order 13564431 Lakewood Replace Upper Roof: Assets were placed in service in December 2012 and the retirements were recorded in May 2013. The depreciation expense impact associated with the delay in booking the retirement is an overstatement of \$1,157.¹³⁰
- 3. Three work orders were set up to receive AFUDC, but were not eligible for AFUDC. Utility plant is overstated by approximately \$36,520, and the reserve for depreciation is overstated by approximately \$3,696. Therefore, net plant is overstated by approximately \$32,823.
 - a. CE Work Order CE-13509122 - (\$651,478): This work order was established to accept CIAC reimbursements in addition to other expenses for the project. The CIAC

¹²⁷ FirstEnergy response to Data Request BRCS 5-3, b.

¹²⁸ FirstEnergy's response to Data Request BRCS 4-6,b CONFIDENTIAL.

¹²⁹ FirstEnergy's response to Data Request BRCS 4-6,c CONFIDENTIAL.

¹³⁰ FirstEnergy's response to Data Request BRCS 4-5,b,ii CONFIDENTIAL.

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credit resulted primarily from the impact of pension mark-to-market adjustment, which reduced the plant balance. As a work order to collect CIAC reimbursements, this work order should not have accrued AFUDC.¹³¹ Gross plant should be reduced by \$9,265 and the Reserve reduced by \$7 to remove the inappropriately applied AFUDC.

- b. FE Work Order ITF-000343-1 Oracle Upgrade Fee – Total Cost of \$1,557,211: The project is a fee and should not accrue AFUDC.¹³² The total AFUDC was \$67,050. Using the appropriate factors to allocate the costs to the operating companies (39.01%) for DCR purposes results in a reduction to gross plant of \$26,156, and the allocated reserve would be reduced by \$3,582.
- c. OECO Work Order OE-740004 ITS Mapframe (GE) Upgrade Fee 2012 – Total Cost \$99,928: This work order is a fee and should not accrue AFUDC.¹³³ Gross plant should be reduced by \$1,038 and the Reserve reduced by \$99 to remove the inappropriately applied AFUDC.

The Company stated that IT is working with accounting personnel to review the process for project setup to ensure all required information is provided to avoid including AFUDC for capital upgrade fees.¹³⁴

Blue Ridge recommends that the Companies complete the process revision to ensure that AFUDC is not accrued on projects that are not eligible. Blue Ridge also recommends that Companies review the entire population of utility plant included in the Rider DCR to ensure other similar fees have not accrued AFUDC.¹³⁵

- 4. Two work orders were reclassified as a result of the unitization process.
 - a. FECO Work Order ITS-SC-000100-1 Consolidated Fixed Assets-Capital: This project is for network transformation phase II, which is to install new equipment to improve the reliability and expand the FirstEnergy IT network supporting voice, data, and video systems used throughout the corporation, including the three Ohio operating companies. The software component of \$7,244,795 was mistakenly unitized to FERC Account 397 (Communications Equipment) instead of FERC Account 303 (Intangible Software). The depreciation accrual rate for FERC 303 (14.29%) is higher than FERC 397 (6.08%), and thus the total Service Company depreciation expense is understated by \$718,859.¹³⁶ Using the appropriate factors to allocate the costs to the operating companies results in depreciation expense being understated by approximately \$280,427 (\$718,859 x 39.01%). Therefore, the reserve is understated and net plant is overstated.
 - b. OCEO Work Order 12614860 2009: A CIAC credit was unitized to the wrong account. Any CIAC greater than the work order expense should be booked to the

¹³¹ FirstEnergy's response to Data Request BRCS 5-2,c, ii CONFIDENTIAL.

¹³² FirstEnergy's response to Data Request BRCS 5-1, d.

¹³³ FirstEnergy's response to Data Request BRCS 5-2,c,ii CONFIDENTIAL.

¹³⁴ FirstEnergy's response to Data Request BRCS 5-3e.

¹³⁵ FirstEnergy's response to Data Request BRCS 5-2,c,ii CONFIDENTIAL.

¹³⁶ FirstEnergy's response to Data Request BRCS 5-001,a.

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reserve in account 108. As a result of the incorrect posting, depreciation expense is understated by \$678.¹³⁷ The reserve would be understated by the same amount.

5. One work order was closed in error.

OECO Work Order 12903340 OE-RESN-Monthly Financing Billing: This work order was closed in error. The order is used to capture the monthly reimbursements for OE Residential Line Extensions. It is also used to capture the total amount owed to OE for the Residential Line Extensions, which are invoiced using a monthly financing option. The work order was erroneously placed in service in February 2014 using a December 2013 in-service date. It should not have been placed in service. The impact of this error is an overstatement of gross plant by \$88,450. The work order was placed in service in December 2013; therefore, the impact on the depreciation reserve is negligible.¹³⁸

6. Transfers between transmission and distribution resulted in an overstatement of the Reserve.

OE Work Order L1094 OCEO PROP ASSET-PWR PTL TRNSF & ADJ. This is an accounting work order utilized to process asset transfers and adjustments outside a construction work order. The Power Plant system requires a valid work order to process transfers and adjustments. The majority of transfers/adjustments on this work order remain in the same utility account but transfer between asset locations. In this case, there would be no impact on Rider DCR. For the assets transferred between utility accounts (i.e., transmission to distribution), the estimated net impact of this work order is an overstatement of the Reserve of \$11,195.¹³⁹

7. One work order had AFUDC accrued past the projects in service date.

OECO Work Order 13260022 Brookside-Replace Existing Capacitor Bank \$1,080,265 – Replace the failed 69 kV, 10.8 MVars capacitor bank at Brookside Sub: The Company stated that the asset was put in service in June 2012, but AFUDC was not stopped until May 2013, which resulted in over accrued AFUDC of \$74,959,¹⁴⁰ which overstated gross plant by \$74,959 and overstated the reserve by \$1,811.

Blue Ridge found that from the work order transactional testing, 13 work orders require adjustments to either gross plant and/or the reserve. Corrections to gross plant flow through the Rider DCR calculations affecting depreciation expense, property tax, and the return on rate base. The impact of the combined findings from the sample work order transactional testing would reduce gross plant by \$199,868 and increase the reserve by \$260,156 for a net plant reduction of \$460,024.¹⁴¹ We recommend that the Companies correct the errors identified by Blue Ridge and adjust Rider DCR accordingly.

Field Inspections

Blue Ridge selected three projects for field verification from the work order sample. The purpose of the field verification was to determine whether the assets have been installed per the

¹³⁷ FirstEnergy's response to Data Request BRCS 9-003, a CONFIDENTIAL.

¹³⁸ FirstEnergy's response to Data Request BRCS 5-003, j.

¹³⁹ FirstEnergy's response to Data Request BRC 4-006, d, l, i, CONFIDENTIAL.

¹⁴⁰ FirstEnergy's response to Data Request BRC 12-1 Supplemental Response.

¹⁴¹ WP FEOH Adjustments to Plant and Reserve-Confidential.

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work order scope and description, and they are used and useful in rendering service to the customer. The work order/project selection criteria were assets that can be physically seen and were installed within the scope period of this review. Experienced staff from the Public Utilities Commission of Ohio, with assistance from FirstEnergy representatives, conducted the field verifications on March 6 and 7, 2014. Staff was provided with information for each work order/project and completed a standard questionnaire developed by Blue Ridge for each location. Where possible, Staff took pictures of the installed assets. The completed questionnaires and pictures are included as workpapers with this report.

The following projects were field inspected:

1. TE Work Order 13563242 Edison Plaza-Building Upgrades: The project included the demolition of existing improvements, removal of all asbestos and reapplication of new fireproofing, installation of spray foam of deck above the 7th floor to increase R-Value D, installation of sprinkler system on 6th floor and rework other sprinkler heads, adjust or replace HVAC duct as required, and the TE costs of moving telecom, phones, and internal labor. The field inspector was told that the majority of the work done was the total demolition and reconstruction of offices on the 5th, 6th, and 7th floors of the Edison Plaza to accommodate a lease occupant of 2 ½ floors for their corporate offices. The final cost of the project was \$5,641,838. The in-service date was November 19, 2013. The physical observation confirmed that the assets were installed. Photographs of the site are included in the workpapers.

Since the assets were primarily installed for the use of a lease occupant under a lease agreement with the Company, Blue Ridge questioned how those assets are used and useful to utility customers in rendering utility service and, therefore, whether they are properly includable in utility plant in service and in the DCR. The Companies agreed that the leasehold improvements are not jurisdictional for purposes of Rider DCR and should be excluded. The Companies estimate that \$2,901,197 of gross plant and \$7,344 of the reserve should be excluded from the DCR.¹⁴²

2. OE Work Order 13335648: This project is to extend a 138kv tap to a new customer-owned substation in Marion. The final cost of the project was \$39,961. The Company indicated that this was an emergent project in 2012 and was not budgeted in 2013. The in-service date was December 20, 2012. The physical observation confirmed that the assets were installed, are used and useful, and are properly includable in utility plant in service. Photographs of the site are included within the workpapers.
3. OE Work Order 13781850 Replace Fence under Project OE-9000380: This is a blanket work order for replacing fence and other miscellaneous equipment at approximately 200 work sites. The blanket work order includes a total cost of \$1,561,623 with various in-service dates. The cost associated with the selected work inspected was \$12,395 with an in-service date of May 8, 2013. The physical observation confirmed that the assets were installed, are used and useful, and are properly includable in utility plant in service. Certain photographs of the site are included within the workpapers.

¹⁴² FirstEnergy's response to Data Request BRC 13-3-Confidential and WP FEOH Adjustments to Plant and Reserve-Confidential

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Blue Ridge selected three projects for field verification from the work order sample. The physical observation confirmed that the assets were installed and used and useful. However, it was determined that the costs associated with the Edison Plaza Building leasehold upgrade for a tenant not jurisdictional to the Rider DCR should be excluded. Blue Ridge recommends that these non-jurisdictional project costs be removed from the Rider DCR. The result would reduce gross plant by \$2,901,197 and reduce the reserve by \$7,344, for a reduction of \$2,893,853 to net plant.

Joint Build Projects

The Companies completed several projects under a Joint Build Agreement involving the installation of fiber optic cable within the Companies' electric power space. FirstEnergy explained that the fiber optic cable facilitates the secure transmission of information to and from the Companies' substations, which enhances the Companies' ability to identify and manage power outages. In addition to direct communication with the Companies' substation, these assets are used for internal network communications supporting electric utility operations. FirstEnergy stated that only those amounts that are in-service and not recovered through Rider AMI are included in the rate base balances used to derive the revenue requirements for Rider DCR.¹⁴³

The Companies entered into several joint build fiber projects in which the Companies paid the costs of construction. The arrangements were between FirstEnergy Service Company and a non-affiliated company. Each entity owns half of the fiber pairs. In exchange for the fiber pairs, the non-affiliated company provides certain benefits such as discounts on certain types of work and materials, a share of potential revenue earned on non-affiliated owned fiber, and free maintenance, which includes full routine, non-routine, and emergency maintenance. No outside companies use the fibers owned by the FirstEnergy Ohio operating companies. All the 2013 joint use construction projects included in the DCR have been placed in service at FirstEnergy Service Company and, as a common project, were allocated to the operating companies based upon the allocation factors established for the Rider DCR.¹⁴⁴

FirstEnergy provided the following work orders for projects under a Joint Build Agreement.

Table 23: Service Company Projects Under the Joint Build Agreement 12/31/13¹⁴⁵

Work Order Number	In-Service Date	Project Description	FERC Account	Total Plant in Service	Total Plant in Service in DCR
ITS-SC-000100-1	12/30/11	Davis Besse-Cleveland Fiber, Wadsworth-Akron GO Fiber, Sammis-Beaver Valley Fiber, Ashtabula Service Center & Sanborn Sub Fiber, SPS Diverse Fiber, Miles SC fiber, Holland Fiber: Phase 1	397	\$6,362,657	\$2,482,073
ITS-SC-000190-1	1/22/13	Holland Fiber: Phase 2, GO-Wadsworth Fiber, Jennings-Brooklyn Fiber, Boyertown Fiber, Altoona CoLo Power	391.2	\$803,216	\$313,335
ITS-SC-000245-1	12/30/13	ISOC-Wadsworth Fiber	391.2	\$558,987	\$218,061
		Totals		\$7,724,860	\$3,013,469

¹⁴³ FirstEnergy's response to Data Request BRC-1-30 CONFIDENTIAL.

¹⁴⁴ FirstEnergy's response to Data Request BRC-3-9 CONFIDENTIAL.

¹⁴⁵ FirstEnergy's response to Data Request BRC-6-2, Attachment 1-Confidential.

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Blue Ridge found nothing to indicate that the projects under the Joint Build Agreement included within the Rider DCR were inappropriate. The projects were placed in service at FirstEnergy Service Company and, as a common project, were allocated to the operating companies based upon the allocation factors established for the DCR.

Insurance Recoveries

Any insurance recoveries should be taken into consideration in the net costs of a project included in the DCR. FirstEnergy stated that there were no insurance recoveries charged to capital for any of the Companies for the period of December 1, 2012, through December 31, 2013.¹⁴⁶ In addition, there are no 2013 pending insurance recoveries not recorded or accrued that would be charged to the Companies.¹⁴⁷

Work Order Backlog

Blue Ridge found that the Companies have made significant progress in reducing the unitization backlog from the prior audits. The total number of work orders across the Companies included within the backlog was reduced by 73% compared to the number of orders in the unitization backlog as of last year's Rider DCR audit.¹⁴⁸ A table of the 2013 backlog was provided.

Table 24: 2013 Unitization of Work orders Backlog as of 12/31/13¹⁴⁹

CEI	Backlog	Count of Workorders
Distribution	Over 15 Mos	497
Transmission	9 Mos	8
General/Other	6 Mos	7
OE	Backlog	Count of Workorders
Distribution	Over 15 Mos	595
Transmission	Over 15 Mos	13
General/Other	Over 15 Mos	7
TE	Backlog	Count of Workorders
Distribution	Over 15 Mos	230
Transmission	Over 15 Mos	4
General/Other	12 Mos	5

Of significance is the Companies reduction of the number of work orders that are 15 months or older from the last audit as shown in the following table.

Table 25: Change in Work Order Unitization Backlog (15 Months or Older) 2012-2013

Period	CEI	OE	TE	Total
12/31/12	6,826	9,987	6,540	23,353
12/31/13	497	615	234	1,346
% Change	93%	94%	96%	94%

¹⁴⁶ FirstEnergy's response to Data Request BRC-1-19.

¹⁴⁷ FirstEnergy's response to Data Request BRC-1-20.

¹⁴⁸ FirstEnergy's response to Data Requests BRC 3-1(d).

¹⁴⁹ FirstEnergy's response to Data Request BRC Set-1-27.

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The Companies should continue their efforts to reduce the overall work order backlog.

Conclusion

Blue Ridge's review of gross plant through transactional testing and field inspection of the work order sample had several findings that impact the gross plant included in the Rider DCR. The impact of the combined findings would reduce gross plant by \$3,101,065 and increase the reserve by \$252,812 for a reduction to net plant of \$3,353,877.¹⁵⁰

ACCUMULATED RESERVE FOR DEPRECIATION

F. Determine if the Companies' recovery of the incremental change in Accumulated Reserve for Depreciation are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following accumulated reserve for depreciation ("reserve") incremental change for each company from actual 2012 to actual 2013.

Table 26: Actual 2012 and Actual 2013 Reserve for Depreciation Incremental Change¹⁵¹

Company	12/31/12	12/31/13	Incremental
CEI	(1,067,601,103)	(1,098,013,774)	(30,412,670)
OE	(1,118,005,105)	(1,158,106,675)	(40,101,570)
TE	(506,705,680)	(519,919,664)	(13,213,984)
Total	(2,692,311,889)	(2,776,040,112)	(83,728,224)

The Actual and Estimated Schedules B-3 support the incremental change to the reserve, which provide the reserve for accumulated depreciation (reserve) balances by FERC account for distribution, subtransmission, general, intangible plant, and allocated Service Company general and intangible plant. A separate schedule supports the intangible gross plant balances.

Blue Ridge found several adjustments that should be made to the reserve balances to ensure that net plant is appropriately reflected in the Rider DCR. The specific adjustments are discussed in the Variance, Exclusions, and Gross Plant in Service sections.

Mathematical Verification

Blue Ridge performed mathematical checks on calculations included in the actual and estimated schedules that supported the reserve and checked whether the reserve rolled forward to the revenue requirement calculation correctly. The calculations and roll forward were correct.

Source Data Validation

Blue Ridge traced the values used for the actual 12/31/13 and estimated 3/31/14 reserve balances to the source document. The actual 12/31/13 balances reconciled to the supporting documents.

¹⁵⁰ WP FEOH Adjustments to Plant and Reserve-Confidential.

¹⁵¹ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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The workpaper supporting the estimated 3/31/14 gross plant in service balances also supports the estimated 3/31/14 reserve balances. The estimates are based upon 2014 Forecast Version 12. The Companies' budgets are not established on an individual FERC account basis. FirstEnergy developed a workpaper that allocated the budget to the FERC accounts used in Rider DCR based upon the most recent actual gross plant FERC balances.¹⁵² Blue Ridge found the allocation methodology used to develop the first quarter estimate well documented and reasonable. The balances used in Rider DCR reconciled to the source documentation.

Removal Work in Progress (RWIP)

The Companies' Reserve included a new line item for Removal Work in Progress (RWIP). The amounts reduce the Reserve, which results in an increase to net plant. The following amounts were included for actual 12/31/2013 and estimated 3/31/2014.

Table 27: RWIP Included in Reserve - Actual 12/31/2013 and Estimated 3/31/2014

Company	Actual 12/31/13	Estimate 3/31/14
CE	(5,088,972)	(6,188,972)
OE	(349,078)	(2,849,078)
TE	(5,531,615)	(6,431,615)
FE	(160,690)	(160,690)
RWIP Total	(11,130,354)	(15,630,355)

The Companies explained that dollars spent on removal work are not moved from RWIP to the Reserve account until the removal work is unitized. The Companies' prior treatment of RWIP resulted in a timing lag between when the un-unitized retirement activity was recognized as a credit to gross plant and when the un-unitized removal activity was recognized as a reduction to the reserve. Starting with the Companies' August 2, 2013, Rider DCR filing, RWIP was included in rate base in order to remove this timing lag between when the un-unitized retirements and un-unitized removal activity are recognized in net plant for the purposes of Rider DCR.¹⁵³

Blue Ridge found the Companies' explanation and the support for the amounts used to be not unreasonable.

Impact of Change in Pension Accounting

Similar to the Gross Plant schedules, the reserve balances were adjusted to remove the cumulative pre-2007 impact of a change in pension accounting.

Additional Validation Testing

In addition to reconciling the reserve to supporting documentation, Blue Ridge performed additional analysis to validate the reserve balances. Assets are placed in service primarily as (1) an addition of new assets (for example, a new residential sub-division) or (2) a replacement of existing assets. When assets are replaced, the existing assets are retired. Gross plant in service and the depreciation reserve is reduced to reflect that the assets are no longer in service on the books of the company. When assets are replaced, the company incurs cost of removal and, in some cases,

¹⁵² FirstEnergy's response to Data Request 1-10 Attachment 1-Confidential.

¹⁵³ FirstEnergy's response to Data Request BRC 4-1 CONFIDENTIAL.

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receives salvage for the old assets. Thus, the reserve has three components: (1) accumulated depreciation, (2) cost of removal, and (3) salvage. Cost of removal represents the cost of dismantling, demolishing, tearing down, or otherwise removing retired utility plant. Salvage represents the amount received for property retired.

The retirement of assets does not affect net plant in service since the original cost retired reduces gross plant in service and also reduces the reserve. However, the recording of cost of removal decreases the reserve and, therefore, increases net plant in service. Salvage increases the reserve and, therefore, decreases net plant in service.

Of the 110 sample work orders Blue Ridge obtained as part of the validation testing, 21 work orders were for replacement work.¹⁵⁴ The Companies provided the retirement data, cost of removal, and, if appropriate, salvage for each work order from the PowerPlant Asset Accounting system. Salvage is captured in most instances on an aggregate basis. Scrap is sold from a separate work order to avoid individual scrap transactions and additional paperwork. This procedure is normal for utilities.

Blue Ridge tested that assets were retired and that cost of removal was recorded. Blue Ridge found that all sample replacement work orders had supporting detail. All replacement work orders had corresponding retirements and cost of removal.

Blue Ridge found that several replacement work order retirements were not recorded on a timely basis resulting in the over accrual of depreciation on the old assets.¹⁵⁵ The impact of these findings on the reserve has an immaterial impact on Rider DCR. The other replacement work orders reviewed had asset retirement dates that were in line with the in-service dates of the replacement work. Cost of removal was charged for all work orders, and the timing of those charges was reasonable in relationship to the replacement work.¹⁵⁶

As discussed in detail in the Gross Plant in Service section of this report, during the transactional testing of the sampled work orders, Blue Ridge found several adjustments that should be made to the Rider DCR reserve balances.¹⁵⁷ The adjustments would have minimal impact to the overall Rider DCR revenue requirements, supporting the conclusion that the accumulated reserve for depreciation is not unreasonable.

Conclusion

Blue Ridge found several adjustments that should be made to the reserve balances to ensure that net plant is appropriately reflected in the DCR. The specific adjustments are discussed in the Variance, Exclusions, and Gross Plant in Service sections.

¹⁵⁴ WP FEOH Sample Work Order Testing Matrix - Confidential.

¹⁵⁵ See Work Orders # OE-001090-S-3, OE-001657-F and 13564431 discussed in the Gross Plant in Service section of the report.

¹⁵⁶ WP FEOH Sample Work Order Testing Matrix - Confidential.

¹⁵⁷ WP FEOH Adjustments to Plant and Reserve-Confidential.

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ACCUMULATED DEFERRED INCOME TAXES

G. Determine if the Companies' recovery of the incremental accumulated deferred income taxes (ADIT) are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following accumulated deferred income taxes (ADIT) incremental change for each company.

Table 28: Actual 2012 and Actual 2013 ADIT Incremental Change¹⁵⁸

Company	12/31/12	12/31/13	Incremental
CEI	(450,759,024)	(459,354,961)	(8,595,937)
OE	(480,833,726)	(483,336,490)	(2,502,765)
TE	(140,194,547)	(135,457,342)	4,737,205
Total	(1,071,787,297)	(1,078,148,794)	(6,361,496)

The incremental change is supported by the actual and estimated ADIT Schedules. The schedules include the FERC accounts 281 and 282 Property Accounts.

Blue Ridge concludes that the ADIT is not unreasonable.

Authority to Recover ADIT in Rider DCR

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the authority for the inclusion of Accumulated Deferred Income Taxes (ADIT) within Rider DCR. Section B.2 of the Combined Stipulation specifically states:

The net capital additions included for recognition under Rider DCR will reflect gross plant in service not approved in the Companies' last distribution rate case less growth in accumulated depreciation reserve and accumulated deferred income taxes associated with plant in service since the Companies' last distribution rate case.¹⁵⁹ [Emphasis added]

During the 2011 audit, Staff further clarified that the treatment of ADIT in the Rider DCR was intended to be the same methodology approved in the last distribution rate case.¹⁶⁰

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations included on the actual and estimated Companies' and Service Company's ADIT Schedules and verified that ADIT rolled forward to the revenue requirement calculation correctly.¹⁶¹ No exceptions were noted.

¹⁵⁸ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁵⁹ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

¹⁶⁰ Blue Ridge's Compliance Audit of the 2011 Delivery Capital Recovery (DCR) Rider, submitted April 12, 2012, page 52.

¹⁶¹ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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Source Data Validation

The ADIT balances included within the Compliance filings reconciled to the supporting documentation. The Ohio Edison and Toledo Edison's Riders DCR appropriately excluded the Additional State Depreciation Item-PA and State 263A Adjustment-PA as recommended in the prior audit. The Service Company ADIT balances included ADIT related to other jurisdictions that are related to doing business in New Jersey, Maryland, Pennsylvania, and West Virginia. For purposes of Rider DCR, total Service Company ADIT is allocated to the operating companies based on the allocation factors specified in Case No. 10-388-EL-SSO. Therefore, the amounts for other jurisdictions included within the Service Company ADIT are appropriately included in the Rider DCR calculations.

Conclusion

Blue Ridge concludes that the ADIT is not unreasonable.

DEPRECIATION EXPENSE

H. Determine if the Companies' recovery of the incremental depreciation expense are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include depreciation expense for each company as shown in the following table.

Table 29: Actual 2012 and Actual 2013 Depreciation Expense Incremental Change¹⁶²

Company	12/31/12	12/31/13	Incremental
CEI	83,822,967	86,146,016	2,323,049
OE	84,162,093	87,705,721	3,543,628
TE	33,806,159	34,460,384	654,224
Total	201,791,219	208,312,121	6,520,901

Schedule B-3.2 for each operating company provides the calculated depreciation expense based on the plant investment. The depreciation (usually referred to as amortization) calculations associated with Other Plant FERC 303 accounts were performed on Schedule Intangible Depreciation Expense Calculation.

Blue Ridge found that the calculation of depreciation expense is not unreasonable. However, the Rider DCR uses plant in service balances to develop the depreciation expense component of the revenue requirements. The revised gross plant should be flowed through the Rider DCR model to ensure that the appropriate amount of depreciation expense is included within the DCR.

Mathematical Verification

Blue Ridge verified the mathematical accuracy of the depreciation expense calculations and found nothing that affected Rider DCR revenue requirements. The plant balances used to calculate the depreciation were linked to the plant schedules and no exceptions were noted. The calculated

¹⁶² WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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depreciation expense on Schedule B-3.2 and the Intangible Depreciation Schedule rolled forward to the revenue calculation correctly.¹⁶³

Source Data Validation

The last approved depreciation study for the Companies was conducted by the Staff of the Public Utilities Commission of Ohio (PUCO) as part of Case No. 07-551-EL-AIR. The PUCO Staff presented the results of its study in its Staff Report issued on December 4, 2007. The PUCO Order in Case No. 07-551-EL-AIR was issued on January 21, 2009, and ordered the Companies to use the accrual rates proposed by the Staff.¹⁶⁴

Blue Ridge compared the depreciation accrual rates used in the Rider DCR sub-transmission, distribution, and general plant depreciation calculations to the rates within Staff's Reports.¹⁶⁵ Two items were identified and resolved: (1) the Case No. 07-551-EL-AIR Staff Report did not have a balance for CE Account 359 Roads & Trails, so no depreciation accrual rate was provided (the company used the accrual rate from Case No. 89-1001-EL-AIR), and (2) the CE accrual rate for Account 371 Installation on Customer Premises did not agree with the Staff report. Further investigation determined that Staff's Report was corrected during the last distribution case. Both issues were resolved, and the accrual rates used by CE were not unreasonable.

Conclusion and Recommendation

Blue Ridge found that the calculation of depreciation expense is not unreasonable. However, the Rider DCR uses plant in service balances to develop the depreciation expense component of the revenue requirements. The revised gross plant should be flowed through the Rider DCR model to ensure that the appropriate amount of depreciation expense is included within the DCR.

As was found in prior audits, the depreciation accrual rates are from a study using balances as of May 31, 2007. Blue Ridge recommended, and Staff and the Companies agreed, that an updated depreciation study would be conducted and submitted to Staff no later than June 1, 2015.¹⁶⁶

PROPERTY TAX EXPENSE

- I. Determine if the Companies' recovery of incremental property taxes are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following incremental property tax expense for each company.

¹⁶³ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁶⁴ FirstEnergy's response to Data Request BRC 1-21.

¹⁶⁵ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁶⁶ Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.

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Table 30: Actual 2012 and Actual 2013 Property Tax Expense Incremental Change¹⁶⁷

Company	12/31/12	12/31/13	Incremental
CEI	92,056,840	99,931,823	7,874,983
OE	83,009,015	89,907,692	6,898,677
TE	26,981,834	29,165,334	2,183,500
Total	202,047,689	219,004,850	16,957,161

The Compliance Filings included schedules that calculate personal and real property taxes based upon the gross plant for the three operating companies and the Service Company.

Blue Ridge found that the calculation of property tax is not unreasonable. However, the Rider DCR uses plant in service balances to develop the property tax component of the revenue requirements. The revised gross plant should be flowed through the Rider DCR model to ensure that the appropriate amount of property tax is included within the DCR.

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations and validated that the calculated property taxes rolled forward to the revenue requirement calculation performed correctly. No exceptions were noted.¹⁶⁸

Source Data Validation

Blue Ridge found that the workpapers were well organized and fully sourced. All values in the schedules reconciled to the provided source data.

The workpapers were provided to support the November 1, 2013, filing. With the exception of changes in gross plant, these workpapers also supported the February 4, 2014, schedules.

Conclusion

Blue Ridge found that the calculation of property tax is not unreasonable. However, the Rider DCR uses plant in service balances to develop the property tax component of the revenue requirements. The revised gross plant should be flowed through the Rider DCR model to ensure that the appropriate amount of property tax is included within the DCR.

SERVICE COMPANY

- J. Determine if the Companies' recovery of allocated Service Company plant in service, accumulated reserve, ADIT, depreciation expense, and property tax expense are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following Service Company incremental plant in service, accumulated reserve, ADIT, depreciation expense, and property tax expense for each company.

¹⁶⁷ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁶⁸ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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Table 31: Service Company Rate Base and Expense Incremental Change-12/31/12 to 12/31/13¹⁶⁹

Description	CEI	OE	TE	Total
Actual 12-31-13				
Gross Plant	73,129,621	88,620,131	39,009,326	200,759,078
Reserve	27,066,586	32,799,902	14,438,052	74,304,540
ADIT	12,353,473	14,970,218	6,589,678	33,913,369
Rate Base	33,709,562	40,850,011	17,981,596	92,541,169
Depreciation Expense	2,534,695	3,071,601	1,352,075	6,958,371
Property Tax Expense	51,333	62,206	27,382	140,922
Total Expenses	2,586,028	3,133,807	1,379,458	7,099,293
Actual 12-31-12				
Gross Plant	68,071,119	82,490,124	36,310,984	186,872,227
Reserve	21,981,883	26,638,144	11,725,733	60,345,760
ADIT	11,367,361	13,775,225	6,063,659	31,206,245
Rate Base	34,721,875	42,076,755	18,521,592	95,320,222
Depreciation Expense	1,686,509	2,043,750	899,630	4,629,889
Property Tax Expense	88,652	107,430	47,289	243,371
Total Expenses	1,775,161	2,151,180	946,919	4,873,260
Incremental				
Gross Plant	5,058,502	6,130,007	2,698,342	13,886,851
Reserve	5,084,703	6,161,758	2,712,319	13,958,780
ADIT	986,112	1,194,993	526,019	2,707,124
Rate Base	(1,012,314)	(1,226,745)	(539,996)	(2,779,054)
Depreciation Expense	848,186	1,027,851	452,445	2,328,482
Property Tax Expense	(37,319)	(45,224)	(19,907)	(102,449)
Total Expenses	810,867	982,627	432,539	2,226,033

The Compliance Filings include actual 12/31/13 and estimated 3/31/14 schedules that accumulate Service Company general and intangible gross plant, reserve, ADIT, and incremental depreciation and property tax expense that are then allocated to the Companies based upon the allocation factors agreed to within the Combined Stipulation.

Several errors were identified during the transactional testing of the sampled work orders related to the Service Company that the Companies should correct. However, Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable. The specific adjustments are discussed in the Gross Plant in Service section of this report.

Authority to Include Service Company Costs and Support for Allocation Factors

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the authority for the Service Company allocation factors used within Rider DCR. Section B.2 of the Combined Stipulation specifically states the following:

¹⁶⁹ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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The expenditures reflected in the filing shall be broken down by the Plant in Service Account Numbers associated with Account Titles for subtransmission, distribution, general and intangible plant, including allocated general plant from FirstEnergy Service Company that supports the Companies based on allocations used in the Companies' last distribution rate case.¹⁷⁰ [Emphasis added]

The following allocation factors were used in Case No. 07-551-EL-AIR ¹⁷¹ and were appropriately used in accordance with the Combined Stipulation to allocate Service Company costs in Rider DCR:

Table 32: Service Company Allocation Factors

	CEI	OE	TE	Total
Allocation Factors	14.21%	17.22%	7.58%	39.01%

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations included within the Service Company schedules and verified that allocated items rolled forward to the operating companies' schedules correctly as incremental changes from the values used in the last distribution rate case.¹⁷²

Source Data Validation

The actual 12/31/13 and estimated 3/31/14 Service Company general and intangible gross plant, reserve, and ADIT were also reconciled to their source documents.¹⁷³ The Service Company depreciation accrual rates and the property tax rates are based upon the weighted average of the Companies' rates using the authorized allocation factors. The approach is not unreasonable.

Additional Validation Testing

As discussed in the Gross Plant section of this report, Blue Ridge performed additional validation testing using selected sample work orders (See Gross Plant - Additional Validation Testing through Sampled Work Orders). Service Company work orders were included within the performed testing. FirstEnergy provided adequate support for the recorded costs.

Conclusion

Several errors were identified during the transactional testing of the sampled work orders related to the Service Company that the Companies should correct. However, Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable. The specific adjustments are discussed in the Gross Plant in Service section of this report.

¹⁷⁰ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

¹⁷¹ FirstEnergy's response to 2011 audit Data Request BRC 10-10 and BRC 10-11.

¹⁷² WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁷³ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

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COMMERCIAL ACTIVITY TAX AND INCOME TAXES

- K. Determine if the Companies' recovery of Commercial Activity Tax (CAT) associated with the revenue requirement are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed
- L. Determine if the Companies' recovery of associated income taxes associated with the revenue requirement are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following incremental commercial activity tax (CAT) and income tax expense for each company.

Table 33: Actual 2012 and Actual 2013 CAT and Income Tax Expense Incremental Change¹⁷⁴

Company	12/31/12	12/31/13	Incremental
CEI	6,542,389	7,250,753	708,363
OE	6,203,041	7,838,815	1,635,774
TE	669,836	1,355,724	685,888
Total	13,415,266	16,445,291	3,030,025

Rider DCR Actual and Estimated Summary Schedules include the calculation for the commercial activity tax and income taxes.

Although the adjustments discussed in other sections of this report will impact the final Commercial Activity Tax and income tax included within the Rider DCR, Blue Ridge found that the commercial activity tax and income tax are correctly calculated and are not unreasonable.

Authority to Include Commercial Activity Tax and Income Tax in Rider DCR

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the authority for the recovery of commercial activity tax within Rider DCR. Section B.2 of the Combined Stipulation specifically states:

Effective January 1, 2012, a new rider, hereinafter referred to as Rider DCR ("Delivery Capital Recovery"), will be established to provide the Companies with the opportunity to recover property taxes, Commercial Activity Tax and associated income taxes...¹⁷⁵ [Emphasis added]

Mathematical Verification

Blue Ridge performed mathematical checks on the calculation of the commercial activity tax and income tax expense included in the Summary Schedules of the Compliance Filings. No exceptions were noted.

Source Data Validation

FirstEnergy substantiated the CAT and income tax rates included within the Compliance Filings. The applicable CAT rate of 0.26% was applied to gross receipts. The composite tax rates

¹⁷⁴ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁷⁵ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

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include federal, Ohio, and municipalities' tax rates. The municipal rates are based upon the rates effective for 2011.¹⁷⁶

Conclusion

Although the adjustments discussed in other sections of this report will impact the final Commercial Activity Tax and income tax included within the DCR, Blue Ridge found that the commercial activity tax and income tax are correctly calculated and are not unreasonable.

RETURN

M. Determine if the Companies return on and of plant-in-service associated with distribution, subtransmission, and general and intangible plant, including allocated general plant from FirstEnergy Service Company are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Rider DCR Compliance Filings include the following calculated return on rate base at 8.48% for each company.

Table 34: Actual 2012 and Actual 2013 Return on Rate Base Incremental Change¹⁷⁷

Company	12/31/12	12/31/13	Incremental
CEI	18,477,941	20,439,097	1,961,157
OE	17,725,125	22,460,621	4,735,496
TE	1,841,152	3,843,503	2,002,351
Total	38,044,218	46,743,222	8,699,003

The Rider DCR Summary Schedule includes the calculation for the rate of return and the return on plant using the calculated rate base.

Although the adjustments discussed in other sections of this report will impact the final return included within the DCR, Blue Ridge found that the calculation of the return component of the DCR is not unreasonable.

Authority to Collect a Return on Plant-in-Service in Rider DCR

The Combined Stipulation and Order in Case No. 10-0388-EL-SSO (and reaffirmed in Case No. 12-1230-EL-SSO) provides the capital structure, cost of debt, and return on equity that is allowed in Rider DCR Revenue Requirements. Section B.2 states the following:

The return earned on such plant will be based on the cost of debt of 6.54% and a return on equity of 10.5% determined in the last distribution rate case utilizing a 51% debt and 49% equity capital structure.¹⁷⁸

¹⁷⁶ FirstEnergy's response to Data Request BRC 9-7-Confidential.

¹⁷⁷ WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential.

¹⁷⁸ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

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Mathematical Verification

The rate of return and the return on plant is calculated correctly in accordance with the Combined Stipulation.

Source Data Validation

The capital structure and rates used within Rider DCR agree with the stipulated amounts.

Conclusion

Although the adjustments discussed in other sections of this report will impact the final return included within the DCR, Blue Ridge found that the calculation of the return component of the DCR is not unreasonable.

RIDER DCR CALCULATION

N. Determine if the Companies' revenue requirement calculation for Rider DCR are not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed

The Compliance Filing Summary Schedules pull together the various components allowed within Rider DCR and calculate the revenue requirements based upon the actual 12/31/13 and estimated 3/31/14 balances.

Although Blue Ridge found, during transaction testing of the work order sample, that the balances used in the Rider DCR calculations should be adjusted, Blue Ridge found that the Rider DCR calculation is not unreasonable.

FirstEnergy provided a summary of the Annual Rider DCR Revenue To-Date in compliance with the Commission's Order. Blue Ridge found that the Companies' DCR revenues are under the adjusted annual cap. However, Blue Ridge recommends that the Companies include a comparison of the annual DCR revenue to the adjusted annual cap taking into account prior years under and over collections.

Mathematical Verification

The various actual 12/31/13 and estimate 3/31/14 components, including gross plant, reserve, ADIT, depreciation and property tax expense, were discussed in other sections of this report and roll forward into the revenue requirements. The calculations are correct.

Annual Cap

The Combined Stipulation from Case No. 10-388-EL-SSO states that there is an annual cap of the Rider DCR Revenue collected. Section B.2 of the Combined Stipulation specifically states the following:

For the first twelve months Rider DCR is in effect, the revenue collected by the Companies shall be capped at \$150 million; for the following 12 months, the revenue collected under Rider DCR shall be capped at \$165 million; and for the following five months, the revenues collected under Rider DCR shall be capped at \$75 million. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider

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authorized by the Commission to recover delivery-related capital additions, will be excluded from Rider DCR and the annual cap allowance [emphasis added].¹⁷⁹

For any year that the Companies' spending would produce revenue in excess of that period's cap, the overage shall be recovered in the following cap period subject to such period's cap. For any year the revenue collected under the Companies' Rider DCR is less than the annual cap allowance, the difference between the revenue collected and the cap shall be applied to increase the level of the subsequent period's cap.¹⁸⁰

The February 4, 2014, Rider DCR Compliance Filing cover letter states, "The attached schedules demonstrate that the year-to-date revenue requirement is below the permitted cap for 2013." In the May 1, 2012, Rider DCR Compliance Filings, FirstEnergy implemented the recommendation, in compliance with the Commission's Order, to include the actual amount collected under Rider DCR as part of the quarterly compliance filings to ensure that the annual cap of collected revenue for that time period is not exceeded."¹⁸¹ The February 4, 2014, Rider DCR Compliance filings included a summary table of the 2013 annual Rider DCR Revenue as shown in the following table.

Table 35: Annual Rider DCR Revenue Through 12/31/13¹⁸²

Company	2013 Annual Revenue
Cleveland Electric Illuminating Company	\$82,411,644
Ohio Edison Company	\$82,734,228
The Toledo Edison Company	\$20,486,055
Total Requested Revenue Requirements	\$185,631,927

The annual Rider DCR revenue cap for 2013 is \$165 million. The Combined Stipulation allows the Rider DCR revenue cap to be adjusted for any under collection in the prior period. The Companies stated that the total Rider DCR revenue in 2012 of \$128,616,253 was \$21,383,747 beneath the \$150,000,000 annual revenue cap for 2012.¹⁸³ When this under collection is added to the 2013 annual cap, the Companies annual Rider DCR revenue is below the annual cap.

For ease of reference and clarity, Blue Ridge recommends that the Companies include a comparison of the annual Rider DCR revenue to the adjusted annual cap taking into account prior years' under and over collections.

Conclusion

Although Blue Ridge found that the balances used in the Rider DCR calculations should be adjusted, the Rider DCR calculation is not unreasonable. The Companies' Rider DCR revenues are under the adjusted annual cap. Blue Ridge recommends that the Companies include a comparison of the annual Rider DCR revenue to the adjusted annual cap taking into account prior years under and over collections.

¹⁷⁹ Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

¹⁸⁰ Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 12.

¹⁸¹ FirstEnergy's response to 2012 Data Request BRC 4-6(h) CONFIDENTIAL.

¹⁸² Ohio Edison Rider DCR Compliance Filing dated February 1, 2013, page 57.

¹⁸³ FirstEnergy's response to Data Request BRC 15-1.

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PROJECTIONS

- O. Develop an understanding of the projection methodology used by the Company for plant-in-service, property taxes, Commercial Activity Tax, and Income Tax

The Compliance Filings include projections for the first quarter 2014. To develop the first quarter 2014 estimates, the Companies used estimated plant in service and reserve balances as of 3/31/14 from the 2014 Forecast Version 12. The Companies' budgets are not established on an individual FERC account basis. FirstEnergy developed a workpaper that allocated the budget to the FERC accounts used in Rider DCR based upon the most recent actual gross plant and reserve FERC balances.¹⁸⁴ The estimated 3/31/14 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate recommendations from the March 2013 Rider DCR Audit Report, and to remove the pre-2007 impact of a change in pension accounting.

Blue Ridge found nothing that would indicate that the projected amounts are unreasonable. In addition, the projected amounts will be reconciled to the actual amounts, and the Rider DCR revenue requirement will be adjusted to actual in the next quarter's Rider DCR Compliance Filings.

Authority to use Projected Data

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the authority to include estimated balances in Rider DCR. Section B.2 of the Combined Stipulation specifically states the following:

The quarterly filings will be based on estimated balances as of March 31, June 30, September 30, and December 31, respectively, with any reconciliation between actual and forecasted information being recognized in the following quarter.¹⁸⁵

Mathematical Verification and Source Validation

The actual and estimated schedules in the Compliance Filings used the same format and calculations for each of the components and the revenue requirements calculations. Blue Ridge reviewed the estimated 3/31/2014 Schedules while performing specific tasks in each of the previous sections. Specific observations and findings are discussed in the appropriate section.

Conclusion

Blue Ridge found that the projected amounts included within the first quarter 2014 are not unreasonable. In addition, the projected amounts will be reconciled to the actual amounts and the Rider DCR revenue requirement will be adjusted to actual in the next quarter's Rider DCR Compliance Filings.

¹⁸⁴ FirstEnergy's response to Data Request 1-10 Attachment 1-Confidential.

¹⁸⁵ Case No. 10-0388-EL-SSO Second Supplemental Stipulation July 22, 2010, page 4.

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OVERALL IMPACT OF FINDINGS ON RIDER DCR REVENUE REQUIREMENTS

P. Determine the impact of all findings to Rider DCR revenue requirements.

Blue Ridge's recommended adjustments to Rider DCR are shown in the following table. The recommendations include adjustments to the gross plant in service and reserve balances and the flow-through impact on depreciation expense. Explanations of the issues are provided in the appropriate sections.

Table 36: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement¹⁸⁶

Company	As Filed Total	AMI, ATSI, Generation Exclusions	Work Order Adjustments	Modified DCR	Change in Rider DCR
CEI	\$ 90,972,782	\$ (425,654)	\$ (13,973)	\$ 90,533,155	\$ (439,626)
OE	\$ 90,759,689	\$ (135,961)	\$ (31,063)	\$ 90,592,665	\$ (167,024)
TE	\$ 24,731,649	\$ -	\$ (437,233)	\$ 24,294,417	\$ (437,233)
Total	\$ 206,464,120	\$ (561,615)	\$ (482,268)	\$ 205,420,237	\$ (1,043,883)

SCOPE AREA 2

Scope Area 2 Objective: Determine if the merger between FirstEnergy and Allegheny Energy created net job losses at the Companies or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio, per Commission order in 10-388-EL-SSO, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

This section of the report addresses Scope Area 2 whose objective is to determine whether the merger between FirstEnergy and Allegheny Energy created net job losses as a result of involuntary attrition in regard to the merger between FirstEnergy Corp. and Allegheny Energy, Inc. Specifically, according to the Commission Order in 10-388-EL-SSO, the net job losses of concern regard those attributable to the merger and resulting at the Companies or with respect to FirstEnergy Service Company employees who provide support for distribution services provided by the Companies and are located in Ohio.

FirstEnergy Corp merged with Allegheny Energy, Inc. effective on February 25, 2011. According to the Opinion and Order in Case No. 10-388-EL-SSO, the Commission agreed not to review the merger because it was an all stock transaction and no change would result in control of the Companies.¹⁸⁷ However, regarding the merger, the Commission did order the following:

“Net capital additions for plant in service for general plant shall be included in Rider DCR provided that there are no net job losses at the Companies as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.”¹⁸⁸

¹⁸⁶ WP FEOH Adjustments to FE Rider DCR Compliance Filing 2-4-14-Confidential.

¹⁸⁷ Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 17.

¹⁸⁸ Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 12.

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Furthermore, the Commission's Order in Case No. 12-1230-EL-SSO, extending the Rider DCR, repeated the above statement in regard to no net job losses resulting from involuntary attrition due to the merger.¹⁸⁹

In originally defining its intent regarding FirstEnergy Corp attrition, the Commission clarified in its Order that the merger should result in no net job losses at the FirstEnergy Ohio Companies, which include Ohio Edison Company, The Cleveland Electric Illuminating Company, The Toledo Edison Company, and FirstEnergy Service Company.¹⁹⁰ Based on the referenced Orders, Blue Ridge recognized that the Commission was particularly interested in and committed to ensuring that no net job loss of Ohio workers would take place once the Rider DCR was in place. The Commission Order was very specific in ruling that the net capital additions shall be included in Rider DCR only if there are no net job losses as a result of involuntary attrition due to the merger.

In the cover letters from FirstEnergy to the Commission of all three Companies' quarterly Rider DCR adjustments submitted on February 4, 2014, a statement reads as follows:

"Further, as set forth in the Combined Stipulation, there have been no net job losses at the Companies and at FirstEnergy Service Company, specifically as to employees of the FirstEnergy Service Company who are located in Ohio and provide support for distribution services provided by the Companies, as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc."¹⁹¹

In the 2011 and the 2012 Rider DCR audits, Blue Ridge found that no net job losses resulted from the merger of FirstEnergy Corp and Allegheny Energy, Inc. To verify that the Companies and FirstEnergy Service Company experienced no net job losses for Ohio employees, Blue Ridge reviewed employee headcounts at the end of 2013. Since the conclusion of last year's audit revealed no net job losses according to the details of the Order related to the merger, Blue Ridge compared year-end 2013 totals to those of year-end 2012. This data, provided by FirstEnergy, indicates that the number of employees did, in fact, decrease by 142 from last year's total.

Table 37: Pre Merger and End of Year Headcount Comparison¹⁹²

Company	2/1/11	12/31/12	Change 11 to 12	12/31/13	Change 12 to 13
CE	921	889	-32	848	-41
OE	1,231	1,193	-38	1,130	-63
TE	391	374	-17	354	-20
FESC	1,547	1,585	-38	1,567	-18
TOTAL	4,090	4,041	-49	3,899	-142

¹⁸⁹ Case No. 12-1230-EL-SSO Opinion and Order, July 18, 2012, page 11.

¹⁹⁰ Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 35.

¹⁹¹ 2013 Rider DCR Tariff Compliance Filing for The Cleveland Electric Illuminating Company, February 4, 2014; 2013 Rider DCR Tariff Compliance Filing for Ohio Edison Company, February 4, 2014; and 2013 Rider DCR Tariff Compliance Filing for The Toledo Edison Company, February 4, 2014.

¹⁹² FirstEnergy's responses to Data Request BRC Set 1-INT-002 – Confidential and Set 11-INT-001 – Confidential.

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The subject of this scope area, however, is not merely a calculation of employee levels from one year to the next. The Commission's concern regards net job losses *as a result of involuntary attrition as a result of the merger*. Therefore, while total headcount may go down, if these reductions do not fit the criteria, they cannot be regarded as violating the Order's intent.

Blue Ridge reviewed supporting detail concerning the employee levels and found that the 142 headcount decrease was calculated as follows:¹⁹³

Voluntary Attrition	(225)
Non-merger related involuntary attrition	(16)
New hires	101
Net transfers in/out of Ohio	2
Net transfers within Ohio	(4)
Total Change	(142)

Net transfers include employees who had or are now providing distribution services for CEI, OE, and TE.

Based on the FirstEnergy headcount data reviewed, Blue Ridge found that there were no net job losses at the Companies or with respect to FirstEnergy Service Company employees, who provide support for distribution services provided by the Companies and are located in Ohio, per Commission order in 10-388-EL-SSO, as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

¹⁹³ FirstEnergy's response to Data Request BRC Set 11-INT-001, Attachment 1 – Confidential.

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APPENDICES

Appendix A: Rider DCR Excerpts within Stipulations and Order

Appendix B: Abbreviations and Acronyms

Appendix C: Data Requests and Information Provided

Appendix D: Workpapers

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APPENDIX A: RIDER DCR EXCERPTS WITHIN ORDER AND COMBINED STIPULATION

Excerpts from the Commission Opinion and Order and the Combined Stipulation specifically related to Rider DCR are provided below.

Case No. 10-388-EL-SSO Commission Opinion and Order

On August 25, 2010, the Commission issued its Opinion and Order regarding Case No. 10-388-EL-SSO. The Order approved the following Stipulation Agreements with modifications:

- Original Stipulation Agreement included with the Companies' Application dated March 23, 2010
- First Supplemental Stipulation Agreement dated May 13, 2010 which modified the terms of the original stipulation
- Second Supplemental Stipulation dated July 19, 2010

The original stipulation and two supplemental stipulations are collectively referred to as the Combined Stipulation, which addressed all the issues within the case. The Commission's Order included several references to the Deliver Capital Recover Rider (DCR), which is the subject of this report. Those excerpts are provided as follows:

Order, pages 11-12 B. Summary of the Combined Stipulation:

- (13). Effective January 1, 2012, the Delivery Capital Recovery Rider (Rider DCR) will be established to provide the Companies with the opportunity to recovery property taxes, commercial activity tax and associated income taxes and earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plant, including general plant from FirstEnergy Service Company that supports the Companies and was not included in the rate base determined in *In re FirstEnergy*, Case No. 07-551-EL-AIR, et al, Opinion and Order (January 21, 2009). The return earned on such plant will be based on the cost of debt of 6.54 percent and a return on equity of 10.5 percent determined in that proceeding utilizing a 51 percent debt and 49 percent equity capital structure (*id.* at 13-14).

For the first twelve months Rider DCR is in effect, the revenue collected by the Companies shall be capped at \$150 million; for the following 12 months, the revenue collected under Rider DCR shall be capped at \$165 million; and for the following five months, the revenues collected under Rider DCR shall be capped at \$75 million. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be excluded from Rider DCR and the annual cap allowance. Net capital additions for plant in service for general plant shall be included in Rider DCR provided that there are no net job losses at the Companies as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc. (*id.* at 14-15).

Rider DCR will be adjusted quarterly, and the quarterly Rider DCR update filing will not be an application to increase rates within the meaning of Section 4909.18, Revised Code. The first quarterly filing will be made on or about October 31, 2011,

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based upon an estimated balance as of December 31, 2011, with rates effective for bills rendered as of January 1, 2012. For any year that the Companies' spending would produce revenue in excess of that period's cap, the overage shall be recovered in the following cap period subject to such period's cap. For any year the revenue collected under the Companies' Rider DCR is less than the annual cap allowance, the difference between the revenue collected and the cap shall be applied to increase the level of the subsequent period's cap (*id.* at 15-17).

Order, page 25, 2. "Does the settlement, as a package, benefit ratepayers and the public interest?"

a. Summary of the Parties' Arguments.

FirstEnergy further notes that the proposed ESP would replace its existing Rider DSI with the Rider DCR; FirstEnergy contends that Rider DCR will provide for important investments in the Companies' distribution infrastructure and that Rider DCR incorporates additional customer and regulatory improvements over Rider DSI (Staff Ex. 2 at 4). FirstEnergy notes that Staff and other Signatory Parties will have the opportunity to review quarterly updates to Rider DCR and to participate in an annual audit process (Co. Ex. 4 at 18; Tr. I at 225-227).

And on page 27.

Moreover, Staff claims that Rider DCR will recover costs, subject to revenue requirement caps each year, associated with actual investments in the Companies' distribution system. All revenue associated with Rider DCR will be included as revenue in the return on equity calculation for purposes of the SEET test and will be eligible for refund.

Order, page 35, "Does the settlement, as a package, benefit ratepayers and the public interest?"

b. Commission Decision

The Commission also believes that the Combined Stipulation should be modified with respect to the provision that net capital additions for plant in service for general plant shall be included in Rider DCR so long as there are no net job losses at "the Companies" as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. (Joint Ex. 1 at 15). According to testimony at the hearing, this provision does not cover employees of FirstEnergy Service Company (Tr. I at 85-86). However, many functions for the Companies are performed by employees of the FirstEnergy Service Company (Co. MRO Ex. 6 at 4-5). Therefore, the Commission will modify the Combined Stipulation to include employees of FirstEnergy Service Company who provide support for distribution services provided by OE, CEI, and TE and are located in Ohio within the meaning of "no net job losses" in the Combined Stipulation.

Further, the Commission will clarify that the second paragraph on page 15 of the original stipulation will be replaced by the new language contained in the second supplemental stipulation (Joint Ex. 1 at 15; Joint Ex. 3 at 4).

And on page 36.

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As agreed to by the signatory parties, approval of Rider DCR, which will not be implemented until January 1, 2012, is in recognition of the Companies' commitments to freeze base distribution rates through May 31, 2014, and to forgo recovery of a minimum of \$360 million of legacy RTEP charges (Co. Ex. 12 at 2, 4; Joint Ex. 3 at 6) as well as approximately \$42 million in MISO exit fees and PJM integration charges (Staff Ex. 1 at 4).

Order, page 37, 3. "Does the settlement violate any important regulatory principle or practice?"
a. Summary of the Parties' Arguments.

According to Staff, the proposed ESP improves the CBP used in the current ESP, and, in Rider DCR, provides for a mechanism to expedite funding for reliability enhancements.

And on page 38.

OCEA also claims that provisions of the Combined Stipulation related to Rider DCR violate regulatory principles and practices. These provisions include the provision that states that updated filings shall not be considered to be "an application to increase rates" within the meaning of Section 4909.18, Revised Code (OCC Ex. 2 at 14). OCEA also cites to the provision of the Combined Stipulation which provides for participation in the audits for the DCR by Staff and other Signatory Parties but does not mention other interested parties (OCC Ex. 2 at 16).

Order, page 40, 3. "Does the settlement violate any important regulatory principle or practice?"
b. Commission Decision

With respect to OCEA's claim that the provisions related to Rider DCR violate important regulatory principles and practices, the Commission expects that reasonable management will carry out the investments funded by Rider DCR in a manner to achieve significant improvements in distribution reliability and energy efficiency in order to facilitate Ohio's effectiveness in the global economy. Section 4928.02(N), Revised Code. Further, the Commission finds that the provision of the Combined Stipulation which clarifies that the quarterly updates to Rider DCR are not "applications for an increase in rates" subject to the requirements of Section 4909.18, Revised Code, was filed as part of an application submitted pursuant to Section 4928.143, Revised Code. The statutory authority to file an application under Section 4928.143, Revised Code is separate and independent from the statutory provisions of Section 4909.18, Revised Code. OCEA has cited to no previous decision by the Commission or the Ohio Supreme Court holding that adjustments to riders authorized under an ESP must be filed pursuant to Section 4909.18, Revised Code,

OCEA also objects to the provision of the Combined Stipulation which provides for participation in the audits for Rider DCR by Staff and other Signatory Parties. The Commission finds that the Signatory Parties negotiated in good faith for the right to participate in the DCR audits. Nothing in the Combined Stipulation precludes FirstEnergy from including non-signatory parties in the audit process, and OCEA is free to negotiate with FirstEnergy for the right to participate along with the Signatory Parties. Further, OCEA will have the opportunity to fully participate in any

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Commission proceeding resulting from the audit process, including ample rights for discovery.

And on page 41.

Direct Energy states that there is no evidence in the record the Commission has examined the reliability of FirstEnergy's distribution system for the proposed ESP. The Commission finds that Direct Energy's reliance upon Section 4928.143 (B) (2) (h), Revised Code, is misplaced. The provisions of the Combined Stipulation related to Rider DCR were not filed under Section 4928.143(B)(2)(h), Revised Code; therefore, there is no requirement to conduct an examination of the reliability of FirstEnergy's distribution system.

The Commission also considered the question: "Is the proposed ESP more favorable in the aggregate as compared to the expected results that would otherwise apply under Section 4928.142, Revised Code. On page 43, OCC witness Gonzalez net present value analysis of the proposed ESP compared to an MRO combined with a potential distribution rate case for the Companies based upon three alternative scenarios. The scenarios included assumptions regarding the DCR, based upon Company witness Ridmann's testimony. First Energy responds that Mr. Gonzalez's testimony is flawed. The Commission found that the assumptions underlying OCC witness Gonzalez's testimony were arbitrary and unrealistic.

Page 47 stated, it is, therefore, ordered that the Combined Stipulation, as modified by the Commission, be adopted and approved.

Combined Stipulation

The Combined Stipulation are comprised of the following documents:

- Original Stipulation Agreement included with the Companies' Application dated March 23, 2010
- First Supplemental Stipulation Agreement dated May 13, 2010 which modified the terms of the original stipulation
- Second Supplemental Stipulation dated July 19, 2010

The key sections related to the scope of this audit from the Combined Stipulation follow:

B. Distribution

Section 2 Effective January 1, 2012, a new rider, hereinafter referred to as Rider DCR ("Delivery Capital Recovery"), will be established to provide the Companies with the opportunity to recover property taxes, Commercial Activity Tax and associated income taxes and earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plants including allocated general plant from FirstEnergy Service Company that supports the Companies, which was not included in the rate base determined in the Opinion and Order of January 21, 2009 in Case No. 07-551-EL-AIR et al. ("last distribution rate case"). The return earned on such plant will be based on the cost of debt of 6.54% and a return on equity of 10.5% determined in the last distribution rate case utilizing a 51% debt

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and 49% equity capital structure. The net capital additions included for recognition under Rider DCR will reflect gross plant in service not approved in the Companies' last distribution rate case less growth in accumulated depreciation reserve and accumulated deferred income taxes associated with plant in service since the Companies' last distribution rate case. Rider DCR shall be adjusted quarterly to reflect in-service net capital additions and encourage investment in the delivery system. For the first 12 months Rider DCR is in effect, the revenue collected by the Companies under Rider DCR shall be capped at \$150 million; for the following 12 months the revenue collected by the Companies under Rider DCR shall be capped at \$165 million, and for the following five months the revenue collected by the Companies under Rider DCR shall be capped at \$75 million. Consistent with the time periods for the revenue caps established above, each individual Company will have a cap of 50%, 70% and 30% for Ohio Edison, CEI and Toledo Edison, respectively, of the total aggregate caps as established above. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from Rider DCR and the annual cap allowance. Revenue requirements will be derived for each company separately, and on that basis the recovery of the revenue among the classes of each Company will be calculated using the same methodology as the existing DSI Rider. To effect the quarterly adjustments, the Companies will submit a filing that contains the adjustment requested, the resulting rate for each customer class and the bill impact on customers. The filing shall show the Plant in Service account balances and accumulated depreciation reserve balances compared to that approved in the last distribution rate case. The expenditures reflected in the filing shall be broken down by the Plant in Service Account Numbers associated with Account Titles for subtransmission, distribution, general and intangible plant, including allocated general plant from FirstEnergy Service Company that supports the Companies based on allocations used in the Companies' last distribution rate case. Net capital additions for plant in Service for General Plant shall be included in the DCR so long as there are no net job losses at the Companies as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. For each account title the Companies shall provide the plant in service and accumulated depreciation reserve for the period prior to the adjustment period as well as during the adjustment period. The filing shall also include a detailed calculation of the depreciation expense and accumulated depreciation impact as a result of the capital additions. The Companies will provide the information on an individual Company basis.

(Section 2 Second paragraph of original text replaced by Second Supplemental Stipulation) The Signatory Parties agree that the quarterly Rider DCR update filing will not be an application to increase rates within the meaning of R.C. § 4909.18 and each Signatory Party further agrees it will not advocate a position to the contrary in any future proceeding. The first quarterly filing will be made on or about October 31, 2011, based on an estimated balance as of December 31, 2011 with rates effective on January 1, 2012 on a bills rendered basis. Thereafter, quarterly filings will be made on or about January 31, April 30, July 30, and October 31 with rates effective on a bills rendered basis effective April 1, July 1, October 1, and January 1, respectively. The quarterly filings will be based on estimated balances as of March 31, June 30 September 30, and December 31, respectively, with any reconciliations

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between actual and forecasted information being recognized in the following quarter. The Companies will bear the burden to demonstrate the accuracy of the quarterly filings. Upon the Companies meeting such burden, any party may challenge such expenditures with evidence. Upon a party presenting evidence that an expenditure is unreasonable, it shall be the obligation of the Companies to demonstrate that the expenditure was reasonable by a preponderance of the evidence. An annual audit shall be conducted by an independent auditor. The independent auditor shall be selected by Staff with the consent of the Companies, with such consent not being unreasonably withheld. The expense for the audit shall be paid by the Companies and be fully recoverable through Rider DCR. The audit shall include a review to confirm that the amounts for which recovery is sought are not unreasonable and will be conducted following the Companies' January 31, 2012, January 31, 2013 and January 31, 2014 filings, and one final audit following the Companies' July 30, 2014 final reconciliation filing. For purposes of such audits and any subsequent proceedings referred to in this paragraph, the determination of whether the amounts for which recovery is sought are not unreasonable shall be determined in light of the facts and circumstances known to the Companies at the time such expenditures were committed. Staff and Signatory Parties shall file their recommendations and/or objections within 120 days after the filing of the application. If no objections are filed within 120 days after the filing of the application, the proposed DCR rate will remain in effect without adjustment, except through the normal quarterly update process or as may be ordered by the Commission as a result of objections filed in a subsequent audit process. If the Companies are unable to resolve any objections within 150 days of the filing of the application, an expedited hearing process will be established in order to allow the parties to present evidence to the Commission regarding the conformance of the application with this Stipulation, and whether the amounts for which recovery is sought are not unreasonable.

For any year that the Companies' spending would produce revenue in excess of that period's cap, the overage shall be recovered in the following cap period subject to such period's cap. For any year the revenue collected under the Companies' Rider DCR is less than the annual cap allowance, as established above, then the difference between the revenue collected and the cap shall be applied to increase the level of the subsequent period's cap. In no event will authorization exist to recover in the DCR any expenditures associated with net plant in service additions made after May 31, 2014.

Section 3: Any charges billed through Rider DSI prior to January 1, 2012 shall not be included as revenue in the return on equity calculation for the Companies for purposes of applying the Significantly Excessive Earnings Test ("SEET"), nor considered as an adjustment eligible for refund. Any charges billed through Rider DCR after January 1, 2012 will be included as revenue in the return on equity calculation for purposes of SEET and will be considered an adjustment eligible for refund. For each year during the period of this ESP, adjustments will be made to exclude the impact: (i) of a reduction in equity resulting from any write-off of goodwill, (ii) of deferred carrying charges, and (iii) associated with any additional liability or write-off of regulatory assets due to implementing this ESP. The

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significantly excessive earnings test applicable to plans greater than three years and set forth in R.C. § 4928.143(E) is not applicable to this three-year ESP.

D. Continuance of Existing Tariff Riders and Deferrals, Section 3

The following new tariff riders are attached as part of Attachment B, with such new tariffs approved as part of this ESP:

Rider DCR Delivery Capital Recovery (Discussed in Section B.2 above)

H. Other Issues

Section 1: The Companies' corporate separation plan in Case No. 09-462-EL-UNC shall be approved as filed. However, within six months after the completion of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. or within 18 months after this Stipulation is approved, whichever comes first, if the Companies' corporate or operational structure has changed, then the Companies shall file an updated corporate separation plan. In either case whether an updated corporate separation plan is filed or not, this plan may be audited by an independent auditor. The Commission shall select and solely direct the work of the auditor. The Companies shall directly contract for and bear the cost of the services of the auditor chosen by the Commission. Staff will review and approve payment invoices submitted by the consultant.

Section 5: With respect to the recent announcement of the combination of FirstEnergy Corp. and Allegheny Energy, Inc., the Signatory Parties agree that the Commission should not assert jurisdiction and review the merger, and further agree and recommend that the Commission should not in this instance initiate its own review of the merger in light of the facts that the merger is the result of an all stock transaction and there is no change in control of the Companies. Approval of the Stipulation by the Commission indicates acceptance of the Signatory Parties' recommendation.

Case No. 12-1230-EL-SSO Commission Opinion and Order

On April 13, 2012, FirstEnergy filed an application to provide for a standard service offer (SSO) for an electric security plan (ESP). The parties agreed to a Stipulation (ESP 3) that extended the Combined Stipulation for an additional two years. The Commission approved the Stipulation, with modifications, on July 18, 2012. In regards to the Delivery Capital Recovery Rider (Rider DCR), the Order stated.

Order, page 10-11, B. Summary of the Stipulation:

- (13). The Delivery Capital Recovery Rider (Rider DCR) will continue to be in effect to provide the Companies with the opportunity to recover property taxes, commercial activity tax, and associated income taxes, and earn a return on and of plant-in-service associated with distribution, subtransmission, and general and intangible plant, including general plant from FirstEnergy Service Company that supports the Companies and was not included in the rate base determined in *In re FirstEnergy*, Case No. 07-551-EL-AIR, et al., Opinion and Order (January 21, 2009). The return earned on such plant will be based on the cost of debt of 6.54 percent and a return

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on equity of 10.5 percent determined in that proceeding utilizing a 51 percent debt and 49 percent equity capital structure. (*Id* at 19.)

For the twelve-month period from June 1, 2014, through May 31, 2015, that Rider DCR is in effect, the revenue collected by the Companies shall be capped at \$195 million, for the following twelve-month period, the revenue collected under Rider DCR shall be capped at \$210 million. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be excluded from Rider DCR and the annual cap allowance. Net capital additions for plant-in-service for general plant shall be included in Rider DCR provided that there are no net job losses at the Companies as a result of involuntary attribution due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc. (*Id.* At 20-21.)

Rider DCR will be updated quarterly, and the quarterly Rider DCR update filing will not be an application to increase rates within the meaning of Section 4909.18, Revised Code. The first quarterly filing will be made on or about April 20, 2014, based upon the actual plant-in-service balance as of May 31, 2014, with rates effective for bills rendered as of June 1, 2014. For any year that the Companies' spending would produce revenues in excess of that period's cap, the overage shall be recovered in the following cap period subject to such period's cap. For any year the revenues collected under the Companies' Rider DCR is less than the annual cap allowance, the difference between the revenue collected and the cap shall be applied to increase the level of the subsequent period's cap. (*Id.* At 23).

- (14). Any charges billed through Rider DCR will be included as revenue in the return on equity calculation for purposes of the SEET test and will be considered an adjustment eligible for refund (*Id* at 23).

Order, page 27, 2. "Does the settlement, as a package, benefit ratepayers and public interests?"
Page 28-29, a. General Arguments

Regarding distribution, FirstEnergy contends that the distribution provisions of the ESP 3 will provide additional certainty and stability to customer rates because the ESP 3 continues the distribution rate freeze instituted by the ESP 2 Case through May 31, 2016, except for certain emergency conditions provided for by Section 4909.16, Revised Code (Co. Ex. 3 at 12-13). FirstEnergy further notes that the ESP 3 would continue to provide for investments in the Companies' distribution infrastructure by continuing Rider DCR through the ESP 3 period, which would also be capped (Co. Ex. 1, Stip. at 18-20; Co. Ex. 3 at 14). Additionally, the Companies point out that Staff and other signatory parties would have the opportunity to review quarterly updates and participate in an annual audit process (Co. Ex. 1, Stip. at 21-23).

And on page 33-34, c. Distribution Rate Freeze and Rider DCR

OCC/CP argue that the continued use of Rider OCR is not in the public interest. Initially, OCC/CP admit that Ohio law provides an opportunity for an electric distribution utility (EDU) to request recovery for distribution expenditures as part of an ESP proposal under Section 4928.143(B)(2)(h), Revised Code. However,

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OCC/CP note that the statute also requires the Commission to review the reliability of the EDU's distribution system to ensure that customers' and the EDU's expectations are aligned and that the EDU is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system. Here, OCC/CP argue that the Companies have failed to provide the information necessary for the Commission to complete this review. OCC/CP contend that testimony presented by Staff witness Baker demonstrated that the reliability standards were achieved in 2011 but did not correlate the Companies' reliability performance in 2011 to the Rider DCR recovery sought in the proposed ESP 3. Further, OCC/CP argue that the evidence submitted on customer expectations utilized reliability standards established in 2009 or 2010 compared to the Companies' actual performance in 2011 (Staff Ex. 2 at 5; Tr. II at 221-222). OCC/CP state that this information will be "stale" at the beginning of the term of the proposed ESP 3. Further, OCC/CP argue that the Companies' and customers' expectations are not aligned, that the resources the Companies have dedicated to enhance distribution service are excessive, and that there is no remedy to address excessive distribution-related spending in the annual Rider DCR audit cases.

Similarly, NOPEC/NOAC argue that the ESP 3 proposal does not benefit ratepayers and the public interest because residential and small commercial customers will be negatively affected by increases of approximately \$405 million in the amount of distribution improvement costs proposed to be recovered through Rider DCR.

AEP Retail also argues that the "cap" on recovery under Rider DCR under the Stipulation may provide a benefit, or may not, depending on the amounts FirstEnergy invests in distribution over the ESP 3 period. However, AEP Retail claims that the Companies have failed to introduce evidence concerning their anticipated distribution investments or accumulated depreciation, making it impossible for the Commission to evaluate this claimed benefit.

OSC contends that Rider DCR recovery is only limited by certain revenue caps and could total \$405 million during the period of the proposed ESP 3. OSC argues that, instead of Rider DCR, the Companies should be required to file a formal distribution rate increase case, as, in the past, the Commission has not awarded the Companies the full amount of the requested increase for distribution-related investments. Distribution Rate Case, Case No. 07-551-EL-AIR, Opinion and Order (January 21, 2009) at 48.

The Companies respond that the reliability information utilized in this proceeding was not "stale," citing the fact that OCC witness Gonzales admitted that the Companies' reliability performance standards are not required to be updated (Tr. III at 117-118). Further, the Companies point out that they are also not required by statute to prove that additional investments in the system will impact reliability performance or demonstrate that the Companies' reliability performance and customers' expectations for a proposed ESP are aligned. The Companies also argue that OCC/CP and OSC's claims that the Companies have proposed to recover \$405 million as increased distribution revenue recovery is wrong. The Companies proffer that the ESP 3 proposes that recoveries under Rider DCR be capped, and that the caps are proposed to increase by \$15 million on an annual basis, identical to the

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annual increases in the ESP 2 Case (Co. Ex. 3 at 14). The Companies state that this increase in the amount of the caps represents a cumulative \$45 million increase over the caps allowed in the ESP 2 Case. Further, the Companies note that, as stated in the Stipulation, they will be required to show what they spent and why it is appropriate to recover these investments through Rider DCR and that the recovery will also be subject to an annual audit.

The Commission finds that the Companies have demonstrated the appropriate statutory criteria to allow continuation of Rider DCR as proposed in the Stipulation. As discussed in Staff's testimony, Staff examined the reliability of the Companies' system and found that the Companies complied with the applicable standards (Staff Ex. 2 at 5-6). Further, the Stipulation provides for an annual audit of recovery under Rider DCR and requires the Companies to demonstrate what they spent and why the recovery sought is not unreasonable. Additionally, the Commission notes that the caps on Rider DCR do not establish certain amounts that the Companies will necessarily recover-thus, the Commission emphasizes that the \$405 million figure discussed by NOPEC/NOAC and OSC is the maximum that could be collected under Rider DCR and is not a guaranteed amount. (Co. Ex. 1, Stip. at 20-23; Co. Ex. 3 at 14.)

And on pages 42-44, h. Commission Decision

Page 43: Further, with respect to Rider DCR, the Commission encourages the Companies to consult with Staff to select projects, among others, which will mitigate effects of the transmission constraint in the ATSI zone of PJM (Co. Ex. 1, Stip. at 19-20). There is an ample record in this proceeding that the transmission constraint has resulted in a higher charge for capacity in the ATSI zone than PJM as a whole. Moreover, the record demonstrates that there are projects which can be undertaken by the Companies to mitigate, at the distribution level, the transmission constraint, in order to reduce capacity charges resulting from future base residual auctions (Tr. I at 335-336; Staff Ex. 1; Tr. II at 240-242). The Stipulation also adopts the terms and conditions of the Combined Stipulation regarding distribution rate design, as clarified by the Commission in the ESP 2 Case.

Page 43-44: The Commission also notes that the auditor for Rider DCR is to be selected by the Staff with the consent of the Companies (Co. Ex. 1, Stip. at 22). Although the Commission is confident that the Companies would not unreasonably withhold consent, the Commission uses independent, outside auditors for a number of functions, and the Commission generally does not obtain the consent of the utility. Although this case does include unique circumstances, the Commission does not find that such circumstances justify this departure from general Commission practice. Accordingly, we will eliminate the provisions of the Stipulation requiring the consent of the Companies in the selection of the auditor for Rider DCR.

The Commission notes that the Stipulation provides that the riders listed on Attachment B of the Stipulation shall be subject to ongoing Staff review and audit. According to the terms of the Combined Stipulation and past practice, separate dockets have been opened for the review of Riders DCR, AMI, and AER. The Commission clarifies that the Companies annually should file applications in separate dockets for the review and audit of Riders DCR, AMI, AER, NMB, and DSE.

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In addition, the Companies annually should file an application for the combined review of Riders PUR, DUN, NDU, EDR, GCR, and GEN. The Commission directs the Companies and Staff to develop a schedule for the filing of the annual reviews and audits. For all other riders on Attachment B, the Companies should continue to docket the adjusted tariff sheets; however, these tariff sheets should be filed in a separate docket rather than this proceeding, as has been the practice in the ESP 2 Case. Further, all filings adjusting riders listed on Attachment B should include the appropriate work papers.

With this clarification, the Commission finds that the Stipulation as modified benefits ratepayers and the public interest, in accordance with the second prong of our test for the consideration of stipulations.

Order Page 44: 3. Does the settlement package violate any important regulatory principle or practice?

Staff further claims that the Stipulation affirmatively supports the state policies enumerated in Section 4928.02, Revised Code. Staff contends that the Stipulation supports competition by avoiding standby charges and other limitations consistent with Ohio policy. Section 4928.02(8), (C), Revised Code. It supports reliability through the continuation of the DCR mechanism consistent with Ohio policy. Section 4928.02(A), Revised Code. Staff claims that the Stipulation supports energy efficiency efforts through the support of energy coordinators, Section 4928.02(M), Revised Code, and supports at risk populations, Section 4928.02(L), Revised Code. Finally, Staff contends that economic development measures support Ohio's effectiveness in the global economy consistent with state policy. Section 4928.02(N), Revised Code.

And on page 48, c. Deferred Carrying Charges

The Commission notes that, under the terms of the proposed Stipulation, charges billed though Rider DCR will be included as revenue in the return on equity calculation for purposes of SEET and will be considered an adjustment eligible for refund. However, the Stipulation specifically excludes deferred carrying charges from the SEET calculation (Co. Ex. 1, Stip. at 23). We find that the provision of the Stipulation that provides for the exclusion of deferred carrying charges from the SEET does not violate an important regulatory principle or practice. Although the AEP-Ohio SEET Case stands for the principle that deferrals, including deferred carrying charges, generally should not be excluded from the SEET, Section 4928.143(F), Revised Code, specifically requires that consideration "be given to the capital requirements of future committed investments in this state." Rider DCR will recover investments in distribution, subtransmission, and general and intangible plant. Therefore, the Commission finds that, in order to give full effect to this statutory requirement, we may exclude deferred carrying charges from the SEET where, as in the instant proceeding, such deferred carrying charges are related to capital investments in this state and where the Commission has determined that such deferrals benefit ratepayers and the public interest. Accordingly, we find that

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the Stipulation provision excluding deferred carrying charges from the SEET does not violate an important regulatory principle or practice.

Order page 48, 4. Is the proposed ESP more favorable in the aggregate as compared to the expected results that would otherwise apply under Section 4928.142, Revised Code?

a. Summary of Parties' Arguments

Page 49: FirstEnergy first contends that the quantitative benefits of the ESP 3 are more favorable than an MRO. FirstEnergy specifies that, in its ESP v. MRO analysis, it considered the following quantitative provisions of the ESP: (1) estimated Rider DCR revenues from June 1, 2014, through May 31, 2016; (2) estimated PIPP generation revenues for the period of the ESP 3, reflecting the six percent discount provided by the Companies; (3) economic development funds and fuel fund commitments that the Companies' shareholders will contribute; and (4) estimated RTEP costs that will not be recovered from customers (Co. Ex. 3 at 17-19). Further, FirstEnergy states that it considered the following quantitative provisions of the MRO: (1) estimated revenue from base distribution rate increases based on the proposed Rider DCR revenue caps; and (2) generation revenue from PIPP customers excluding the six percent discount provided by the Companies. After comparing these quantitative factors, the Companies calculate that the quantitative benefits of the ESP 3 exceed the quantitative benefits of an MRO by \$200 million. (Co. Ex. 3 at 17-19.)

In its discussion of the quantitative benefits of the ESP 3, FirstEnergy acknowledges that Staff witness Fortney provided a different perspective of the ESP v. MRO analysis. In particular, the Companies note that Staff witness Fortney testified that the costs to customers of Rider DCR, which are included in FirstEnergy witness Ridmann's ESP analysis, and the costs of a distribution case, which are included in FirstEnergy witness Ridmann's MRO analysis, could be considered as a "wash" (Staff Ex. 3 at 4-5). Consequently, the Companies point out that Staff witness Fortney concluded that, even if foregoing RTEP cost recovery was eliminated as a benefit of the ESP 3, he would nevertheless consider the ESP 3 as benefiting customers relative to an MRO by over \$21 million (Staff Ex. 3 at 5).

Page 50: As noted by the Companies, Staff also takes the position that an MRO is not preferable to the ESP 3 in this proceeding. In its ESP v. MRO analysis, Staff states that there are two ways to view the situation. Under the first view, Staff argues that one should remove the effect of the agreement to forego collection of RTEP costs from the analysis because this benefit was agreed to and provided in the ESP 2 and brings no new value to the ESP 3. Under this interpretation, Staff finds that the difference in cost between the ESP and MRO is less than \$8 million. Staff contends that this is a sufficiently small difference in costs that the flexibility provided by the proposed ESP 3 makes it superior to an MRO. Further, Staff notes that the qualitative benefits of the ESP 3 further counterbalance the nominal difference in cost. Under the second view, Staff argues that the costs of Rider DCR under the ESP 3 and the effects of a rate case under an MRO are essentially a "wash," and that FirstEnergy witness Ridmann's analysis should be adjusted to remove the Rider

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DCR costs from the ESP 3 and the rate case expense from the MRO, respectively. Under this view, Staff argues that the ESP 3 is the more advantageous option by \$21 million, even disregarding qualitative factors. (Staff Ex. 3 at 2-5.)

Page 50-51: In contrast, OCCfCP contend that the ESP 3 is not more favorable in the aggregate than an MRO under a quantitative or qualitative analysis. Regarding the Companies' quantitative analysis, OCCfCP contend that the alleged RTEP benefit was improperly double-counted by the Companies and should be excluded from the analysis. Specifically, OCCfCP argue that the RTEP cost recovery forgiveness amount would remain the Companies' obligation under the ESP 2 and is not contingent upon the Commission's approval of the ESP 3 (Joint NOPEC/NOAC Ex. 1 at 5). Next, OCC/CP argue that Rider DCR cannot be considered a "wash" with a distribution rate case outcome. More specifically, OCC/CP contend that Rider DCR is more costly to customers because, according to FirstEnergy witness Ridmann, \$29 million net cost is attributed to Rider DCR due to lag in distribution cost recovery (Co. Ex. 3 at 18). OCC/CP next argue that the PES offer of a six percent discount to PIPP customers should not be considered a benefit of the ESP 3, because it would not be a prohibited arrangement in an MRO (OCC Ex. 11 at 30-31). Further, OCC/CP point out that the Companies did not solicit bids from other suppliers besides PES to determine if there was interest in serving the PIPP load at an even greater discount. Next, OCC/CP contend that the alleged public benefits of the fuel funds ignore the benefit derived by FirstEnergy. OCC/CP explain that the \$9 million in fuel fund monies is used for the payment of electric bills and, consequently, argue that this represents a benefit to the Companies because it ensures revenues. Finally, OCC/CP argue that the costs associated with the economic development provisions of the Stipulation are merely "transfers" of payments and should not be considered a benefit of the ESP 3. OCC/CP specify that the economic development provisions contain dollar amounts and non-bypassable discounts given to certain entities, which are ultimately recovered from other customers (OCC Ex. 11 at 33).

Page 51-52: Similar to OCC/CP's arguments, NOPEC/NOAC contend that FirstEnergy has failed to demonstrate that the ESP 3 is more favorable in the aggregate than the expected results of an MRO. Specifically, NOPEC/NOAC argue that FirstEnergy's analysis wrongly seeks to double-count the RTEP cost recovery forgiveness benefits for purposes of the ESP v. MRO test, although that obligation was incurred as part of the ESP 2 (NOPEC/NOAC Joint Ex. 1 at 5). NOPEC/NOAC argue that, when this quantitative benefit is removed, the ESP 3 value becomes \$7 million less favorable than an MRO (Id. at 6). Additionally, NOPEC/NOAC argue that FirstEnergy improperly included in its analysis an assumed Commission-approved distribution rate increase of \$376 million under an MRO in order to offset the \$405 million to be collected from Rider DCR under the ESP 3 (Co. Ex. 3, Att. WRR-1). NOPEC/NOAC contend that the \$376 million assumption is unrealistic and speculative, given that FirstEnergy was only awarded a distribution rate increase of \$137.6 million in 2007. NOPEC/NOAC argue that a more accurate estimate of a distribution rate increase would make the proposed ESP 3 less favorable than the MRO by several hundred million dollars.

Page 52: NOPEC/NOAC next contend that, if the Commission desires to adopt an ESP over an MRO, the Commission should also adopt NOPEC/NOAC's

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recommendations so that the ESP 3 proposal can satisfy the ESP v. MRO test. NOPEC/NOAC recommend that the Commission include the following modifications to the proposed ESP 3 (1) elimination of the continuation of Rider DCR after May 31, 2014, and replacement with a separately filed distribution rate case; (2) elimination of FirstEnergy's proposal to exclude income it receives from deferred charges from the SEET calculation; (3) requirement that the Companies bid all of their eligible demand response and energy efficiency resources into all future PJM capacity auctions; and (4) holding of the proposed energy auctions in October 2012 and January 2013 in accordance with the terms of the Combined Stipulation.

OSC similarly contends that, when the Companies' proposal is viewed in light of the evidence presented in this case, the Companies have failed to demonstrate that the ESP 3 is more favorable in the aggregate than the expected results of an MRO. Specifically, OSC claims that the evidence presented at hearing shows that, quantitatively, the ESP 3 proposal will cost consumers more than the expected results of an MRO because the ESP 3 proposal will allow FirstEnergy to continue Rider DCR after May 31, 2014, to recover up to \$405 million in distribution improvement expenditures. (Tr. I at 129.)

AEP Retail also contends that the Companies' proposed ESP 3 fails the ESP v. MRO test quantitatively. Specifically, AEP Retail contends that the \$293.7 million in RTEP costs should not be included in the analysis because this benefit was a result of the Commission's decision in the ESP 2 Case and would not be a benefit of the ESP 3 (Staff Ex. 3 at 2). AEP Retail also argues that the claimed qualitative benefits are suspect because the Companies were unable to secure any benefit by bidding demand response resources into the 2015-2016 base residual auction, because the benefits of a six percent PIPP discount are unknown and violate Section 4928.02, Revised Code, because the extension of the recovery period for REC costs is not a benefit, because the distribution "stay out" period and Rider DCR are an illusory benefit, and because any benefit of the three-year blending proposal is impossible to assess. (Tr. IV at 23; OCC Ex. 9 at 8-9; OCC Ex. 11 at 32; Tr. I at 250-257.)

Page 53: Regarding Rider DCR, the Companies reply to other parties' arguments that the recovery of any dollars in a rate case is speculative, especially when compared to the amounts that the Companies recovered in their last distribution rate case. The Companies contend that, if they are able to make a proper showing to obtain recovery of distribution infrastructure costs under Rider DCR, there is no reason to believe that they would be unable to make a similar showing to obtain recovery in a rate case. Further, the Companies argue, in response to OCC/CP, NOPEC/NOAC, and OSC's arguments that recovery could be up to \$405 million, that the caps established in Rider DCR are just caps-and that there is no guarantee to what the Companies may recover under Rider DCR.

Page 53-54: Next, the Companies rebut OCC/CP and AEP Retail's arguments that the Companies' agreement not to seek a base distribution rate increase is not a benefit. The Companies point out that a rate case would involve the recovery of costs beyond those permitted to be recovered under Rider DCR. Further, the Companies point out that the Commission has already held that a base distribution rate freeze provides a benefit that makes an ESP more favorable in the aggregate than an MRO

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in the ESP 2 Case. Finally, the Companies note that they cannot recover any monies unless they can show that the plant is in service, and that Rider OCR is subject to quarterly reconciliations and an annual audit. ESP 2 Case, Opinion and Order (Aug. 25, 2010) at 44.

Page 54: In its reply, Staff reiterates that the Companies have met their criteria regarding Rider DCR. Staff contends that it examined the reliability of the Companies' system and found that the Companies were in compliance with the applicable standards (Staff Ex. 2 at 5-6). Staff states that compliance with the standards means that customers are getting the level of reliability that they want.

In their reply brief, OCC/CP respond that the Companies are unrealistic in assuming that, if they collected \$405 million through Rider DCR, they would likely recover that same amount of costs through a distribution rate case. OCC/CP point out that, in the last distribution rate case, the Companies requested \$340 million, but that the Commission reduced the amount to \$137 million in annual rate increases. Distribution Rate Case, Case No. 07-551-EL-AIR, Opinion and Order (January 21, 2009) at 48. Further, OCC/CP contend that they are not advocating for a decrease in service quality, but do not want the Companies to "gold plate" their distribution systems.

Page 55, b. Commission Decision

Page 56: The Commission also notes that the proposed ESP 3 is consistent with policy guidelines in Ohio. Specifically, the proposed ESP 3 supports competition and aggregation by avoiding standby charges, supports reliable service through the continuation of the DCR mechanism, supports business owners' energy efficiency efforts, protects at-risk populations, and supports industry in order to support Ohio's effectiveness in the global economy (Co. Ex. 3 at 11-12).

Dissenting Opinion of Commissioner Cheryl L. Roberto

Page 4-5: D. Continuation of Rider DCR: utility and customer expectations are not aligned; without alignment utility gains additional revenues without produces additional customer value

Rider DCR is proposed pursuant to Section 4928.143(B)(2)(h), Revised Code, which authorizes an ESP to include:

Provisions regarding the utility's distribution service, including, without limitation and notwithstanding any provision of Title XLIX of the Revised Code to the contrary, provisions regarding single issue ratemaking . . . provisions regarding distribution infrastructure and modernization incentives for the electric distribution utility. The latter may include ... any plan providing for the utility's recovery of costs ... a just and reasonable rate of return on such infrastructure modernization. As part of its determination as to whether to allow in an electric distribution utility's electric security plan inclusion of any provision described in division (B)(2)(h) of this section, the commission shall examine the reliability of the electric distribution

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utility's distribution system and ensure that customers' and the electric distribution utility's expectations are aligned and that the electric distribution utility is placing sufficient emphasis on and dedicating sufficient resources to the reliability of its distribution system.

In order for Rider DCR to be included appropriately within the ESP 3, the Companies have the burden to demonstrate that the Companies' and customers' expectations are aligned and the Companies are dedicating sufficient resources to reliability. Additionally, this provision must be judged as part of the aggregate terms and conditions of an ESP; e.g. if a similar or better result is achievable through an MRO, then it calls into question whether the ESP is beneficial.

The Sierra Club notes that despite ample notice of the 2015/2016 RPM auction and the likely consequences for the Companies' customers, the Companies failed to take any steps to prepare for the RPM auction. These actions could have included bidding in energy efficiency and demand response. Accordingly, the Sierra Club argues that the Companies should be held accountable for the financial harm caused to its customers. I agree with the majority that this proceeding was not opened to investigate the Companies' bidding behavior. It is not a complaint case. The majority notes that "the record does not support a finding that the Companies' actions in preparation for bidding into the 2015/2016 base residual auction were unreasonable." If this were a complaint case, a standard of reasonableness would be appropriate. See Section 4905.26, Revised Code. In this instance, however, the burden is upon the Companies to demonstrate that its actions are aligned with both its own interests and those of its customers and that it is dedicating sufficient resources to reliability. The Companies may only avail themselves of the benefits of single-issue rate-making pursuant to Section 4928.143, Revised Code, after they have successfully made this demonstration. The information in our record is insufficient to find that the Companies dedicated sufficient resources to reliability, particularly in the form of participation in the base residual auctions whose very purpose is reliability. For this reason, I find that continuation of Rider DCR is not supported by this record.

Finally, the Companies have a remedy for cost recovery for prudent distribution system investments in form of a distribution rate case. If the Companies require additional resources, they may file requests under traditional ratemaking processes.

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APPENDIX B: ABBREVIATIONS AND ACRONYMS

The following abbreviations and acronyms are used in this report.

ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used during Construction
AMI Rider	Advanced Metering Infrastructure (Smart Grid) Rider
ARO	Asset Retirement Obligation
ATSI	American Transmission Systems, Inc.
CAT	Commercial Activity Tax
CE, CEI, or CECO	Cleveland Electric Illuminating Company
CIAC	Contributions in Aid of Construction
CPR	Continuing Property Records
CREWS	Customer Request Work Scheduling System
CWIP	Construction Work in Progress
DCR	Delivery Capital Recovery Rider
DSI Rider	Delivery Service Improvement Rider
EDR Rider	Economic Development Rider
ESP	Electric Security Plan
FE or FECO	FirstEnergy Service Company
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
IT	Information Technology
LEX Rider	Line Extension Recovery
LOSA	Level of Signature Authority
MRO	Market Rate Offer
OE or OECO	Ohio Edison Company
RFP	Request for Proposal
RWIP	Retirement Work in Progress
TE or TECO	Toledo Edison Company
SEET	Significantly Excessive Earnings Test
SSO	Standard Service Offer
WBS	Work Breakdown Structure

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APPENDIX C: DATA REQUESTS AND INFORMATION PROVIDED

The following is a list of the data requests submitted by Blue Ridge to FirstEnergy. Responses were provided electronically and are available on a confidential CD.

DR #	Request Note: Some requests are only partial Requests due to size
FE-01-01	[CONFIDENTIAL] Priority Data Request: For each company and the Service Company, please provide in a Microsoft Excel spreadsheet a list of work orders by FERC account for 12/1/12 through 12/31/13. Include the description, dollar amount, completion date, whether the work was an addition or replacement. (If workorders through 12/31/13 are not available, provide a list of work orders through the most recent month available and update this request when the remaining work orders through 12/31/13 are available.). Please exclude zero sum workorders from the list.
FE-01-02	[CONFIDENTIAL] For each company and the Service Company, please provide a current organizational chart.
FE-01-03	For each company and the Service Company, please provide the name and position for the person or persons responsible for the following functions. a. Plant Accounting i. Capitalization ii. Preparation and approval of work orders, including IT work orders. iii. Recording of CWIP including the systems that feed the CWIP trial balance iv. Application of AFUDC v. Recording and Closing of additions, retirements, cost of removal, and salvage in plant vi. Unitization process based on the retirements unit catalog vii. Application of depreciation viii. Contributions in Aid of Construction (CIAC) b. Purchasing/Procurement c. Accounts Payable/Disbursements d. Accounting/Journal Entries e. Payroll (direct charged and allocated to plant) f. Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax) g. Insurance Recovery h. Property Taxes i. Service Company Allocations j. Budgeting/Projections
FE-01-04	Please confirm that the following individuals were in the same positions for 2013. Please identify any changes. #:Name:Title 1: Peter Blazunas: OH State Regulatory Analyst 2: Douglas Burnell : Director, Business Services 3: Timothy Clyde : Manager, Property Accounting 4: Randal Coleman : Manager, Distribution Standards 5: Santino Fanelli : Manager, OH Revenue Requirements 6: Michele Jones: Manager, Corporate Services Sourcing 7: Thomas McDonnell: Manager, Insurance and Operational Risk 8: Eileen Mikklesen: Director Rates & Regulatory Affairs 9: John Nauer: Manager, Utilities Sourcing 10: Albert Pompeo : FEU Business Services Policy and Control Lead 11: William Richards: Manager, Business Unit Financial Performance 12: Steve Vucenovic : Manager, General Accounting

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DR #	Request Note: Some requests are only partial Requests due to size
FE-01-05	[CONFIDENTIAL] For each company and the Service Company, please provide any changes for 2013 to the policies and procedures for the following activities. a. Plant Accounting i. Capitalization ii. Preparation and approval of work orders iii. Recording of CWIP including the systems that feed the CWIP trial balance iv. Application of AFUDC v. Recording and Closing of additions, retirements, cost of removal, and salvage in plant vi. Unitization process based on the retirements unit catalog vii. Application of depreciation viii. Contributions in Aid of Construction (CIAC) b. Purchasing/Procurement c. Accounts Payable/Disbursements d. Accounting/Journal Entries e. Payroll (direct charged and allocated to plant) f. Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax) g. Insurance Recovery h. Property Taxes i. Service Company Allocations j. Budgeting/Projections
FE-01-06	[CONFIDENTIAL] For each company, please provide in electronic format the schedules included in the November 1, 2013, Rider DCR Compliance Filing.
FE-01-07	[CONFIDENTIAL] Please provide the percentages by class that Rider DCR comprises of the total average winter bills for each operating company.
FE-01-08	[CONFIDENTIAL] For each company, provide the workpapers and documents that support the information included within the November 1, 2013, Rider DCR Compliance Filing. Please provide the source data in its original electronic format. Also include the assumptions used and budget/projected data.
FE-01-09	[CONFIDENTIAL] When available, for each company, please provide in electronic format the schedules included in the January 31, 2014, Rider DCR Compliance Filing.
FE-01-10	[CONFIDENTIAL] When available, for each company, provide the workpapers and documents that support the information included within the January 31, 2014, Rider DCR Compliance Filing. Please provide the source data in its original electronic format with formulas intact. Also include the assumptions used and budget/projected data.
FE-01-11	[CONFIDENTIAL] For each company and the Service Company, please provide a list of Internal Audits performed for 2013. List the name of the audit, scope, objective, and when the work was performed.
FE-01-12	[CONFIDENTIAL] For each company and the Service Company, please provide a list of SOX compliance work performed during 2013. List the name of the audit, scope, objective, and when the work was performed.
FE-01-13	[CONFIDENTIAL] For each company, please provide in a Microsoft Excel spreadsheet in FERC Form 1 format the beginning and ending period balance by primary plant (300 account and sub account), additions, retirements, transfers, and adjustments for 12/1/12 through 12/31/13. (If actual balances are not available through 12/31/13, provide the most recent actual balances available and update this request when the 12/31/13 balances are available.)
FE-01-14	Did the company have any large replacement programs in 2013 such as pole replacement, meters, underground line, etc? If so, please identify the program and company.
FE-01-15	[[CONFIDENTIAL] For each company, please provide in a Microsoft Excel spreadsheet the beginning and ending period balance for jurisdictional accumulated reserve for depreciation balances by FERC 300 account for 12/1/12 through 12/31/13. (If actual

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	balances are not available through 12/31/13, provide the most recent actual balances available and update this request when the 12/31/13 balances are available.)
FE-01-16	[CONFIDENTIAL] For each company and the Service Company, please provide in a Microsoft Excel spreadsheet beginning and ending period balance of Construction Work in Progress (CWIP) for 12/1/12 through 12/31/13. (If actual balances are not available through 12/31/13, provide the most recent actual balances available and update this request when the 12/31/13 balances are available.)
FE-01-17	[CONFIDENTIAL] For each company and the Service Company, please provide in a Microsoft Excel spreadsheet depreciation and amortization expense by FERC account and sub-account for 12/1/12 through 12/31/13. (If actual balances are not available through 12/31/13, provide the most recent actual balances available and update this request when the 12/31/13 balances are available.)
FE-01-18	[CONFIDENTIAL] For each company and the Service Company, please provide a Microsoft Excel spreadsheet of property taxes for 12/1/12 through 12/31/13. (If actual balances are not available through 12/31/13, provide the most recent actual balances available and update this request when the 12/31/13 balances are available.)
FE-01-19	For each company and the Service Company, please provide a list of any insurance recoveries charged to capital from 12/1/12 through 12/31/1.
FE-01-20	For each company and the Service Company, please provide a list and explanation of any 2013 pending insurance recoveries not recorded or accrued that would be charged to capital. Indicate the type of recovery, estimated amount, and when receipt is expected.
FE-01-21	For each company and the Service Company, please provide the approved depreciation accrual rates by FERC 300 account from 12/1/12 through 12/31/13. Note any changes in rates during the year. Please provide the Commission order that approved the rates for each company and the Service Company.
FE-01-22	Does any company use a depreciation rate for any 300 sub-account that has not been approved by the Commission? If so, please provide the following for any changes made in 2013: a. FERC 300 account, sub account and company b. Depreciation accrual rate used c. Analysis supporting the use of the accrual rate d. Effective date of the rate e. Any filings with the commission for approval
FE-01-23	[CONFIDENTIAL] Please provide the level of signature authority (LOSA) document that supports the approval of capital projects in place as of 12/1/12 and any changes through 12/31/13. Please note the nature of the change and the effective date of the change.
FE-01-24	[CONFIDENTIAL] Please provide the supporting documentation for the CEI, ESP2 Adjustment for AMI included on page 19 of the compliance filing.
FE-01-25	[CONFIDENTIAL] Please provide the 2013 budget supporting the 2013 Compliance Filings.
FE-01-26	[CONFIDENTIAL] Please provide the total actual capital dollars spent and the approved budget by operating company, and by functional area (i.e., Transmission, Distribution, General, and Other Plant) for 2013.
FE-01-27	Please provide by company information regarding the backlog in the unitization of workorders for 2013. Please provide the number of workorders and the length of time in months by functional area (i.e., Distribution, Transmission, General, and Other).
FE-01-28	[CONFIDENTIAL] Please provide the number of employees for each operating company and the Service Company as of 12/31/13.
FE-01-29	[CONFIDENTIAL] Please provide the number of merger-related changes in employees in 2013. Include an explanation of any reductions.
FE-01-30	Please provide the policies and procedures, and if not available a narrative describing the

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DR #	Request Note: Some requests are only partial Requests due to size
	process used for budgeting, recording, and closing to capital, for Joint Owned facility projects.
FE-01-31	[CONFIDENTIAL] Please provide a list of workorders with description by FERC account for the period 12/1/12 through 12/31/13 for joint owned facility projects.
FE-01-32	[CONFIDENTIAL] Please provide the policies and procedures, and if not available a narrative, explaining the planning and budgeting for IT projects , including how those projects are tracked to the budget.
FE-02.01	<p>[CONFIDENTIAL] Reference Company response to Data Request BRC Set 1-INT-001, Attachment 1 and Data Request BRC Set 1-INT-001, supplement, Attachment 2 For the attached work order list (BRCS Set 2-2013 Workorders Confidential.xlsx), please provide the following information in Microsoft Excel spreadsheets. To assist you, and to avoid confusion, please refer to your response to Data request BRC 5-INT-1, (Example from BRC 5-1 Attachments. zip)), from the BRCS 2012 audit. The data request and sample responses are attached.</p> <p>a. A work order sample summary.</p> <p>i. The individual work order or project approval, written project justification, including quantification of efficiency and cost savings, present value analysis, and/or internal rate of return calculations for projects other than annually budgeted work orders.</p> <p>ii. The individual work order or project estimated and actual in-service dates with explanations for delays > 90 days.</p> <p>iii. The individual work order or project, budget vs. actual costs, with explanations for cost variances +/- 15%.</p> <p>iv. If the information in a i though a iii cannot be provided individually please provide the information requested in item b. below.</p> <p>b. A report at a project level with a reference to the sample workorder that includes</p> <p>i. Approval</p> <p>ii. Project justification</p> <p>iii. Budget and actual costs with explanation for cost variances +/- 15%</p> <p>iv. Estimated and actual in-service dates with explanation for delays > 90 days.</p> <p>c. Estimates for cost of construction, (material, labor), AFUDC, overheads, retirements, cost of removal, salvage and CIAC's.</p> <p>d. Supporting detail for assets (units and dollars by FERC account) added to utility plant from the Power Plant system.</p> <p>e. Supporting detail for retirements, cost of removal and salvage, if applicable, charged or credited to plant (units and dollars) for replacement workorders from the Power Plant system.</p> <p>f. SOP-98-1 detail (capital/expense) for software projects.</p> <p>g. An updated list of cost elements</p> <p>h. Cost element detail that shows the individual workorder, FERC account, and amount as selected in the sample. Considering that a workorder may consist of more than one FERC account. The cost element detail can also include other WBS or Projects as long as the individual FERC account charge selected in the sample is visible.</p>

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FE-02.02	<p>[CONFIDENTIAL] For the attached work order list (BRC Set 2-December 2012 Workorders Confidential.xlsx), please provide the following information in Microsoft Excel spreadsheets. To assist you, and to avoid confusion, please refer to your response to Data request BRC 5-INT-1, (Example from BRC 5-1 Attachments. zip)), from the BRCS 2012 audit. The data request and sample responses are attached.</p> <ul style="list-style-type: none"> a. A work order sample summary. <ul style="list-style-type: none"> i. The individual work order or project approval, written project justification, including quantification of efficiency and cost savings, present value analysis, and/or internal rate of return calculations for projects other than annually budgeted work orders. ii. The individual work order or project estimated and actual in-service dates with explanations for delays > 90 days. iii. The individual work order or project, budget vs. actual costs, with explanations for cost variances +/- 15%. iv. If the information in a i-a iii cannot be provided individually please provide the information requested in item b. below. b. A report at a project level with a reference to the sample workorder that includes <ul style="list-style-type: none"> v. Approval vi. Project justification vii. Budget and actual costs with explanation for cost variances +/- 15% viii. Estimated and actual in-service dates with explanation for delays > 90 days. c. Estimates for cost of construction, (material, labor), AFUDC, overheads, retirements, cost of removal, salvage and CIAC's. d. Supporting detail for assets (units and dollars by FERC account) added to utility plant from the Power Plant system. e. Supporting detail for retirements, cost of removal and salvage, if applicable, charged or credited to plant (units and dollars) for replacement workorders from the Power Plant system. f. SOP-98-1 detail (capital/expense) for software projects. g. An updated list of cost elements h. Cost element detail that shows the individual workorder, FERC account, and amount as selected in the sample. Considering that a workorder may consist of more than one FERC account. The cost element detail can also include other WBS or Projects as long as the individual FERC account charge selected in the sample is visible.
FE-03.01	<p>Please provide the current status of Blue Ridge's recommendations from the 2012 Rider DCR Compliance audit filed on March 22, 2013.</p> <ul style="list-style-type: none"> a) On Page 14 of the Report, Blue Ridge recommended that the Companies include quantification of any increase in efficiency and savings within its Information Technology (IT) project justifications. b) On Page 16, Blue Ridge recommended that the Commission consider an updated depreciation study be conducted as the last approved study was based on balances as of May 31, 2007. Staff recommends the Commission direct the Companies to submit this study to Staff no later than June 1, 2015. c) On Page 25, Blue Ridge recommended that the Companies continue to closely monitor IT project planning and implementation. d) On Page 26, Blue Ridge recommended that the Companies continue their efforts to reduce the unitization backlog before the next audit to reduce the potential for over or under accrual of depreciation.
FE-03.02	<p>[CONFIDENTIAL] Reference Summary of Exclusions (pp. 19 and 44): Please provide the supporting documentations for the amounts excluded from CEI for Rider AMI for Actual 12/31/13 and Estimate 3/31/14.</p>

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DR #	Request Note: Some requests are only partial Requests due to size
FE-03.03	[CONFIDENTIAL] Reference Summary of Exclusions (pp. 19 and 44): Please provide the supporting documentations for the amounts provided for Rider EDR(g) for Actual 12/31/13 and Estimate 3/31/14.
FE-03.04	[CONFIDENTIAL] Reference Summary of Exclusions (pp. 19 and 44): In 2012, there was no plant in service associated with Rider EDR (provision g). In the 2013 compliance filing, \$155,277 associated with Rider EDR has been added to CE's plant in service. Please explain why the amount is not excluded.
FE-03.05	[CONFIDENTIAL] Reference Summary of Exclusions (pp. 19 and 44): Please provide the supporting documentations for the amounts associated with the ATSI Land Lease for Actual 12/31/13 and Estimate 3/31/14.
FE-03.06	[CONFIDENTIAL] Reference Summary of Exclusions (pp. 19 and 44): Please explain the increase in ATSI Land Lease amounts from what was approved in Case No. 07-551-EL-AIR and from the 12/31/12 Rider DCR compliance filing.
FE-03.07	Reference Summary of Exclusions: The Combined Stipulation requires that capital additions recovered through any other subsequent rider authorized by the Commission to recover delivery-related capital additions be identified and excluded from Rider DCR. The following riders are listed within the Companies' tariffs. Please confirm that each of the following riders do not include distribution capital additions or Service Company capital additions that are allocated to Rider DCR.
FE-03.08	Follow up to Data Request response BRC Set 1-INT-026, attachment 1 a) Please explain why the approved Transmission budget for CEI and OE was negative. b) Please explain why the Transmission 2013 actuals for OE was negative.
FE-03.09	[CONFIDENTIAL] Follow up to Data Request response BRC Set-1-INT-030. a) How is the splitting of capital costs for joint use construction projects between operating companies determined? b) Are costs for construction ever split between FE operating companies and any other non-affiliated company? If so, explain how that is done. c) Do outside companies use (attach to) Company owned fiber optic cable? If so, what is the accounting for the reimbursement? d) When capital projects accrue AFUDC is the rate used by for non-IT projects the rate for the operating Company that will own the assets? If not, what rate is used and why? e) For non-IT projects where multiple operating companies will own the assets, are those capital costs split as they are incurred or in some other manner? If some other manner, please explain.
FE-03.10	[CONFIDENTIAL] Follow up to Data Request response BRC-Set-1-INT-011, attachment 1: Please provide the Executive Summary or Summary Findings and Recommendations for the following project Nos. 22632, 23316, 23365 and 23475.
FE-03.11	[CONFIDENTIAL] Reference Data Request BRC-Set 2-INT-001. For the following list of workorders please explain why the workorder description indicates the work is "replacement" and the workorder type indicates "addition".
FE-03.12	[CONFIDENTIAL] Reference Data Request BRC-Set 1-INT-013 Attachment 1 – Confidential. Please respond to the following requests: a) Please explain what makes up the \$172,316 amount of transfers and/or adjustments for CEI tab, account 353 – Station equipment. b) Please explain why retirements exceed additions for CEI tab, account 358 – Underground conductors, devices. c) Please explain why retirements exceed additions for CEI tab, account 369 – Services. d) Please explain why retirements exceed additions for CEI tab, account 371 – Installs customer premise. e) Please explain the negative additions to plant for CEI tab, account 392 – Transportation

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	<p>equipment.</p> <p>f) Please explain the negative additions to plant for CEI tab, account 395 – Laboratory equipment.</p> <p>g) Please explain what makes up the \$(181,636) amount of transfers and/or adjustments for OE tab, account 350 – Land and land rights.</p> <p>h) Please explain what makes up the \$(1,124,676) amount of transfers and/or adjustments for OE tab, account 353 – Station equipment.</p> <p>i) Please explain what makes up the \$(163,018) amount of transfers and/or adjustments for OE tab, account 355 – Poles and fixtures.</p> <p>j) Please explain the negative additions to plant for OE tab, account 360 – Land and land rights.</p> <p>k) Please explain what makes up the \$(369,467) amount of transfers and/or adjustments for OE tab, account 362 – Station equipment.</p> <p>l) Please explain why retirements exceed additions for OE tab, account 370 – Meters.</p> <p>m) Please explain what makes up the \$(832,199) amount of transfers and/or adjustments for OE tab, account 389 – Land and land rights.</p> <p>n) Please explain the negative additions to plant for OE tab, account 392 – Transportation equipment.</p> <p>o) Please explain the negative additions to plant for OE tab, account 398 – Miscellaneous equipment.</p> <p>p) Please explain what makes up the \$(140,982) amount of transfers and/or adjustments for TE tab, account 352 – Structures and improvements.</p> <p>q) Please explain the negative additions to plant for TE tab, account 361 – Structures and improvements.</p> <p>r) Please explain why retirements are such a high percentage of additions to plant for TE tab, account 365 Overhead conductors, devices.</p> <p>s) Please explain why retirements exceed additions for TE tab, account 370 – Meters.</p> <p>t) Please explain the negative additions to plant for TE tab, account 396 – Power operated equipment.</p> <p>u) Please explain the negative additions to plant for TE tab, account 398 – Miscellaneous equipment.</p>
FE-04.01	<p>[CONFIDENTIAL] Reference Response to BRC1-9, Attachment 1-FE Rider DCR Compliance Filing 2-4-14 – Confidential, Schedules B3 Actual and Estimates.</p> <p>a) Removal Work in Progress (RWIP) was not shown on Schedule B-3 in the 2011 and 2012 Compliance Filings. What changed in 2013, and why is it recognized in 2013?</p> <p>b) Please provide the supporting documentation for the RWIP balances.</p> <p>c) Please provide a narrative of the type of work being done that is included within the RWIP and why it is appropriate to reduce the Reserve (and thus increase net plant).</p> <p>d) Please explain the significant increase in Estimated RWIP for OE.</p> <p>e) Please explain why for the Estimates, RWIP is Actual plus incremental?</p>
FE-04.02	<p>[CONFIDENTIAL] Reference: BRC 1-10 Attachment 1 - Confidential: Please provide the parameters used in the PowerPlant query that was used to derive the gross plant and reserve balances (i.e., what was included and what was excluded)?</p>
FE-04.03	<p>Reference: BRC 1-10 Attachment 1 - Confidential: Please explain why AMI project costs are not included in the gross plant and reserve balances, but are shown separately under the caption “Smart Grid Not Included in Above Amounts.”</p>
FE-04.04	<p>[CONFIDENTIAL] Reference: BRC 1-10 Attachment 1 – Confidential: Please provide the work papers that support the amounts recorded as 2013 DCR Audit Adjustments.</p>

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DR #	Request Note: Some requests are only partial Requests due to size
FE-04.05	<p>[CONFIDENTIAL] Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 2 and 3.</p> <p>TECO</p> <p>a) Workorder 13564431: Lakewood upper roof replacement: Why was the asset retirements recorded 5 months after the replacement assets were placed in-service? Include in the explanation the impact on AFUDC and depreciation. How can two of the same assets be recorded in the same location at the same time?</p> <p>b) Workorder 14069083: TE 2012 unitization clean-up and Workorder 14069084: TE 2013 unitization clean up:</p> <p>i) Why was Cost of Removal charged to these workorders when the workorder "type "indicates an addition rather than a replacement?</p> <p>ii) Please explain why no retirements took place associated with the cost of removal.</p> <p>iii) What is the purpose of these workorders and the impact of the 2012 and 2013 unitization clean up on utility plant in service and the reserve? Include in the explanation any reclassifications between FERC accounts and the impact on AFUDC and Depreciation expense.</p> <p>c) Workorder 13683703: 2013 circuit sweep 1343 PENTA COUNTY: Why was Cost of Removal charged to these workorders where the workorder "type "indicates an addition rather than a replacement and no assets were retired?</p>
FE-04.06	<p>[CONFIDENTIAL] Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 2 and 3. OECO</p> <p>OECO:</p> <p>a) Workorder 13541468: 2011 GLI NON-REST pole:</p> <p>i) Why was this workorder type coded as an addition but had retirements associated with it?</p> <p>ii) Why did this workorder not have any cost of removal charged to it if assets were retired?</p> <p>b) Workorder OE-001090-S-3: Total Mobile # 13 Substation: Why were the asset retirements recorded 5 months after the replacement assets were placed in-service and cost of removal was charged 2 months after the assets were placed in service? Include in the explanation the impact on AFUDC and depreciation. How can two of the same assets be recorded in the same location at the same time?</p> <p>In service: April 2013</p> <p>Retirements: September 2013</p> <p>Cost of Removal: February 2013.</p> <p>c) Workorder OE-001657-F: CA Fairlawn complex Drives: Why were the asset retirements recorded 4 months after the replacement assets were placed in-service and cost of removal was charged 6 months after the assets were placed in service and 2 months after the retirements were recorded? Include in the explanation the impact on AFUDC and depreciation. How can two of the same assets be recorded in the same location at the same time?</p> <p>In service: December 2012</p> <p>Retirements: April 2013</p> <p>Cost of Removal: June 2013</p> <p>d) Workorder L1094: OECO Property Assets Pwr Plant Trnsf and Adj. FERC account 353.</p> <p>i) What is the purpose of this workorder? (Explain in detail).</p> <p>ii) What is the impact of the transfers and adjustments on the DCR, including AFUDC?</p>

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FE-04.07	<p>[CONFIDENTIAL] Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 2 and 3.</p> <p>CECO:</p> <p>a) Workorder HE123 CECO Property Assets Pwr Plant Trnsf and Adj. FERC accounts 361 and 362.</p> <p>i) What is the purpose of this workorder? (Explain in detail).</p> <p>ii) What is the impact of the transfers and adjustments on the DCR, including AFUDC?</p> <p>iii) FERC 362 workorder type indicates a replacement. The Company recorded retirements but no cost of removal. How can the assets be replaced without cost of removal?</p> <p>b) Workorder 995166: Ohio Rate case Meter exchanges – CE meters:</p> <p>i) Please explain how the company replaced and retired over 1200 meters and only charged less than \$11 in Cost of Removal?</p> <p>ii) Please indicate that this workorder is not in any way related to AMI.</p>
FE-05.01	<p>Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 1 and 2.</p> <p>FECO:</p> <p>a. Workorder ITS-SC-00100-1: consolidated fixed assets capital: Please explain the reason for the reclassification of the workorder charges from FERC account 397 to FERC account 303, including the impact on depreciation expense, the associated reserve for depreciation and AFUDC.</p> <p>b. Workorder ITF-000326-1: SAP Upgrade Fee – 2012: Please explain how the company can record a net negative fee of \$48,881(\$4,053,780-4,102,780).</p> <p>c. Workorder ITS-SC-000190-1: Network Transformation Phase 3 Cap: The workorder description in the sample selection indicates FERC account 391 – Office Furniture and Equipment and the cost detail indicates FERC 391.20, Data Processing Equipment. Is the work order sample selection description in error? If not please explain.</p> <p>d. Workorder ITF-000343-1: Oracle Upgrade Fee for 2012 Cap: The workorder cost detail included approximately \$67,000 of AFUDC. Please explain why AFUDC was accrued on a Fee?</p> <p>e. Workorder ITS-SC-000205-2: Power Plant continuous improve 2012-O&M:</p> <p>i. The workorder description indicates that this workorder is O&M and the account charged is capital (FERC 303). Is the workorder description in error? If not please explain how O&M is charged to capital?</p> <p>ii. The only cost charged to the workorder was a \$61,785 credit to contract cost. Please explain what the credit represents?</p> <p>f. Workorder XFI-900474-1: Total Project: The workorder cost indicates a negative (\$4,507,368). Please explain how the negative amount was created.</p>
FE-05-02	<p>[CONFIDENTIAL] Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 1 and 2.</p> <p>CECO:</p> <p>a. Workorder 13281342: SW –Grant Sub, Replace #3 GT-T-breaker (\$634,004): Please explain what the credits to the workorder represent.</p> <p>b. Workorder 13560925: CE-Ohio Accelerated Capital Investment: (\$3,435,751). Please explain what the credits to the workorder represent.</p> <p>c. Workorder 13509122:</p> <p>i. Why did the Company receive a contribution in aid of construction (CIAC) in excess of the workorder cost?</p> <p>ii. If a CIAC was received that covered the project cost why did the Company accrue \$9,255 in</p>

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	AFUDC on the project?
FE-05-03	<p>Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 1 and 2.</p> <p>OEEO:</p> <p>a. Workorder OE-750186: ITS-WMI-OE: The workorder description in the sample selection indicates FERC account 391 – Office Furniture and Equipment and the cost detail indicates FERC 391.20, Data Processing Equipment. Is the work order sample selection description an error? If not please explain.</p> <p>b. Workorder GN-00028341-1: The workorder cost detail included approximately \$25,400 of AFUDC. Please explain why AFUDC was accrued on renewing a license?</p> <p>c. Workorder 14068999: OE 2012 unitization clean up:</p> <p>i. What is the purpose of this workorder? (Explain in detail).</p> <p>ii. What is the impact of the unitization clean up on the DCR, including AFUDC?</p> <p>d. Workorder OE-M70036: ITS-Merger Outage Maps Transformation: The workorder description in the sample selection indicates FERC account 391 – Office Furniture and Equipment and the cost detail indicates FERC 391.20, Data Processing Equipment. Is the work order sample selection description an error? If not please explain.</p> <p>e. Workorder OE-740004: ITS-MapFrame (GE) upgrade Fee 2012: The workorder cost detail included approximately \$1,038 of AFUDC. Please explain why AFUDC was accrued on a fee?</p> <p>f. Workorder OE-700113: ITS-Power Plant upgrade version 10.2: Please explain the rationale for charging the upgrade to FERC 391.20 (Data Processing Equipment). If this account is in error please explain the impact on the DCR.</p> <p>g. Workorder 13781850: Replace Fence: Please explain how “replacing’ a fence is indicated as an addition in the workorder sample type and did not have any associated retirements?</p> <p>h. Workorder OE-700226: ITS-Transmission Vegetation Management 2012: Please explain the rationale for charging Vegetation Management to FERC account 303 (Misc. intangible plant). If this account is in error please explain the impact on the DCR.</p> <p>i. Workorder 13817100: Replace Richville/Canton Rd Regs. (VR-17: Please explain how a replacement is indicated as an addition in the workorder sample type and also did not have any associated retirements?</p> <p>j. Workorder 12903340: OE RESN-Mo Financing billing:</p> <p>i. Please explain the rationale for charging a finance billing to FERC account 365 (Overhead Conductors and Devices). If this account is in error please explain the impact on the DCR.</p> <p>ii. Please explain how a Debit CIAC was created for \$73,909? A CIAC is normally a credit to a workorder.</p>
FE-05-04	<p>Reference Company data response BRC Set 2-INT-001, BRC Set 2-INT-002 2013, workorders confidential and December 2012 workorders confidential, BRC Set 2-INT-001, Attachments 1 and 2.</p> <p>TECO:</p> <p>a. Workorder 13608309: Replace 34KV Breakers: Please explain how replacing breakers is indicated as an addition in the workorder sample type and did not have any associated retirements?</p> <p>b. Workorder TW-700235: ITS-optimize customer web mobile: The workorder description in the sample selection indicates FERC account 391 – Office Furniture and Equipment and the cost detail indicates FERC 391.20, Data Processing Equipment. Is the work order sample selection description an error? If not please explain.</p> <p>c. Workorder 13568748: Remove and replace failed transformer: Please explain how replacing a failed transformer is indicated as an addition in the workorder sample type and did not have any associated retirements?</p>

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FE-06.01	[CONFIDENTIAL] For each company, please provide in a Microsoft Excel spreadsheet in FERC Form 1 format the beginning (1/1/13) balance by primary plant (300 account and sub account).
FE-06.02	[CONFIDENTIAL] Follow up to Data Request 1-31: Please provide for each of the joint owned facility project work orders, ITS-SC-000190-1, ITS-SC-000245-1, ITS-SC-000100-1, and ITS-SC-000100-1: a. Project description b. Total project cost c. Joint Build Agreement d. Allocation of dollars between company and beneficiaries by FERC Account e. Amount included within Rider DCR f. Amount included within Rider AMI and where the amount has been excluded from Rider DCR
FE-07.01	[CONFIDENTIAL] Reference Company response to Data Request BRC Set 5-INT-1, Attachment 1. As a continuation of the audit process, we have selected certain work orders/projects, for field verification from the work order sample. The purpose of the field verification is to determine that the assets have been installed per the work order scope and description. The work order/project selection criteria were primarily assets that can be physically seen. Experienced representatives from the Ohio PUC Staff will conduct the field verifications. To assist Staff in that endeavor please provide, or have available, the following. a. An individual(s) that can coordinate all the field work with Staff b. Representatives from FE that can field assist Staff at each field location c. The Project Manager or a person that was responsible for the work on each project available to answer Staff's questions d. Schematics/drawings or any other visual diagram that indicates what was built or installed e. A list of material and or equipment installed along with any applicable serial numbers f. Work Order cost data for direct cost (labor, Material, equipment) If FE has questions about the selection, or any other requirement, please contact Joe Freedman via e-mail at jfreedman@blueridgecs.com or by phone at 607-280-3737 Ohio Electric 1) Work order 13335648. In service December 2013. Project No. OE-001392: Description: Extend 138kv tap to new customer owned substation in Marion Actual cost: \$165,092 Budget: \$26,967 Variance: \$138,125 2) Workorder 13781850 – Replace Fence. In Service May 2013. Project No. OE-900380. This is a blanket workorder and may include replacing fence in various locations.. If that is the case please provide a list of the various locations that staff can use to sub-sample. The cost for this workorder is \$12,395. Actual Cost: \$1,561,623 Budget: \$85,309 Variance: \$1,476,314. Toledo Electric 3) Workorder 13563042. Edison Plaza Building renovation upgrades: In-service November 2013. Project No. TW-001112. Actual Cost: \$5,641,838 Budget: \$5,137,166 Variance: \$504,672

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FE-08.01	<p>[CONFIDENTIAL] Regarding Plant in Service (spreadsheet tab "Var – PIS"), please fully explain the variance between the 2012 actual balance and the 2013 actual balance for each identified account. (Full explanation should include, at a minimum, detailed narrative of changes in account. Please also note any additional detailed account activity that would provide full, appropriate, helpful disclosure in communicating the reason(s) for the variance identified.):</p> <p>a) CEI account 350 Transmission Plant Land & Land Rights: 2012 balance = \$7,560,063 and 2013 balance = \$5,478,594; difference = \$(2,081,468); decrease 27.5%; line 1, cols (g)-(j)</p> <p>b) CEI account 389 General Plant Land & Land Rights: 2012 balance = \$1,557,505 and 2013 balance = \$2,470,389; difference = \$912,884; increase 58.6%; line 26, cols (g)-(j)</p> <p>c) CEI account 397 General Plant Communication Equipment: 2012 balance = \$16,809,454 and 2013 balance = \$21,524,863; difference = \$4,715,408; increase 28.1%; line 36, cols (g)-(j)</p> <p>d) OE account 350 Transmission Plant Land & Land Rights: 2012 balance = \$8,266,520 and 2013 balance = \$6,819,668; difference = \$(1,446,853); decrease 17.5%; line 1, cols (k)-(n)</p> <p>e) OE account 397 General Plant Communication Equipment: 2012 balance = \$17,811,875 and 2013 balance = \$21,666,415; difference = \$3,854,541; increase 21.6%; line 36, cols (k)-(n)</p> <p>f) TE account 350 Transmission Plant Land & Land Rights: 2012 balance = \$1,719,414 and 2013 balance = \$974,053; difference = \$(745,361); decrease 43.3%; line 1, cols (o)-(r)</p>
FE-08.02	<p>Regarding Reserve (spreadsheet tab "Var – Reserve"), please fully explain the variance between the 2012 actual balance and the 2013 actual balance for each identified account. (Full explanation should include, at a minimum, detailed narrative of changes in account. Please also note any additional detailed account activity that would provide full, appropriate, helpful disclosure in communicating the reason(s) for the variance identified.):</p> <p>a) CEI account 369 Distribution Plant Services: 2012 balance = \$10,123,691 and 2013 balance = \$12,266,122; difference = \$2,136,431; increase 21.1%; line 19, cols (g)-(j)</p> <p>b) CEI account 370 Distribution Plant Meters: 2012 balance = \$30,855,908 and 2013 balance = \$23,398,096; difference = \$(7,457,812); decrease 24.2%; line 20, cols (g)-(j)</p> <p>c) CEI account 391.2 General Plant Data Processing Equipment: 2012 balance = \$6,328,062 and 2013 balance = \$7,664,989; difference = \$1,336,927; increase 21.1%; line 30, cols (g)-(j)</p> <p>d) OE account 391.2 General Plant Data Processing Equipment: 2012 balance = \$434,493 and 2013 balance = \$1,069,154; difference = \$634,661; increase 146.1%; line 30, cols (k)-(n)</p> <p>e) TE account 391.2 General Plant Data Processing Equipment: 2012 balance = \$3,645,962 and 2013 balance = \$4,379,694; difference = \$733,732; increase 20.1%; line 1, cols (o)-(r)</p> <p>f) TE account 399.1 General Plant Asset Retirement Costs for General Plant: 2012 balance = \$133.038 and 2013 balance = \$277,483; increase 71.0%; line 38, cols (o)-(r)</p>
FE-08.03	<p>[CONFIDENTIAL] Regarding Depreciation (spreadsheet tab "Var – Depr"), please fully explain the variance between the 2012 actual balance and the 2013 actual balance for each identified account. (Full explanation should include, at a minimum, detailed narrative of changes in account. Please also note any additional detailed account activity that would provide full, appropriate, helpful disclosure in communicating the reason(s) for the variance identified.):</p> <p>a) CEI account 397 General Plant Communication Equipment: 2012 balance = \$1,260,709 and 2013 balance = \$1,614,365; difference = \$353,656; increase 28.1%; line 36, cols (g)-(j)</p> <p>b) OE account 397 General Plant Communication Equipment: 2012 balance = \$890,594 and 2013 balance = \$1,083,321; difference = \$192,727; increase 21.6%; line 36, cols (k)-(n)</p>
FE-08.04	<p>[CONFIDENTIAL] Regarding Service Company (spreadsheet tab "Var – ServCo"), please fully explain the variance between the 2012 actual balance and the 2013 actual balance for each identified account. (Full explanation should include, at a minimum, detailed narrative of changes in account. Please also note any additional detailed account activity that would provide full, appropriate, helpful disclosure in communicating the reason(s) for the variance identified.):</p> <p>a) CEI Gross Plant: 2012 balance = \$59,115,317 and 2013 balance = \$73,129,621; difference =</p>

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	<p>\$14,014,304; increase 23.7%; line 2, cols (g)-(j) b) CEI Reserve: 2012 balance = \$18,172,221 and 2013 balance = \$27,066,586; difference = \$8,894,365; increase 48.9%; line 3, cols (g)-(j) c) CEI ADIT: 2012 balance = \$9,468,484 and 2013 balance = \$12,353,473; difference = \$2,884,989; increase 30.5%; line 4, cols (g)-(j) d) OE Gross Plant: 2012 balance = \$71,637,281 and 2013 balance = \$88,620,131; difference = \$16,982,850; increase 23.7%; line 2, cols (k)-(n) e) OE Reserve: 2012 balance = \$22,021,510 and 2013 balance = \$32,799,902; difference = \$10,778,392; increase 48.9%; line 3, cols (k)-(n) f) OE ADIT: 2012 balance = \$11,474,123 and 2013 balance = \$14,970,218; difference = \$3,496,095; increase 30.5%; line 4, cols (k)-(n) g) TE Gross Plant: 2012 balance = \$31,533,716 and 2013 balance = \$39,009,326; difference = \$7,475,610; increase 23.7%; line 2, cols (o)-(r) h) TE Reserve: 2012 balance = \$9,693,556 and 2013 balance = \$14,438,052; difference = \$4,744,496; increase 48.9%; line 3, cols (o)-(r) i) TE ADIT: 2012 balance = \$5,050,746 and 2013 balance = \$6,589,678; difference = \$1,538,932; increase 30.5%; line 4, cols (o)-(r)</p>
FE-08.05	<p>[CONFIDENTIAL] Regarding Reserve (spreadsheet tab "Var – Reserve"), please fully explain the variance between the 2013 actual balance and the first quarter 2014 estimated balance for each identified account. (Full explanation should include, at a minimum, detailed narrative of changes in account. Please also note any additional detailed account activity that would provide full, appropriate, helpful disclosure in communicating the reason(s) for the variance identified.):</p> <p>a) TE account 399.1 Asset Retirement Costs for General Plant: 2013 balance = \$227,482 and 1st qtr 2014 balance = \$305,127; difference = \$77,644; increase 34.1%; line 38, cols (o)-(r)</p>
FE-09.01	<p>[CONFIDENTIAL] Follow up to Data Response BRC 3-004:</p> <p>a. Please clarify the statement, "the Companies expect to make accounting adjustments so that these work orders will be removed from the Rider DCR gross plant and reserve balances as of March 31, 2014."</p> <p>b. Are there Rider EDR costs included within the Companies 2/4/14 Rider DCR Compliance Filing?</p> <p>c. If so, how much is included in the Rider DCR. What is the adjustment to have those costs excluded?</p> <p>d. If no, please explain how the FirstEnergy identified and excluded the Rider EDR costs from the Rider DCR filing.</p> <p>e. Are there any other EDR costs included in utility plant in service as of December 31, 2013? If so please identify the workorders, amounts, and what accounting adjustments the company expects to make.</p>
FE-09.02	<p>Follow up to Data Request BRC 1-INT-012, attachments 1, 2, and 3.</p> <p>a. Please identify any deficiencies noted in the SOX testing steps and how those deficiencies were mitigated.</p>

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FE-09.03	<p>[CONFIDENTIAL] Follow up to Data Request BRC 2-INT-001, attachment 5 (update)</p> <p>a. Workorder OECO 12614860: Based on the explanation below did the delay in manually identifying the workorder as In-service cause a change in the accrued depreciation and the associated depreciation reserve? If so please provide the amount of the over/under accrual. The last direct charge for this program was in 2011. The amount in the sample (\$96,835) represents the inception-to-date charge on the work order (net of reimbursement) that was logged in PowerPlant in April 2011 but not manually in-serviced until 2013. Since the project is 100% reimbursable, the original budget amount is zero.</p> <p>b. Workorder OECO GN-0002834-1: \$120,066.</p> <p>i. Based on the explanation below where do the charges belong if not in the DCR and when will those charges be taken out of the DCR. Please provide the journal entry or Power Plant screen print that removes the charges from the DCR.</p> <p>ii. Are there any other charges to the same workorder included in the DCR from December 1, 2012 through December 31, 2013 that will need to be removed? If so please quantify the charges.</p> <p>This project is not jurisdictional to Rider DCR and should not be included in the Rider DCR balances.</p>
FE-09.04	<p>[CONFIDENTIAL] Follow up to Data Request BRC 1-INT-027: Please provide the dollar value of the workorder backlog, by operating company and by workorder classification (distribution, transmission and general/other).</p>
FE-09.05	<p>Reference BRC 2-INT-001, Attachments 1 and 5, BRC 2-INT-002-Attachments 1, 2 and 5.</p> <p>a. The following workorders had delayed completion dates and continued to accrue AFUDC. Please explain the impact of the delays on the DCR in terms of overstatement of Electric Plant in Service and the depreciation reserve.</p> <p>i. CECO Workorder 13587491: Clark 1-CK-T Transformer replacement. Project was delayed 94 days and accrued \$35,445 of AFUDC. Estimated to finish July 2, 2013. Completed October 3, 2013.</p> <p>ii. CECO Workorder 13509122: Project was delayed 347 days and accrued \$9,265 in AFUDC. Estimated to finish December 31, 2012. Completed December 13, 2013.</p> <p>iii. OECO Workorder 13260022: Brookside replace existing capacitor bank. Project was delayed 341 days and accrued \$90,990 of AFUDC. Estimated to finish June 1, 2012. Completed May, 8, 2013.</p> <p>iv. OECO Workorder 13817100: Replace Richville/Carson Road Regulators (VR-17) Project was delayed 679 days and accrued \$926 in AFUDC. Estimated to finish August 31, 2011. Completed July 10, 2013.</p> <p>b. The following workorders had delays in retirement of assets from when the work was completed and placed in service. Please explain the impact of the delay in retirements on the DCR in terms of over accrual of depreciation expense and the associated depreciation reserve.</p> <p>i. OECO Workorder OE-001657-F: CP Fairlawn Complex Drives: The workorder was closed in February 2012 and approximately \$673,000 of assets were retired April 2013 (14 month delay).</p> <p>ii. TECO Workorder 13564431: Lakewood Replace Upper Roof: The workorder was closed in December 2012 and approximately \$257,000 of assets were retired May 2013. (5 month delay).</p>
FE-09.06	<p>Please state whether the development process of the Rider DCR compliance filing is without significant change from that of last year. If FirstEnergy has implemented significant change to the process in 2013, please explain the change in detail.</p>
FE-09.07	<p>[CONFIDENTIAL] Reference: Rider DCR Compliance Filing Summary: Please provide the supporting documents and calculation for the tax rates used to calculate the Actual 12/31/13 and Estimated 3/31/14 Rider DCR Revenue Requirement.</p>

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FE-10.01	Reference Data Request response BRC Set 3-INT-012, b. e, f, h, l, k, p, q, r, t and u. Was the depreciation reserve adjusted (moved) along with the assets when the transfers were made between FERC plant accounts, and/or between the operating companies and ATSI?
FE-11.01	[CONFIDENTIAL] Merger-related Employee Changes. The response to BRC Set 1-INT-29 states that there were no merger-related changes in employee levels in 2013. However, Ohio based employee levels at year end 2012 (including CEI, OE, TE, and Service Company employees) was 4,041 (according to FirstEnergy's 2012 Data Request BRC 1-26 response). According to the totals provided in response to this year's Data Request 1-INT-02 and data response 1-INT-28, total employee levels for the three companies and the Service Company at the end of 2013 is 5899, which is an increase of 1,858. Please explain in detail the increase from 2012 reported levels to 2013 reported levels, explaining in detail reasons for concluding that no merger-related changes in employee levels occurred in 2013.
FE-12.01	[CONFIDENTIAL] FERC Form 1 comparison to Compliance Filing. Based on the 2012 Compliance Filing (2012 BRC Set 1-INT-11 Attachment OECO-Confidential - Updated.xls), account 364 for Ohio Edison was reported with a balance of \$436,832,675. Ohio Edison's 2012 FERC Form 1 reported the balance for account 364 as \$434,575,741. Please provide a detailed narrative with supporting documentation explaining the \$2,256,934 difference in the reporting.
FE-13.01	[CONFIDENTIAL] Follow up to Data request response BRC Set 9-INT-005, a, i ,ii,iii,iv. The Company response did not entirely answer the question. Did the delay in project completion beyond the estimated completion date cause additional AFUDC to be accrued? If so please quantify the amount by workorder and explain why its appropriate to continue to accrue AFDUC beyond the estimated completion date of a project.
FE-13.02	[CONFIDENTIAL] Follow up to Data Request response BRC SET 8-001, c. and attachment 1. The Company response indicates that Rider DCR has approximately \$1,918,816 of utility plant in funding project CE-004000, workorders 996264 and 996276 related to AMI and therefore, should have been excluded from the Rider. In addition the Company indicates that another \$243,145 of AMI utility plant was found that should have been excluded. That brings the total AMI that should have been excluded to approximately \$2,161,961. a. Please provide the accumulated reserve for depreciation associated with the \$2,161,961 as of December 31, 2013 by funding project, by workorder. b. Are any additional dollars included in utility plant that should have been excluded in accordance with the requirements of Rider DCR? If not please describe how that was determined, and if so please quantify the amounts by workorder, including the associated accumulated reserve for depreciation.
FE-13.03	[CONFIDENTIAL] Follow up to Data Request BRC Set 7-001, 3: Workorder 13563242 Edison Plaza Building renovation upgrades. In-service November 2013. Project No. TW-001112 and physical inspection performed jointly by PUC staff and Company representatives on March 6, 2013. As background the project is described as follows: Demolition of existing improvements B. Removal of all asbestos and reapplication of new fireproofing C. Installation of spray foam of deck above 7th floor to increase R-Value D. Installation of sprinkler system on 6th floor and rework other sprinkler heads. E. Adjust or replace HVAC ducting as required F. Toledo Edison costs - moving, telecom, phones, internal labor, etc. Representatives of the Company indicated that the majority of work done on this project was the total demolition and reconstruction of offices on the 5th, 6th, and 7th floors of the Edison Plaza to accommodate the lease occupant of these 2 ½ floors for their corporate offices. a. What is the total amount of the project that was for the benefit of the lease occupant? b. Is the entire amount of the project, including the work done for the benefit of the lease occupant, included in Rider DCR? If not indicate what is included? c. How does the lease occupant make, plan to make, lease payments to the Company and the

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	<p>associated accounting?</p> <p>d. If the total capital project costs are included in Rider DCR please explain why?</p> <p>e. Please explain how the customers, subject to Rider DCR, will benefit from the Company leasing space to the lease occupant and how the lease payments will accrue back to the customer for the period December 2012 through December 2013 and beyond?</p>
FE-13.04	<p>[CONFIDENTIAL] Follow up to Data Request BRC Set 9-INT-004: Please explain why TECO shows a Distribution backlog over 15 months of 230 workorders with a negative sum of - \$1,141,559?</p>
FE-14.01	<p>[CONFIDENTIAL] Follow up to Data Request response BRC Set-5, INT-003, b. Work order GN-00028341-1: The Company response indicated that this workorder was Generation related that was allocated to Ohio Edison due to the terms of a generation plant sale/leaseback agreement. Since this work order was related to Generation it should not have been included in the DCR.</p> <p>The attached list was pulled from the work order population provided by the Companies in this audit and in prior audits for projects identified as "GN."</p> <p>a. Please explain what the prefix "GN" means.</p> <p>b. Are the workorders contained in the attached list generation related?</p> <p>c. If so, were these work orders included in Rider DCR in 2013 or in Rider DCR filings in the past?</p> <p>d. If so, please provide for each work order the adjustment to gross plant and reserve required to remove the generation work order from Rider DCR</p> <p>Are there other work orders identified by the Companies that are generation related that should be excluded from the Rider DCR. If so, please provide a list including gross plant and reserve amounts that should be adjusted out of Rider DCR.</p>
FE-15.01	<p>The Combined Stipulation from Case No. 10-388-EL-SSO states that there is an annual cap of the Rider DCR Revenue collected. Section B.2 (page 14) of the Combined Stipulation specifically states:</p> <p>For the first twelve months Rider DCR is in effect, the revenue collected by the Companies shall be capped at \$150 million; for the following 12 months, the revenue collected under Rider DCR shall be capped at \$165 million; and for the following five months, the revenues collected under Rider DCR shall be capped at \$75 million. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be excluded from Rider DCR and the annual cap allowance.</p> <p>[emphasis added]</p> <p>The Annual Rider DCR Revenue through December 31, 2013 from page 57 of the February 4, 2014 Compliance Filing proves the following annual revenue to date which exceeds the \$165 million annual cap in affect.</p> <p>Company 2013 Annual Revenue</p> <p>Cleveland Electric Illuminating Company \$82,411,644</p> <p>Ohio Edison Company \$82,734,228</p> <p>The Toledo Edison Company \$20,486,055</p> <p>Total Requested Revenue Requirements \$185,631,927</p> <p>Annual Cap \$165,000,000</p> <p>Amount Over Annual Cap \$20,631,927</p> <p>a. Please confirm that the amounts in the table above from page 57 of the 2/4/14 Rider DCR Compliance Filing are "revenue collected."</p> <p>b. Please explain how the \$185 million annual revenue from page 57 of the Compliance filing (shown in the above table), which is \$20 million higher than the annual cap allowed under the Combined Stipulation, is in compliance with the Combined Stipulation's annual cap.</p> <p>c. The 2/4/14 Rider DCR Compliance Filing cover letter states, "The attached schedules</p>

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DR #	Request Note: Some requests are only partial Requests due to size
	demonstrate that the year-to-date revenue requirement is below the permitted cap for 2013.” This statement refers to revenue requirement, whereas the Combined Stipulation’s annual cap is based on revenue collected. What cap is referred to in the statement on the cover letter? Please provide the analysis that supports this statement

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APPENDIX D: WORK PAPERS

Blue Ridge's workpapers are available on a confidential CD. Much of Blue Ridge's analysis was performed using the Microsoft Excel® spreadsheets provided by FirstEnergy that support the Rider DCR Compliance Filing. The Filing included the following spreadsheets.

- Workpaper Key
- Summary
- DCR Rider Workpaper
- Quarterly Reconciliation
- Billing Units
- Act-Summary
- Act-CE Sch B2.1 (Plant in Service)
- Act-CEI Sch B3 (Depreciation Reserve)
- Act-CEI Sch B3.2 (Depreciation Expense)
- Act-CEI Sch C3.10 (Property Tax)
- Act-OE Sch B2.1 (Plant in Service)
- Act-OE Sch B3 (Depreciation Reserve)
- Act-OE Sch B3.2 (Depreciation Expense)
- Act-OE Sch C3.10 (Property Tax)
- Act-TE Sch B2.1 (Plant in Service)
- Act-TE Sch B3 (Depreciation Reserve)
- Act-TE Sch B3.2 (Depreciation Expense)
- Act-TE Sch C3.10 (Property Tax)
- Act-Exclusions
- Act-ADIT Balances
- Act-Service Company
- Act-Service Co. Depr Rate
- Act-Service Co. Prop Tax Rate
- Act-Service Co. Incremental
- Act-Intangible Depr Expense
- Est-Summary
- Est-CEI Sch B2.1 (Plant in Service)
- Est-CEI Sch B3 (Depreciation Reserve)
- Est-CEI Sch B3.2 (Depreciation Expense)
- Est-CEI Sch C3.10 (Property Tax)
- Est-OE Sch B2.1 (Plant in Service)
- Est-OE Sch B3 (Depreciation Reserve)
- Est-OE Sch B3.2 (Depreciation Expense)
- Est-OE Sch C3.10 (Property Tax)
- Est-TE Sch B2.1 (Plant in Service)
- Est-TE Sch B3 (Depreciation Reserve)
- Est-TE Sch B3.2 (Depreciation Expense)
- Est-TE Sch C3.10 (Property Tax)
- Est-ADIT Balances
- Est-Exclusions
- Est-Service Company
- Est-Service Co. Depr Rate
- Est-Service Co. Prop Tax Rate
- Est-Service Co. Incremental
- Est-Intangible Depr Expense

Workpapers that support Blue Ridge's analysis are listed below. All workpapers were delivered to PUCO Staff per the RFP requirements.

- WP FE DCR CF 2012 to FF1 2012 - Confidential.xlsx
- WP FE DCR CF Summary Variance 2012 to 2013 - Confidential.xlsx
- WP FE DCR CF Variance 2013 to 2014a - Confidential.xlsx
- WP FE DCR eoy 2012 to boy 2013 - Confidential.xlsx
- WP FEOH Adjustments to FE Rider DCR Compliance Filing 2-4-14 – Confidential.xlsx
- WP FEOH Adjustments to Plant and Reserve - CONFIDENTIAL.xlsx
- WP FEOH 2013 Sensitivity Analysis Summary
- WP FEOH Extrapolation of 2011-2012 Sensitivity Analysis for 2013 - CONFIDENTIAL.xlsx
- WP FEOH Pre-Date Certain Pension Impact Analysis - CONFIDENTIAL.xlsx
- WP FEOH Sample Selection from BRC Set-1-INT-001 Attachment 1 - Confidential.xlsx
- WP FEOH Sample Size Calculation based Work Orders through 12-31-13 - CONFIDENTIAL.xlsx

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- WP FEOH Sample Size Calculation for December 2012 Carryover Workorders - CONFIDENTIAL.xlsx
- WP FEOH Sample Work Order Testing Matrix - Confidential.xlsx
- WP FEOH V&V Rider DCR Compliance Filing 2-4-14 – Confidential R3a.xlsx
- Field Observations
 - Edison Plaza Field Observation - 2014-TECO-13563242.docx
 - Mad River Field Observation - 2014-OECO-13781850.docx
 - Marion Field Observation - 2014-OECO-13335648.docx

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Summary: Report Report Blue Ridge Consulting Services, Inc. Compliance Audit Report of the 2013 Delivery Capital Recovery (DCR) Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company electronically filed by Mrs. Tracy M Klaes on behalf of Blue Ridge Consulting Services, Inc. electronically filed by Mrs. Tracy M Klaes on behalf of Blue Ridge Consulting Services, Inc