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Compliance Audit of the 2014 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company

Submitted on March 30, 2015

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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.

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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 that has been provided is reliable, Blue Ridge does not guarantee the accuracy of the information relied upon.

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 used information obtained from the prior audits of the 2011, 2012, and 2013 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 2015.

Scope Area 2 addresses the requirement in the Commission order in Case No. 10-388-EL-SSO and 12-1230-EL-SSO that net capital additions for plant in service for General Plant shall be included in the DCR as 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.

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 "Companies")—prepared and submitted Compliance Filings regarding the Commission-approved Delivery Capital Recovery (DCR) Rider for actual plant in service through November 30, 2014, and estimated plant in service through February 28, 2015. 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 4928.143 Revised Code. FirstEnergy filed an application for approval of an ESP in Case No. 10-388-EL-SSO ("ESP II Case"). A majority of the parties in the case entered into an original stipulation and two supplemental stipulations (collectively, "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 on August 25, 2010.

As part of its Opinion and Order, the Commission approved the establishment of the Rider DCR, 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 ("ESP III Case").

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 2014 compliance audit. Blue Ridge also performed the 2011, 2012, and 2013 Rider DCR compliance audits, covering plant in service since the last distribution rate case (the audits covered 6/1/2007 through 12/31/2013).

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; and
- 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-EL-SSO) and continued in Case No. 12-1230-EL-SSO.

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 and continued in Case No. 12-1230-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 Rider DCR 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 and continued in Case No. 12-1230-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 Rider DCR and other adjustments found during the detailed transactional work order testing. The validation of the revenue requirement model also identified incorrect values used in the calculation of property taxes. Explanations of the issues are provided in the appropriate sections. The flow through of these adjustments has the following impact on the DCR.

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

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 106,009,226**	**$ 105,847,866**	**$ 29,017,173**	**$ 240,874,265**
1	Correct property tax capitalized interest rate	$ -	$ -	$ (7,113)	$ (7,113)
2	Impacts 2014 Only - See Below	See Below	See Below	See Below	See Below
3	Leasehold Improvements Not Excluded	$ -	$ -	$ (21,867)	$ (21,867)
4	Fee with AFUDC ITF_SC-000026-1	$ (69)	$ (84)	$ (37)	$ (190)
5	Delay, AFUDC Not Stopped ITS-SC-000181-1	$ (747)	$ (904)	$ (398)	$ (2,048)
6	Delay, AFUDC Not Stopped ITS-SC-000195-1	$ (491)	$ (594)	$ (261)	$ (1,346)
7	Not Jurisdictional IF-SC-000082-1	$ (7,908)	$ (9,561)	$ (4,204)	$ (21,673)
8	Allegheny Merger ITS-SC-M00002-1	$ (76,362)	$ (92,424)	$ (40,658)	$ (209,444)
9	Allegheny Merger ITS-SC-M00021-1	$ (7,461)	$ (9,030)	$ (3,972)	$ (20,464)
10	Allegheny Merger XSC-600011-1	$ (40,367)	$ (48,829)	$ (21,474)	$ (110,670)
11	Delay in Retirements CE-000729-DO-MSTM	$ 374	$ -	$ -	$ 374
12	Delay in Retirements PA77411650	$ -	$ (11,220)	$ -	$ (11,220)
13	Delay in Retirements PA-76905480	$ -	$ -	$ 1	$ 1
14	ATSI Not Excluded	$ (972,015)	$ -	$ -	$ (972,015)
15	Sale of Ford Sub Transformer #2	$ -	$ (122,896)	$ -	$ (122,896)
	Total	**$ (1,105,046)**	**$ (295,541)**	**$ (99,983)**	**$ (1,500,570)**
Impacts 2014 Only					
2	Real Property Capitalized Cost (2014 Only)	$ (1,575)	$ (1,909)	$ (72,753)	$ (76,237)
	Grand Total	**$ (1,106,621)**	**$ (297,450)**	**$ (172,736)**	**$ (1,576,808)**

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

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. Blue Ridge concluded that FirstEnergy's and the Companies' controls were adequate and not unreasonable.

In follow-up to the internal audit review, Blue Ridge found that progress toward remediation had been made since the dates of the internal audit reports. Furthermore, Blue Ridge verified that the DCR was unaffected by any deficiencies outstanding from the following internal audits: Audit No. 24747, Audit No. 24748, Audit No. 24749, and Audit No. 23368.

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) across year end 12/31/2013 and the four quarterly reports of 2014 (3/31/2014, 5/31/14, 8/31/2014, and 11/30/2014).

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

[1] WP FEOH Adjustments to Plant and Reserve – Confidential and WP Impact of Finding BRC Set 1-INT-001 Att 1 FE DCR Compliance Filing 12.31.14 Confidential.

operating companies increased net plant (including allocation of Service Company Plant) by $57.6 million, $97.4 million, and $25.2 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 2.1%, 3.3%, and 2.3% for CE, OE, and TE, respectively.

Table 2: Adjusted Plant Change from 12/31/2013 to 11/30/2014[2]

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 12/31/13	Adjusted Balance 11/30/14	Difference (c)-(b)	% (d)/(b)
1	The Cleveland Electric Illuminating Company				
2	Transmission	$ 404,406,006	$ 412,496,355	$ 8,090,349	2.0%
3	Distribution	2,032,809,245	2,075,410,343	42,601,098	2.1%
4	General	147,968,644	145,387,196	(2,581,448)	-1.7%
5	Other	47,736,941	48,640,496	903,555	1.9%
6	Service Company Allocated	73,129,621	81,735,306	8,605,685	11.8%
7	**Total Cleveland Electric Illuminating Company**	**$ 2,706,050,457**	**$ 2,763,669,696**	**$ 57,619,239**	**2.1%**
8	Ohio Edison Company				
9	Transmission	$ 207,528,588	$ 208,139,877	$ 611,289	0.3%
10	Distribution	2,463,071,417	2,548,369,201	85,297,784	3.5%
11	General	158,454,379	157,962,486	(491,893)	-0.3%
12	Other	62,524,970	64,121,572	1,596,602	2.6%
13	Service Company Allocated	88,620,131	99,048,696	10,428,565	11.8%
14	**Total Ohio Edison Company**	**$ 2,980,199,485**	**$ 3,077,641,832**	**$ 97,442,347**	**3.3%**
15	The Toledo Edison Company				
16	Transmission	$ 21,122,572	$ 22,433,203	$ 1,310,631	6.2%
17	Distribution	902,685,572	924,469,265	21,783,693	2.4%
18	General	100,266,353	97,309,903	(2,956,450)	-2.9%
19	Other	22,000,374	22,507,933	507,559	2.3%
20	Service Company Allocated	39,009,326	43,599,833	4,590,507	11.8%
21	**Total Toledo Edison Company**	**$ 1,085,084,197**	**$ 1,110,320,137**	**$ 25,235,940**	**2.3%**
22	**FirstEnergy Ohio Operating Companies**	**$ 6,771,334,139**	**$ 6,951,631,665**	**$ 180,297,526**	**2.7%**

In the current Year 2014 DCR audit, Blue Ridge evaluated several yearly and/or quarterly changes and variances in account balances. The results of those reviews are as follows:

- Year-to-Year and Quarter-to-Quarter DCR Filing Plant-In-Service Balances
  In our analysis of specific account variances by quarter from 12/31/2013 through 11/30/2014, Blue Ridge submitted questions and received responses from FirstEnergy regarding nine (9) significant variances among the three FirstEnergy operating companies.

  As a result of the review, FirstEnergy stated that they discovered that work order activity of $150,772, during this period, was associated with leasehold improvements. This amount was carried through the filings throughout 2014. FirstEnergy stated that a reconciliation

[2] WP FE DCR CF Variance 2014 Qtrly – Confidential.xlsx, tab – PIS Summary. Source data for the table and its supporting workpaper: DCR Compliance Filings issued 2/14/2014, 4/23/2014, 7/2/2014, 10/2/2014, and 12/31/2014 for all three Companies.

calculation would be included in the next filing to exclude this amount.[3] Blue Ridge recommends that an adjustment be made to the Rider DCR for the $150,772.

- Year-to-Year and Quarter-to-Quarter DCR Filing Reserve Balances

  In our analysis of specific reserve account variances by quarter from 12/31/2013 through 11/30/2014, Blue Ridge submitted questions and received responses from FirstEnergy regarding thirteen (13) significant variances among the three FirstEnergy operating companies. Explanation of these variances proved to be not unreasonable.

- Year-to-Year and Quarter-to-Quarter DCR Filing ADIT Balances

  Blue Ridge found no significant variances regarding year-to-year and quarter-to-quarter ADIT balances.

- Year-to-Year and Quarter-to-Quarter DCR Filing Service Company Balances

  Blue Ridge requested and FirstEnergy provided the calculations by which the Service Company balances were derived. Blue Ridge evaluated the change in Service Company balances through the evaluation of additions, retirements, transfers, and adjustments (see below) and through our work order testing activity discussed in the associated chapter of this report.

- End-of-year 2013 DCR Filing to 2013 FERC Form 1 Plant-in-Service Balances

  Blue Ridge compared the 2013 plant-in-service account balances in the Companies' DCR Compliance Filings to their 2013 FERC Forms 1. The examination revealed major differences in account 392 – Transportation Equipment for all three Companies as well as several other differences in other accounts. However, after accounting for excluded Capital Leases and the pre-2007 impact of a change in pension accounting and generation plant, Blue Ridge found that the balances from the 2013 end-of-year DCR filings matched the balances of the 2013 FERC Forms 1.

- 2014 Work Order Population totals to 2014 DCR Filing Year-to-Year Plant-In-Service Activity

  FirstEnergy reasonably explained differences initially noted.

- 2014 Plant Additions, Retirements, Transfers, and Adjustments

  Blue Ridge 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 to which FirstEnergy provided explanations. Blue Ridge found that ATSI activity of $4,627,413, associated with Work Order HE123, was erroneously transferred to CEI for 2014. FirstEnergy had discovered this error and had reversed the transfer in January 2015. However, the amount remained in the Rider DCR plant in service throughout 2014.[4] That amount should be removed from the Rider DCR calculation for 2014.

[3] FirstEnergy's response to Data Requests BRC Set 2-INT-001, page 4 of 5, with Attachment 5 – Confidential.
[4] FirstEnergy's response to Data Request BRC Set 5-INT-001, a-iii, with Attachment 2 – Confidential and FirstEnergy's response to Data Request BRC Set 14-INT-001 – Confidential.

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.

Except as noted regarding the ATSI transfer of $4,627,413 (see Variance Analysis section above), Blue Ridge found no other indication that projects related to Riders LEX, EDR, and AMI or other riders approved by the Commission were not properly excluded from the Rider DCR.

Gross Plant In Service

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

Table 3: Incremental Change in Gross Plant from 12/31/13 to 11/30/14[5]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	2,706,050,456	2,763,669,699	57,619,243
Ohio Edison Company	2,980,199,487	3,077,641,832	97,442,345
The Toledo Edison Company	1,085,084,199	1,110,320,138	25,235,939
Total	6,771,334,142	6,951,631,669	180,297,527

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 impacts of these findings are discussed in the Overall Impact of Findings on Rider DCR Revenue Requirements section of this report.

Additional Validation Testing from Sampled Work Orders

The Companies provided a list of work orders that support gross plant in service for January 1, 2014, through November 30, 2014. Blue Ridge selected a sample of 80 work orders from the Companies' and the Service Company's population of addition and replacement work orders for testing using the probability-proportional-to-size (PPS) sampling techniques and professional judgment.

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

1. Blue Ridge found that, except for any specific issues discussed below, the work is includable in Rider DCR.
2. Regarding exclusions for Rider AMI, Blue Ridge found that the workorder sample for CECO contained one AMI work order, which had appropriately been excluded from Rider DCR.
3. Regarding exclusions for Rider LEX, Blue Ridge found that the population of workorders that comprise utility plant for the DCR did not include any LEX workorders. Blue Ridge reviewed the project scope for each workorder that had FERC 360 accounts charged to confirm that LEX workorders were properly excluded from Rider DCR.

[5] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

4. Regarding exclusions for Rider EDR, Blue Ridge identified one workorder (CECO 13414295) for the Cleveland Clinic Foundation in our workorder sample. The workorder had appropriately been excluded for the calculations of Rider DCR. Blue Ridge reviewed project descriptions for each workorder in the sample and concluded that except as noted above no other EDR workorders were included.
5. Blue Ridge found no workorders in the sample that were related to generation.
6. Blue Ridge found that the Companies have adequate procedures in place to approve workorders. That procedure has not changed since our prior year review and, if followed, will yield the proper project approvals. Blue Ridge found no instance where the Companies did not follow its stated policies.
7. In reviewing work orders for proper justification, Blue Ridge found three work orders related to activity that came about as a result of the merger with Allegheny: eliminate/migrate legacy Allegheny mainframe applications, decommission the Allegheny mainframe, and standardize Allegheny building facility access control systems to FE standard. The Companies explanation that the IT projects in connection with the decommissioning of the Allegheny mainframe would result in "consistency," "efficiency," and "benefits" appears to be inconsistent with the Companies' justification for those projects. Neither of the Allegheny mainframe projects included any discernable net benefits. Blue Ridge recommends that the costs ($2,217,865.59 and $224,796.51, respectively) be excluded from the Rider DCR. Further, the cost of the third work order, which is $1,522,300.47, should also be excluded because it was also related to the merger and there is no discernable benefit to the Companies in Ohio.
8. In reviewing whether project costs were within the approved budget, Blue Ridge found three FECO projects that were over budget by more than 15%. The significant cost overruns from the original budgets were due to expanded scope or unexpected complexity in the project. Blue Ridge is not recommending an adjustment to these projects in regard to the Rider DCR. However, the Companies should review their IT project planning to ensure that the methodology allows for projects to be fully scoped prior to execution.
9. In reviewing whether cost detail supported the work order charge and the categories of cost were reasonable, Blue Ridge found one work order (IF-SC-000082-1) regarding relocation and renovation of some offices to include $374,000 that the Companies identified was not jurisdictional for the purposes of the Rider DCR. Blue Ridge recommends that Utility Plant in Service be reduced by that amount along with a reduction for the associated accumulated reserve for depreciation.

   Blue Ridge also found a work order for a software upgrade, which should not include AFUDC. The project costs did contain $2,002 of AFUDC. Blue Ridge recommends reducing Utility Plant in Service by that amount and reducing the accumulated reserve for depreciation by the appropriate associated amount.
10. Blue Ridge found that for replacement workorders, assets were retired and cost of removal was charged.
11. Regarding the dates assets were retired, Blue Ridge found a storm work order whose retirements were not booked until all the assets were installed. The delay results in an over accrual of depreciation of $3,276. Blue Ridge recommends that the reserve for depreciation be reduced by the amount of the over accrual.

12. Certain delays in recording cost of removal were noted; however, the Companies' explanations for the delays were not unreasonable.
13. Blue Ridge found that all workorders were closed to the proper FERC accounts based on the description of the work being performed. However, one work order represented the sale of a transformer originally retired in 2012. The Companies reversed the original transfer at the time the transformer was sold to a third party. The correct retirement, which includes a gain/loss calculation for net salvage related to the sale, will be booked in March 2015. This will decrease gross plant by $823,555, decrease the reserve by $823,555, and also increase the reserve by $650,000 due to a gain for net salvage. The cost of doing the sale was $20,373, and the gain on the sale was $137,664. Blue Ridge recommends that an adjustment be made to the Rider DCR to recognize the correct adjustment on the 2014 Rider DCR.
14. Blue Ridge found the actual in-service dates in line with the estimates (at or before).
15. Blue Ridge found several work orders that were placed in service from 172 to 456 days after their estimated in-service dates. Of these, two work orders remain without demonstrating reasonable cause for delay. One of these work orders was to convert existing AYE Retiree data from the PAS/Metlife systems to the SAP systems. This was placed in service 422 days after the estimated in-service date. FirstEnergy stated that the project was completed on time, but close down activities took place later than expected, and AFUDC was overstated by $21,581.82. Blue Ridge recommends that the accumulated reserve for depreciation be reduced by the over accrued amount of $21, 581.82.

    The other work order was to implement multiple enhancements to the SAP Finance Modules. This was placed in service 340 days after the estimated in-service date. Again, FirstEnergy explained that the project was completed on time, but close down activities took place later than expected, and AFUDC was overstated by $14,256.41. Blue Ridge recommends that the accumulated reserve for depreciation be reduced by the over accrued amount of $14,256.41.

Field Inspections

Blue Ridge selected five projects for field verification from the work order sample. The physical observation confirmed that the assets were installed and used and useful.

Work Order Backlog

Blue Ridge found that the Companies have experienced a significant increase in the unitization backlog from the prior audits. Blue Ridge concludes that the Companies' explanation that the increase is due to an increased focus on front end review and the proper set up of FERC accounts has value in helping ensure that work order charges are recorded to the proper account. However, that process does not ensure that the units of property were recorded in the proper FERC account as it will not catch errors in charging work orders. That is one of the functions of the unitization process. Blue Ridge recommends that the Company continue to work toward a reduction in the backlog of the workorders not unitized.

ACCUMULATED RESERVE FOR DEPRECIATION

The Rider DCR Compliance Filings include the following accumulated reserve for depreciation ("reserve") incremental change for each company from actual 12/31/2013 to actual 11/30/2014.

Table 4: Incremental Change in Reserve for Depreciation from 12/31/13 to 11/30/14[6]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	(1,098,013,774)	(1,149,324,026)	(51,310,253)
Ohio Edison Company	(1,158,106,675)	(1,217,382,937)	(59,276,263)
The Toledo Edison Company	(519,919,664)	(540,356,852)	(20,437,188)
Total	(2,776,040,112)	(2,907,063,816)	(131,023,704)

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.

Accumulated Deferred Income Taxes

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

Table 5: Incremental Change in ADIT from 12/31/13 to 11/30/14[7]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	(459,354,961)	(438,612,962)	20,741,999
Ohio Edison Company	(483,336,490)	(478,234,260)	5,102,231
The Toledo Edison Company	(135,457,342)	(137,594,493)	(2,137,150)
Total	(1,078,148,794)	(1,054,441,715)	23,707,079

Blue Ridge concludes that the ADIT is not unreasonable. The Companies will recognize the impact of the Tax Increase Prevention Act of 2014 that extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015, in future filing.

Depreciation Expense

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

Table 6: Incremental Change in Depreciation Expense from 12/31/13 to 11/30/14[8]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	86,146,016	88,320,541	2,174,525
Ohio Edison Company	87,705,721	91,262,492	3,556,771
The Toledo Edison Company	34,460,384	35,484,826	1,024,442
Total	208,312,121	215,067,860	6,755,739

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

[6] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[7] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[8] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

revenue requirements. Any revisions to 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.[9] The Companies confirmed that the depreciation study is underway and the final updated study will be provided to Staff no later than June 1, 2015.[10]

PROPERTY TAX EXPENSE

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

Table 7: Incremental Change in Property Tax Expense from 12/31/13 to 11/30/14[11]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	99,931,823	104,023,491	4,091,668
Ohio Edison Company	89,907,692	92,081,650	2,173,957
The Toledo Edison Company	29,165,334	30,360,268	1,194,933
Total	219,004,850	226,465,408	7,460,558

Blue Ridge found that while the calculation of property tax is not unreasonable, two incorrect numbers were inadvertently used in the calculation of TE's property tax that overstated TE's Rider DCR revenue requirement. The calculated impact of these oversights is provided in Overall Impacts of Findings on Rider DCR Revenue Requirements included within this report.

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.

[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 Set 1-INT-011, i.
[11] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

Table 8: Incremental Change in CAT and Income Tax Expense from 12/31/13 to 11/30/14[12]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	7,250,753	8,056,529	805,777
Ohio Edison Company	7,838,815	9,099,603	1,260,788
The Toledo Edison Company	1,355,724	1,438,854	83,130
Total	16,445,291	18,594,986	2,149,695

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

RETURN

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

Table 9: Incremental Change in Return on Rate Base from 12/31/13 to 11/30/14[13]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	20,439,097	22,733,129	2,294,032
Ohio Edison Company	22,460,621	26,129,947	3,669,326
The Toledo Edison Company	3,843,503	4,069,218	225,714
Total	46,743,222	52,932,294	6,189,072

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.

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 11/30/14 and estimated 2/28/15 balances.[14] 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.

The Companies' Rider DCR filing provided a summary of the Annual Rider DCR Revenue To-Date and a comparison of the annual DCR revenues to the adjusted annual cap taking into account prior years' under and over collection as recommended in prior audits.

[12] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[13] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[14] Column B of the Revenue Requirement Calculation Summary (pages 2 and 27) of the filings is mislabeled. Column B for the actual sheet is labeled 8/31/2014 and should be labeled 11/30/14. Column B for the estimated sheet is labeled 11/30/14 and should be labeled 2/28/2015. The mislabeling is an oversight that has no impact on the DCR.

The change in quarterly ending dates, however, did create some difficulty as it relates to analyzing the cap since the audit period is no longer equivalent to the calendar year. Since the Companies' December 31, 2014, Rider DCR included only eleven months of actual 2014 Rider DCR revenues, an analysis of actual revenues compared to the annual revenue cap would require either a proration of the annual cap to match the audit period or an analysis of the cap beyond the audit period. As such, Blue Ridge requested the actual annual 2014 Rider DCR revenues to conduct the comparison. Blue Ridge found that the Companies were over their aggregate annual cap for 2014 by $2,207,737, and it will be required that they reduce their 2015 aggregate annual cap by an amount equal to the 2014 over-recovery.

Once the Companies' revenues are compared to the aggregate annual cap, the Companies are then limited to a Company cap. The Stipulations provide for an allocated cap amount the Companies of 50%, 70% and 30% for Ohio Edison, Cleveland Electric, and Toledo Edison, respectively, of the total aggregate caps. The Companies are under the allocated Companies cap.

PROJECTIONS

The Rider DCR Compliance Filings include projections for the first two months in 2015. To develop the first quarter 2015 estimates, the Companies used estimated plant in service and reserve balances as of 2/28/15 from the 2014 Forecast Version 10+2 from PowerPlant.[15] The estimated 2/28/15 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate recommendations from prior 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.

[15] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 – Confidential.

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 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. 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 Orders in Case Nos. 10-388-EL-SSO and 12-1230-EL-SSO, as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

BLUE RIDGE RECOMMENDATIONS

For the 2014 Rider DCR assessment, Blue Ridge summarizes its recommendations as follows:

Rec-01. Blue Ridge recommends that a reconciliation calculation be included in the 2015 DCR filing to exclude work order activity of $150,722 related to leasehold improvements included in the 2014 Rider DCR. (2014 DCR Report, p. 45)

Rec-02. Blue Ridge recommends that Workorder ITS-SC-M00002-1, Cost $2,217,865.59, and Workorder ITS-SC-M00021-1, Cost $224,796.51, should be excluded from the Rider DCR. (2014 DCR Report, p. 62)

Rec-03. Blue Ridge recommends that Workorder XSC-6000011-1, Cost $1,522,300.47, should be excluded from the Rider DCR. (2014 DCR Report, p. 62)

Rec-04. Blue Ridge recommends that, in regard to FECO Workorder IF-SC-000082-1, Utility Plant in Service should be reduced by $374,000, along with the associated appropriate reduction to accumulated reserve for depreciation, for non-jurisdictional relocation and renovation activity. (2014 DCR Report, p. 64)

Rec-05. Blue Ridge recommends that, in regard to FECO Workorder ITF-SC-000026-1, Utility Plant in Service should be reduced by $2,002, along with the associated appropriate reduction to accumulated reserve for depreciation, for an incorrect accumulation of AFUDC on a software upgrade. (2014 DCR Report, p. 65)

Rec-06. Blue Ridge recommends that, in regard to CECO Workorder CE-000729-DO-MSTM, accumulated reserve for depreciation be reduced by $3,276 for a delay in booking installed assets. (2014 DCR Report, p. 66)

Rec-07. Blue Ridge recommends that, in regard to OE Workorder OC-001010-SD, an adjustment be made to the Rider DCR to recognize the correct adjustment regarding the retirement of a Transformer. (2014 DCR Report, p. 67)

Rec-08. Blue Ridge recommends that, in regard to FECO Workorder ITS-SC-000181-1, the accumulated reserve for depreciation be reduced by the $21,581.82 resulting from the delay in placing the asset in service. (2014 DCR Report, p. 68)

Rec-09. Blue Ridge recommends that, in regard to FECO Workorder ITS-SC-000195-1, the accumulated reserve for depreciation be reduced by $14,256.41 resulting from the delay in placing the asset in service. (2014 DCR Report, pp. 68-69)

Rec-10. Blue Ridge recommends that the Companies continue to work toward a reduction in the backlog of the workorders not unitized. (2014 DCR Report, p. 71)

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 "Companies")—prepared and submitted Compliance Filings regarding the Commission-approved Delivery Capital Recovery (DCR) Rider for actual plant in service through November 30, 2014, and estimated plant in service through February 28, 2015.[16] 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 4928.143 Revised Code. FirstEnergy filed an application for approval of an ESP in Case No. 10-388-EL-SSO ("ESP II Case"). A majority of the parties in the case entered into an original stipulation and two supplemental stipulations (collectively, "Combined Stipulation"), and after a hearing, the Public Utilities Commission of Ohio (PUCO or "Commission") issued an Opinion and Order approving the Combined Stipulation in its entirety on August 25, 2010.

As part of its Opinion and Order, the Commission approved the establishment of the Rider DCR, 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 ("ESP III Case").

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 2014 compliance audit. Blue Ridge also performed the 2011, 2012, and 2013 Rider DCR compliance audits covering plant in service since the last distribution rate case (the prior audits covered 6/1/2007 through 12/31/2013).

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.

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[16] Prior audits covered the annual periods ended December 31 and quarters ended March 31.

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-EL-SSO) and continued in Case No. 12-1230-EL-SSO.

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 and continued in Case No. 12-1230-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."[17]

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

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

- All additions, retirements, transfers, and adjustments to current date value of plant in service that have occurred for the eleven month period ended November 30, 2014.[18] The information was included in the December 31, 2014, quarterly filing.
- 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 Case Nos. 12-2855-EL-RDR and 13-2100-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 disc to Staff.

Rider DCR Compliance Filings Reviewed

On December 31, 2014, the Companies 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 by the Orders in the Companies' Case No. 12-1230-EL-SSO and Case No. 10-388-SSO Electric Security Plan proceedings. These schedules included actual amounts through November 30, 2014, and projected balances for the three months ended February 28, 2015. Blue Ridge used these Rider DCR Compliance Filings to perform its review.

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

Table 10: Rider DCR Revenue Requirements Actual 11/30/14 and Projected 2/28/15[19]

	Revenue Requirements		
Operating Company	Actual 11/30/14	Projected 2/28/15	Total
Cleveland Electric Illuminating Company	$ 98,168,691	$ 7,840,535	$ 106,009,226
Ohio Edison Company	$ 99,202,692	$ 6,645,174	$ 105,847,866
The Toledo Edison Company	$ 26,731,165	$ 2,286,008	$ 29,017,173
Total	$ 224,102,548	$ 16,771,717	$ 240,874,265

[18] The RFP stated that the period covered would include the actual year ended December 31, 2014. The Companies stated that the modification to the Rider DCR quarterly filing dates was made to align with the terms of the Companies' ESP III (Case No. 12-1230-EL-SSO), which is in effect for the period June 1, 2014, through May 31, 2016. The Commission approved this modification as follows:

> "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." [PUCO Opinion and Order in the Companies ESP III, page 10, final paragraph] See FirstEnergy's response to Data Request BRC-1-5.

[19] WP FE V&V 2014 Rider DCR Compliance Filing December 31, 2014 – Confidential.

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 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 Rider DCR compliance audit that covered capital additions during calendar year 2013. Blue Ridge's report included several findings and recommendations and was filed in Case No. 13-2100-EL-RDR. The following includes the recommendations from the 2013 audit that Commission Staff and the Companies stipulated and recommended that the Commission adopt the recommendations made by Blue Ridge in its April 9, 2014, Compliance Audit Report.[20] Following each recommendation is FirstEnergy's response regarding the recommendation's status and Blue Ridge's comments based upon observations from this compliance audit.

a) On Page 11 of the Report, Blue Ridge recommended that the Companies 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.

   FirstEnergy Response: The Companies have continued to carefully monitor the current manual process used to move CIACs to ensure that CIACs are applied to the correct work orders and FERC accounts. The planned programming change to the PowerPlant system designed to address this issue is scheduled to be implemented in the later half of 2015.[21]

   Blue Ridge's Comments: The Companies should continue to monitor the manual process used to move CIACs until the programming change is made to PowerPlant in the later half of 2015. The change should be reviewed in the next Rider DCR compliance audit.

b) On Page 11 of the Report, Blue Ridge recommends that the resolution to issues identified in SOX compliance tests during 2013 related to AFUDC rates in PowerPlant be reviewed in the next audit.

[20] Case No. 13-2100-EL-RDR Joint Stipulation and Recommendation of Commission Staff and the FirstEnergy Ohio Operating Companies, dated May 28, 2014.
[21] FirstEnergy's response to data request BRC Set 1-INT-011, a.

FirstEnergy Response: Remediation plans were implemented to address two AFUDC control deficiencies identified in 2013. First, the monitoring control over AFUDC rates was updated by adding to fields that review the AFUDC compound rates for reasonableness. The second remediation created a prompt in the system to evaluate work orders' need for AFUDC charges. The prompt requires the employee to evaluate the work order types to determine the need to apply AFUDC charges for the FEU projects. An additional measure placed alerts on employee dashboards to remind the employees to go into the system and evaluate the project for AFUDC.[22]

Blue Ridge's Comments: The Companies made modifications to address the AFUDC control deficiencies. The PowerPlant Upgrade Fee identified in this compliance audit that inappropriately included AFUDC (discussed in recommendation (g) below) was established prior to the Companies' implementation of its remediation. Blue Ridge recommends that future audits include testing steps to confirm that AFUDC is correctly applied.

c) On Page 12 of the Report, Blue Ridge recommended 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. Rider DCR effective June 1, 2014, incorporates this recommendation.

FirstEnergy Response: Starting with the April 23, 2014, Rider DCR filling, the Companies implemented the agreed to methodology for calculating the ATSI Land Lease.[23]

Blue Ridge's Comments: The Companies implemented the recommended change. No additional work is required.

d) On Page 13 of the Report, Blue Ridge recommended that an adjustment be made in the next Rider DCR filing to remove the cumulative impact of AMI projects from the Rider DCR plant balances. Rider DCR effective June 1, 2014, incorporates this recommendation.

FirstEnergy Response: Starting with the April 23, 2014, Rider DCR filing, the Companies updated their Rider DCR preparation process to identify all incremental plant associated with Rider AMI included in jurisdictional Rider DCR depreciation groups and exclude the associated balances from the calculation of the Rider DCR revenue requirement. The Companies' April 23, 2014, Rider DCR filing also included an adjustment to remove the cumulative revenue requirement impact of the Rider AMI projects identified in the audit of the 2013 Rider DCR.[24]

Blue Ridge's Comments: The workpaper linking the adjustments from the prior audits to the current Rider DCR was reviewed.[25] Blue Ridge recommends that the Rider DCR preparation process continue using the established methodology to recognize the impact of both past and future adjustments on Rider DCR.

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[22] FirstEnergy's response to data request BRC Set 1-INT-011, b.
[23] FirstEnergy's response to data request BRC Set 1-INT-011, c.
[24] FirstEnergy's response to data request BRC Set 1-INT-011, d.
[25] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 and Attachment 4 – Confidential.

e) On Page 15 of the Report, Blue Ridge recommended that the Companies correct errors identified as part of its work order transactional testing and adjust Rider DCR accordingly. Rider DCR effective June 1, 2014, incorporates this recommendation.

   FirstEnergy Response: Starting with the April 23, 2014, Rider DCR filing, the Companies updated their Rider DCR preparation process to identify and exclude from the calculation of the Rider DCR revenue requirement all plant and reserve associated with the necessary corrections identified in work order transactional testing in the audit of the 2013 Rider DCR. The Companies' April 23, 2014, Rider DCR filing also included an adjustment to remove the cumulative revenue requirement impact associated with the aforementioned corrections.[26]

   Blue Ridge's Comments: The workpaper linking the adjustments from the prior audits to the current Rider DCR was reviewed.[27] Blue Ridge recommends that the Rider DCR preparation process continue using the established methodology to recognize the impact of both past and future adjustments on Rider DCR.

f) On Page 15 of the Report, Blue Ridge recommended that certain costs associated with building improvements should be removed from Rider DCR. Rider DCR effective June 1, 2014, incorporates this recommendation.

   FirstEnergy Response: Starting with the April 23, 2014, Rider DCR filing, the Companies updated their Rider DCR preparation process to identify all incremental plant associated with building improvements that are non-jurisdictional to Rider DCR and exclude them from the calculation of the Rider DCR revenue requirement. The Companies' April 23, 2014, Rider DCR filing also included an adjustment to remove the cumulative revenue requirement associated with the aforementioned building improvements.[28]

   Blue Ridge's Comments: The workpaper linking the adjustments from the prior audits to the current Rider DCR was reviewed.[29] Blue Ridge recommends that the Rider DCR preparation process continue using the established methodology to recognize the impact of both past and future adjustments on Rider DCR.

g) On Page 15 of the Report, Blue Ridge recommended that the Companies complete a process revision to ensure that AFUDC is not accrued on projects that are not eligible. Blue Ridge further recommended that the Companies review the entire population of utility plant included in the Rider DCR to ensure other similar fees have not accrued AFUDC.

   FirstEnergy Response: In response to the final report in the audit of the 2013 Rider DCR, IT worked with accounting personnel to review the process for setting up and accounting for IT projects. It was determined that no material changes to the process were required, though IT is placing increased emphasis on ensuring that all necessary information is provided to Accounting during the project setup process in order to avoid AFUDC accruing on capital upgrade fee projects. Prior to the 2014 year-end close, IT and Business Services

[26] FirstEnergy's response to data request BRC Set 1-INT-011, e.
[27] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 and Attachment 4 – Confidential.
[28] FirstEnergy's response to data request BRC Set 1-INT-011, f.
[29] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 and Attachment 4 – Confidential.

reviewed all open and currently pending work orders to confirm that no capital upgrade fee projects that were include in the review had accrued AFUDC.[30]

Blue Ridge's Comments: As discussed under the Project Testing section, Blue Ridge found a workorder for a PowerPlant Upgrade Fee 2013 that was charged to capital. The fee inappropriately included AFUDC. The Companies explained that prior to the 2014 year-end close, IT and Business Services reviewed all open workorders and currently pending workorders to confirm that no capital upgrade fee projects that were included in the review had accrued AFUDC. The workorder identified by Blue Ridge was set up in 2012 and was in service in January 2014; so it had already been established and was outside the scope of the internal review discussed above.[31] Blue Ridge found the Companies' explanation not unreasonable. IT should continue to place increased emphasis on ensuring that all necessary information is provided to Accounting during the project setup process in order to avoid AFUDC accruing on capital upgrade fee projects.

h) On Page 17 of the Report, Blue Ridge reiterated its recommendation from the audit of the 2012 Rider DCR (Case No. 12-2855-EL-RDR) 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 recommended the Commission direct the Companies to submit this study to Staff no later than June 1, 2015.

   FirstEnergy Response: A depreciation study is underway. The final updated depreciation study will be provided to Staff no later than June 1, 2015.[32]

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

i) On Page 19 of the Report, Blue Ridge recommended that the Companies include in Rider DCR filings a comparison of the annual Rider DCR revenue to the adjusted annual cap taking into account prior years' under and over collections. Rider DCR effective June 1, 2014, incorporates this comparison.

   FirstEnergy Response: Beginning with the April 23, 2014, Rider DCR filing, the Companies incorporated this recommendation (see page 57 of the Rider DCR filings, Section X).[33]

   Blue Ridge's Comments: The comparison of the annual Rider DCR to the annual cap is included within the Rider DCR filing. This recommendation requires no additional work.

j) On Page 24 of the Report, Blue Ridge reiterated its recommendation from the audit of the 2012 Rider DCR (Case No. 12-2855-EL-RDR) that the Companies include quantification of any increase in efficiency and savings within its (IT) project justifications for IT projects justified on the basis of an increase in efficiency and savings.

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[30] FirstEnergy's response to data request BRC Set 1-INT-011, g and h.
[31] FirstEnergy's response to data request BRC Set 8-INT-013 – Confidential.
[32] FirstEnergy's response to data request BRC Set 1-INT-011, i.
[33] FirstEnergy's response to data request BRC Set 1-INT-011, j.

FirstEnergy Response: IT follows the Application Development Methodology (ADM) for developing and maintaining business applications. As part of the ADM, the responsible Business Unit works with IT to define a set of business objectives. When applicable, expected potential benefits to be achieved through the project are identified, which may include reduction of operating costs or increases in efficiency, quality, and responsiveness. For a quantification of the projected increase in savings and efficiency for projects in the sample that were justified on the basis of an increase in efficiency and savings, please see "BRC Set 3-INT-001 Attachment 6 – Confidential."[34]

Blue Ridge's Comments: The Companies should continue documenting any increase in efficiency and savings within its IT project justifications that are justified on that basis.

The 2012 and 2013 Audits included several adjustments that reduced net plant that the Companies stated would need to be ongoing within the DCR until adjustments were made to the Companies' books.[35] These adjustments are included in the DCR under review.[36]

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 Rider DCR 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 2015.

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. The validation of the revenue requirement model also identified incorrect values used in the calculation

[34] FirstEnergy's response to data request BRC Set 1-INT-011, k.
[35] FirstEnergy's response to data request BRC Set 1-INT-012, referencing 2013 FirstEnergy's response to BRC Set 4-INT-004, Attachment 1 – Confidential.
[36] FirstEnergy's response to Data Request BRC SET 1-INT-001, Attachment 3 – Confidential.

of property taxes. Explanations of the issues are provided in the appropriate sections. The flow through of these adjustments has the following impact on the DCR.

Table 11: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement[37]

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 106,009,226**	**$ 105,847,866**	**$ 29,017,173**	**$ 240,874,265**
1	Correct property tax capitalized interest rate	$ -	$ -	$ (7,113)	$ (7,113)
2	Impacts 2014 Only - See Below	See Below	See Below	See Below	See Below
3	Leasehold Improvements Not Excluded	$ -	$ -	$ (21,867)	$ (21,867)
4	Fee with AFUDC ITF_SC-000026-1	$ (69)	$ (84)	$ (37)	$ (190)
5	Delay, AFUDC Not Stopped ITS-SC-000181-1	$ (747)	$ (904)	$ (398)	$ (2,048)
6	Delay, AFUDC Not Stopped ITS-SC-000195-1	$ (491)	$ (594)	$ (261)	$ (1,346)
7	Not Jurisdictional IF-SC-000082-1	$ (7,908)	$ (9,561)	$ (4,204)	$ (21,673)
8	Allegheny Merger ITS-SC-M00002-1	$ (76,362)	$ (92,424)	$ (40,658)	$ (209,444)
9	Allegheny Merger ITS-SC-M00021-1	$ (7,461)	$ (9,030)	$ (3,972)	$ (20,464)
10	Allegheny Merger XSC-600011-1	$ (40,367)	$ (48,829)	$ (21,474)	$ (110,670)
11	Delay in Retirements CE-000729-DO-MSTM	$ 374	$ -	$ -	$ 374
12	Delay in Retirements PA77411650	$ -	$ (11,220)	$ -	$ (11,220)
13	Delay in Retirements PA-76905480	$ -	$ -	$ 1	$ 1
14	ATSI Not Excluded	$ (972,015)	$ -	$ -	$ (972,015)
15	Sale of Ford Sub Transformer #2	$ -	$ (122,896)	$ -	$ (122,896)
	Total	**$ (1,105,046)**	**$ (295,541)**	**$ (99,983)**	**$ (1,500,570)**

Impacts 2014 Only

2	Real Property Capitalized Cost (2014 Only)	$ (1,575)	$ (1,909)	$ (72,753)	$ (76,237)
	Grand Total	**$ (1,106,621)**	**$ (297,450)**	**$ (172,736)**	**$ (1,576,808)**

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 (and reaffirmed in Case No. 12-1230-EL-SSO[38]) 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:

> 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").[39]
>
> 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

[37] WP FEOH Adjustments to Plant and Reserve – Confidential and WP Impact of Finding BRC Set 1-INT-001 Att 1 FE DCR Compliance Filing 12.31.14 Confidential and .
[38] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[39] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

taxes associated with plant in service since the Companies' last distribution rate case.[40]

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.[41]

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 2013 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 concluded that FirstEnergy exhibits reasonable management practices associated with the investment funded by Rider DCR. Furthermore, by reviewing internal audit reports conducted on various areas of the Companies' operations, 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 reacquainted itself with the policies, procedures, and process flow diagrams associated with the various processes that affect the categories that feed into the Rider DCR

[40] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[41] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.

calculations. Furthermore, we reviewed post-2013 modifications to those policies, procedures, and/or process flow diagrams to determine whether any concerns were raised in connection to the impact of those changes with regard to the Rider DCR calculations. The policies, procedures, and process flow diagrams reviewed related to the following activities:

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
11. IT Projects

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)[42]

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."[43]

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

[42] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a, Attachment 1, Capitalization Policy – Confidential.
[43] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a, Attachment 1, Capitalization Policy – Confidential.

Records (CPR). This CPR is a PowerPlant[44] 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).

During 2014, FirstEnergy replaced its third-party system used for electronic invoice presentment and payment. The old system was decommissioned and replaced effective October 31, 2014.[45]

Other than the system change noted above, FirstEnergy had no significant procedural or policy changes in regard to the capitalization policy in 2014.[46]

Preparation and Approval of Work Orders[47]

Blue Ridge had 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 by more specific activity within those categories.

FirstEnergy did not significantly modify this process for the Companies in 2014.[48]

Contributions in Aid of Construction (CIAC)[49]

Regarding Contributions in Aid of Construction, Blue Ridge had 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 significantly modify this process subsequent to the 2013 Rider DCR audit.[50]

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[44] "PowerPlant" is a commercially available computer software application used in plant accounting.
[45] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[46] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[47] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, b, Attachment 1, Work Management Process – Confidential and FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-3, b, Attachment 2, CREWS Work Request Narratives – Confidential.
[48] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[49] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, e, Attachment 1, Invoicing Process Flow Chart – Confidential.
[50] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.

Application of AFUDC[51]

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 significantly modify this process subsequent to the 2013 Rider DCR audit.[52]

Purchasing/Procurement[53]

Blue Ridge had 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. No significant modifications occurred in 2014.[54]

Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax)[55]

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 significantly modify this process subsequent to the 2013 Rider DCR audit.[56]

Insurance Recovery[57]

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 2013 Rider DCR audit.[58]

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[51] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, d, Attachment 1, Accounting For Capitalized Financing Costs During Construction – Confidential.
[52] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[53] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, h, Attachment 1, Procedure for Enterprise Sourcing of Materials and Services – Confidential.
[54] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[55] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, m, Attachment 1, Income Tax Policy and Procedure – Confidential.
[56] FirstEnergy's response to Data Request BRC 1-INT-015 – Confidential.
[57] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a.
[58] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.

Property Taxes[59]

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 2013 Rider DCR audit.[60]

Service Company Allocations

According to the Stipulation in Case 10-388-EL-SSO and continued in Case No. 12-1230-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."[61] 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 2013 Rider DCR audit.[62]

Budgeting/Projections[63]

The Rider DCR Compliance Filings include three months' of projected data through the end of February 2015. The estimate is based on the 2014 forecast adjusted to reflect current assumptions, to incorporate recommendations from the March 2013 and April 2014 Rider DCR Audit Reports, and to remove the cumulative pre-2007 impact of a change in pension accounting.[64] Blue Ridge had 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 had 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 had been reviewed. Blue Ridge also had 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.

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[59] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, n, Attachment 1, Ohio Property Tax Returns – Confidential.
[60] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[61] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.
[62] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[63] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Confidential; FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, c, Attachment 2, FE Capital Portfolio Development and Capital Management Procedure – Confidential; and FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, c, Attachment 3, Energy Delivery Capital Allocation Process – Confidential.
[64] DCR Filings: CE 12-31-14 DCR Filing.pdf, OE 12-31-14 DCR Filing.pdf, and TE 12-31-14 DCR Filing.pdf.

FirstEnergy's capital budgeting is known internally as "Multi-Year Enterprise Capital Portfolio."[65] Individual business unit programs drive the approval of the capital budgets at the business unit level.[66] 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."[67]

In 2014, First Energy implemented a new system to facilitate budget entry. This system, however, had no impact from a procedural or policy standpoint on developing budgets and projects. Therefore, Blue Ridge determined that FirstEnergy did not significantly modify this process subsequent to the 2013 Rider DCR audit.[68]

Information Technology

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).[69]

FirstEnergy did not modify this process subsequent to the 2013 Rider DCR audit.[70]

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

[65] FirstEnergy's response to 2011 audit BRC Set 1-INT-003, c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Confidential.
[66] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, c, Attachment 2, FE Capital Portfolio Development and Capital Management Procedure – Confidential.
[67] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Section C.2 – Confidential.
[68] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.
[69] FirstEnergy's response to 2014 audit Data Request BRC Set 1-INT-032 – Confidential.
[70] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential.

provider of the information for accuracy. The Rider DCR Compliance filings are comprised of a number of schedules. The schedules and information sources are summarized as follows:[71]

- 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 introducing to the process an ongoing effort to

[71] Summary of the process repeats process as recorded in previous Rider DCR Compliance Audit Reports. See Compliance Audit of the 2011, 2012, and 2013 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company.

incorporate and track specific recommendations that had come out of the 2013 Rider DCR.[72] That effort includes the following:

- Exclusion of gross plant and reserve balances associated with Rider AMI, Generation, or certain building improvement costs erroneously placed into Rider DCR depreciation groups or otherwise identified as non-jurisdictional to Rider DCR
- Inclusion of any other permanent or ongoing adjustments due to the overstatement of reserve, over-accrual of AFUDC, or other reason, as identified in the audit report of the 2013 Rider DCR

Internal Audit and SOX Compliance

Blue Ridge reviewed the list of internal audits performed in 2014 regarding controls that would affect Rider DCR.[73] In particular, we examined and were, for the most part, satisfied with the findings and recommendations associated with eight of the audits: Audit Nos. 23368, 23538, 23675, 23803, 24747, 24748, 24749, and 24850.[74]

Audit No. 23368

The reviewed system development controls were found to provide reasonable assurance that the system would meet requirements, users can perform core system functions, and system data is reliable and accurate. However, even though the overall internal control environment was determined adequate, FirstEnergy stated that a review of SAP transaction/authorizations should be finalized.

Audit No. 23538

System development controls reviewed during the audit were designed and are operating effectively to provide reasonable assurance that the system will meet the business requirements, users can perform core system functions, system data is reliable and accurate, and security and user access controls safeguard system data and ensure compliance with applicable FERC regulations. In addition, key system development controls provide reasonable assurance that the system complies with applicable laws and regulations. No open items for this audit remain.[75]

Audit No. 23675

All associated policies, processes, tools, and documentation developed and/or modified for the FiT effort were reviewed. No adverse findings were reported.

Audit No. 23803

The overall internal control environment provides some level of assurance the controls are appropriate to maintain accurate records and comply with applicable laws and regulations. Certain recommendations were made to improve the control environment. All recommendations have been addressed and action plans have been implemented.

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[72] FirstEnergy's response to Data Request BRC Set 1-INT-013.
[73] FirstEnergy's response to Data Request BRC Set 1-INT-017, Attachment 1 - Confidential.
[74] FirstEnergy's response to Data Request BRC Set 5-INT-007 - Confidential.
[75] FirstEnergy's response to Data Request BRC Set 8-INT-001.

Audit No. 24747

Overall, the internal controls over financial reporting are sufficient relative to the COSO (Committee of Sponsoring Organizations) framework for internal controls. However, ten control deficiencies remained open as of the date of the internal controls report. One of these was significant. Since the audit, the one significant deficiency was addressed as of July 31, 2014. The other deficiencies have been documented and reported as part of FirstEnergy's report of internal controls over financial reporting, and action plans are underway to remedy the deficiencies.

Audit No. 24748

Overall, the internal controls over financial reporting are sufficient relative to the COSO (Committee of Sponsoring Organizations) framework for internal controls. However, six control deficiencies remained open as of the date of the internal controls report. All six are currently in "remediation implemented" status and action plans are underway to remedy the deficiencies.

Audit No. 24749

Overall, the internal controls over financial reporting are sufficient relative to the COSO (Committee of Sponsoring Organizations) framework for internal controls. However, nine control deficiencies remained open as of the date of the internal controls report. One is in the "remediation developed" status, while the other eight are in "remediation implemented" status. Action plans are underway to remedy the deficiencies.

Audit No. 24850

The workshop covered essential components of effective controls; specific IT risks; entity-level controls, IT general controls, segregation of duties, and elevated access; IT change management and security controls; sampling; process and control risk; and control framework template. All participants were reported to be very engaged.

Additionally, FirstEnergy conducted several SOX compliance tests during 2014.[76] No exceptions were noted during the SOX testing of the controls.[77]

In the Year 2013 DCR audit, two deficiencies related to AFUDC rates in PowerPlant were found in SOX compliance tests performed. A final resolution was anticipated in August 2014 in conjunction with the PowerPlant upgrade. Blue Ridge had recommended that the issue be reviewed in this 2014 DCR audit. In regard to Blue Ridge questions concerning this issue, FirstEnergy responded that remediation plans were, in fact, implemented to address the two AFUDC control deficiencies identified in 2013. The monitoring control over AFUDC rates was updated by adding two fields that review the AFUDC compound rates for reasonableness. A second remediation created a prompt in the system to evaluate work orders' need for AFUDC charges. The prompt requires the employee to evaluate the work order types to determine the need to apply AFUDC charges for the FEU projects. An additional measure placed alerts on employee dashboards to remind the employees to go into the system and evaluate the project for AFUDC charges.[78]

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76 FirstEnergy's response to Data Request BRC Set 1-INT-018 – Confidential.
77 FirstEnergy's response to Data Request BRC Set 4-INT-003.
78 FirstEnergy's response to Data Request BRC Set 1-INT-011, b – Confidential.

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. Blue Ridge concluded that FirstEnergy's and the Companies' controls were adequate and not unreasonable.

In follow-up to the internal audit review, Blue Ridge found that progress toward remediation had been made since the dates of the internal audit reports. Furthermore, Blue Ridge verified that the DCR was unaffected by any deficiencies outstanding from the internal audits.[79]

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

Examining the differences of account balances associated with Rider DCR calculations helps determine the trustworthiness of the DCR development.

Last year, in the Year 2013 DCR audit, Blue Ridge examined specific account variances from 2012 to 2013. The analysis identified several of the land accounts as having significant variances. FirstEnergy noted that the differences in the land account balances were primarily due to an alternate method of calculating ATSI Land Lease values. After further review, the Companies had determined that the previous methodology used was more appropriate and would be used in future filings.[80] Starting with the April 23, 2014, Rider DCR filing, the Companies implemented the agreed-to methodology for calculating the ATSI Land Lease.[81]

Additionally during the Year 2013 DCR audit, through Blue Ridge's questioning of account balance variances, the Companies noted that work orders related to Rider AMI and the Smart Grid project should have been excluded from the Rider DCR balances. FirstEnergy indicated that they would include an adjustment in the 2014 Rider DCR filling to reverse the cumulative impact.[82] Starting with the April 23, 2014, Rider DCR filing, the Companies updated their Rider DCR preparation process to identify all incremental plant associated with Rider AMI included in jurisdictional Rider DCR depreciation groups and exclude the associated balances from the calculation of the Rider DCR revenue requirement. The Companies' April 23, 2014, Rider DCR filing also included an adjustment to remove the cumulative revenue requirement impact of the Rider AMI projects identified in the audit of the 2013 Rider DCR.[83]

In the current Year 2014 DCR audit, Blue Ridge evaluated several yearly and/or quarterly changes and variances in account balances:

- Year-to-Year and Quarter-to-Quarter DCR Filing Plant-In-Service Balances

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[79] FirstEnergy's response to Data Request BRC Set 8-INT-001 – Confidential.
[80] FirstEnergy's response to 2013 audit Data Request BRC Set 3-INT-006 – Confidential.
[81] FirstEnergy's response to Data Request BRC Set 1-INT-011, c – Confidential.
[82] FirstEnergy's response to 2013 audit Data Request BRC Set 8-INT-001 Confidential.
[83] FirstEnergy's response to Data Request BRC Set 1-INT-011, d – Confidential.

- Year-to-Year and Quarter-to-Quarter DCR Filing Reserve Balances
- Year-to-Year and Quarter-to-Quarter DCR Filing ADIT Balances
- Year-to-Year and Quarter-to-Quarter DCR Filing Service Company Balances
- End-of-year 2013 DCR Filing to 2013 FERC Form 1 Plant-in-Service Balances
- 2014 Work Order Population totals to 2014 DCR Filing Year-to-Year Plant-In-Service Activity
- 2014 Plant Additions, Retirements, Transfers, and Adjustments

Year-to-Year and Quarter-to-Quarter DCR Filing Plant-In-Service Balances

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) across year end 12/31/2013 and the four quarterly reports of 2014 (3/31/2014, 5/31/2014, 8/31/2014, and 11/30/2014).

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 $57.6 million, $97.4 million, and $25.2 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 2.1%, 3.3%, and 2.3% for CE, OE, and TE, respectively.

Table 12: Adjusted Plant Change from 12/31/2013 to 11/30/2014[84]

Line No.	(a) Account Title	(b) Adjusted Balance 12/31/13	(c) Adjusted Balance 11/30/14	(d) Difference (c)-(b)	(e) % (d)/(b)
1	**The Cleveland Electric Illuminating Company**				
2	Transmission	$ 404,406,006	$ 412,496,355	$ 8,090,349	2.0%
3	Distribution	2,032,809,245	2,075,410,343	42,601,098	2.1%
4	General	147,968,644	145,387,196	(2,581,448)	-1.7%
5	Other	47,736,941	48,640,496	903,555	1.9%
6	Service Company Allocated	73,129,621	81,735,306	8,605,685	11.8%
7	**Total Cleveland Electric Illuminating Company**	$ 2,706,050,457	$ 2,763,669,696	$ 57,619,239	2.1%
8	**Ohio Edison Company**				
9	Transmission	$ 207,528,588	$ 208,139,877	$ 611,289	0.3%
10	Distribution	2,463,071,417	2,548,369,201	85,297,784	3.5%
11	General	158,454,379	157,962,486	(491,893)	-0.3%
12	Other	62,524,970	64,121,572	1,596,602	2.6%
13	Service Company Allocated	88,620,131	99,048,696	10,428,565	11.8%
14	**Total Ohio Edison Company**	$ 2,980,199,485	$ 3,077,641,832	$ 97,442,347	3.3%
15	**The Toledo Edison Company**				
16	Transmission	$ 21,122,572	$ 22,433,203	$ 1,310,631	6.2%
17	Distribution	902,685,572	924,469,265	21,783,693	2.4%
18	General	100,266,353	97,309,903	(2,956,450)	-2.9%
19	Other	22,000,374	22,507,933	507,559	2.3%
20	Service Company Allocated	39,009,326	43,599,833	4,590,507	11.8%
21	**Total Toledo Edison Company**	$ 1,085,084,197	$ 1,110,320,137	$ 25,235,940	2.3%
22	**FirstEnergy Ohio Operating Companies**	$ 6,771,334,139	$ 6,951,631,665	$ 180,297,526	2.7%

In our analysis of specific account variances by quarter from 12/31/2013 through 11/30/2014, Blue Ridge submitted questions and received responses from FirstEnergy regarding nine (9) significant variances among the three FirstEnergy operating companies.[85] Based on FirstEnergy's responses, Blue Ridge's review determined the following:

1. CEI account 350 Transmission Plant Land & Land Rights: 12/31/13 balance = $5,478,594 and 3/31/14 balance = $7,560,063; difference = $2,081,468; increase of 38.0%

   Analysis: FirstEnergy noted that the difference in account balance is entirely due to an alternate method of calculating ATSI Land Lease exclusion. A change in calculation methodology had been adopted in 2013 (see 2013 Rider DCR audit report, p. 50). After further review, the Companies determined that the methodology used previous to the 2013 change was more appropriate. The balance in the 3/31/14 filing, therefore, includes a reconciliation calculation to restore the account to the original ATSI Land Lease exclusion calculation.

2. CEI account 362 Distribution Plant Station Equipment: 12/31/13 balance = $236,635,646 and 3/31/14 balance = $235,985,873; difference = $(649,773); decrease of -0.3%

[84] WP FE DCR CF Variance 2014 Qtrly - Confidential.xlsx, tab - PIS Summary. Source data for the table and its supporting workpaper: DCR Compliance Filings issued 2/14/2014, 4/23/2014, 7/2/2014, 10/2/2014, and 12/31/2014 for all three Companies.
[85] FirstEnergy's response to Data Requests BRC Set 2-INT-001 – Confidential with Attachments.

Analysis: FirstEnergy explained that the difference in this account was due to a reduction of $303,522 for jurisdictional work order activity, a reduction of $336,986 for AMI work order exclusion, and an ongoing work order adjustment of $9,265 related to Work Order CE-13509122, which was identified in the 2013 DCR audit as one that should not have accrued AFUDC (see 2013 Rider DCR audit report, pp. 57-58).

3. OE account 350 Transmission Plant Land and Land Rights: 12/31/13 balance = $6,819,668 and 3/31/14 balance = $8,266,521; difference = $1,446,853; increase of 21.2%

   Analysis: As previously discussed regarding CEI's account 350, the difference in the account balance is entirely due to an alternate method of calculating ATSI Land Lease exclusion. A change in calculation methodology had been adopted in 2013 (see 2013 Rider DCR audit report, p. 50). After further review, the Companies determined that the methodology used previous to the 2013 change was more appropriate. The balance in the 3/31/14 filing, therefore, includes a reconciliation calculation to restore the account to the original ATSI Land Lease exclusion calculation.

4. OE account 364 Distribution Plant Poles, Towers, and Fixtures: 3/31/14 balance = $452,064,377 and 5/31/14 balance = $451,016,826; difference = $(1,047,551); decrease of -0.2%

   Analysis: FirstEnergy provided documented work order detail supporting the change in account balance.

5. OE account 366 Distribution Plant Underground Conduit: 12/31/13 balance = $66,375,424 and 3/31/14 balance = $66,142,256; difference = $(233,168); decrease of -0.4%

   Analysis: FirstEnergy provided documented work order detail supporting the change in account balance.

6. OE account 391.1 General Plant Office Furniture and Equipment: 12/31/13 balance = $7,190,909 and 3/31/14 balance = $7,076,729; difference = $(114,180); decrease of -1.6%

   Analysis: FirstEnergy noted that the 2013 DCR audit report identified generation work orders to be excluded from the Rider DCR calculation (see 2013 Rider DCR audit report, p. 52). The difference in the balance of this account is entirely due to the exclusion of those generation work orders.

7. OE account 397 General Plant Communications Equipment: 3/31/14 balance = $21,662,482 and 5/31/14 balance = $21,395,834; difference = $(266,648); decrease of -1.2%

   Analysis: FirstEnergy provided documented work order detail supporting the change in account balance.

8. TE account 350 Transmission Plant Land and Land Rights: 12/31/13 balance = $974,053 and 3/31/14 balance = $1,719,414; difference = $745,361; increase of 76.5%

   Analysis: As previously discussed regarding CEI's and OE's accounts 350, the difference in the account balance is entirely due to an alternate method of calculating ATSI Land Lease exclusion. A change in calculation methodology had been adopted in 2013 (see 2013 Rider DCR audit report, p. 50). After further review, the Companies determined that the methodology used previous to the 2013 change was more appropriate. The balance in the 3/31/14 filing, therefore, includes a reconciliation calculation to restore the account to the original ATSI Land Lease exclusion calculation.

9. TE account 390 General Plant Structures and Improvements: 12/31/13 balance = $58,617,524 and 3/31/14 balance = $56,212,502; difference = $(2,405,022); decrease of -4.1%

   Analysis: FirstEnergy noted that the 2013 DCR audit report identified Work Order 13563242 as part of a leasehold improvement and therefore not includable in the DCR. The portion not includable was $2,901,197.

   Separately, FirstEnergy stated that, when reviewing this variance, they discovered that work order activity of $150,722, during this period, was also associated with leasehold improvements. This amount was carried through the filings throughout 2014. FirstEnergy stated that a reconciliation calculation would be included in the next filing to exclude this amount.[86] Blue Ridge recommends that an adjustment be made to the Rider DCR for the $150,722.

Year-to-Year and Quarter-to-Quarter DCR Filing Reserve Balances

In our analysis of specific reserve account variances by quarter from 12/31/2013 through 11/30/2014, Blue Ridge submitted questions and received responses from FirstEnergy regarding thirteen (13) significant variances among the three FirstEnergy operating companies.[87] Based on FirstEnergy's responses, Blue Ridge's review determined the following:

1. CEI account 367 Distribution Plant Underground Conductors and Devices: 5/31/14 balance = $96,868,010 and 8/31/14 balance = $92,866,251; difference = $(4,001,759); decrease of -4.1%

   Analysis: The difference of $(4,001,759) consists of an increase in the provision for depreciation of $2,184,593, offset by $(1,486,345) in cost of removal charges and $(4,700,007) in retirements.

2. CEI account 370 Distribution Plant Meters: 3/31/14 balance = $23,597,193 and 5/31/14 balance = $23,588,447; difference = $(8,746); decrease of about 0.0%

   Analysis: The difference of $(8,746) consists of an increase in the provision for depreciation of $509,280, offset by $(103,834) in cost of removal charges and $(418,926) in retirements and activity of $4,735 associated with AMI work order exclusion that was identified in the 2013 DCR audit report (see 2013 Rider DCR audit report, p. 48).

3. CEI account 370 Distribution Plant Meters: 5/31/14 balance = $23,588,447 and 8/31/14 balance = $23,293,182; difference = $(295,265); decrease of -1.3%

   Analysis: The difference of $(295,265) consists of an increase in the provision for depreciation of $766,199, offset by $(584,252) in cost of removal charges and $(484,501) in retirements and activity of $7,288 associated with AMI work order exclusion that was identified in the 2013 DCR audit report (see 2013 Rider DCR audit report, p. 48).

4. CEI account 370 Distribution Plant Meters: 8/31/14 balance = $23,293,182 and 11/30/14 balance = $23,238,990; difference = $(54,192); decrease of -0.2%

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[86] FirstEnergy's response to Data Requests BRC Set 2-INT-001, page 4 of 5, with Attachment 5 – Confidential.
[87] FirstEnergy's response to Data Request BRC Set 2-INT-001, with Attachments – Confidential.

Analysis: The difference of $(54,192) consists of an increase in the provision for depreciation of $768,469, offset by $(291,232) in cost of removal charges and $(538,775) in retirements and activity of $7,347 associated with AMI work order exclusion that was identified in the 2013 DCR audit report (see 2013 Rider DCR audit report, p. 48).

5. OE account 373 Distribution Plant Street Lighting & Signal Systems: 3/31/14 balance = $40,216,033 and 5/31/14 balance = $40,095,445; difference = $(120,588); decrease of -0.3%

   Analysis: The difference of ($120,588) consists of an increase in the provision for depreciation of $155,370, offset by $(53,620) in cost of removal charges and $(222,338) in retirements.

6. OE account 373 Distribution Plant Street Lighting & Signal Systems: 5/31/14 balance = $40,095,445 and 8/31/14 balance = $39,868,064; difference = $(227,381); decrease of -0.6%

   Analysis: The difference of $(227,381) consists of an increase in the provision for depreciation of $163,570, offset by $(104,212) in cost of removal charges and ($283,730) in retirements and $114 in salvage.

   Also, FirstEnergy adjusted its 5/31/14 balances for an exclusion of reserve related to OE Work Order 12614860 that was identified in the 2013 DCR audit report (see 2013 Rider DCR audit report, p. 58-59). However, an incorrect value was recorded for the exclusion. The amount was corrected for the 8/31/14 balance, which resulted in a reserve change of $(3,123).

7. OE account 391.2 General Plant Data Processing Equipment: 12/31/13 balance = $1,069,154 and 3/31/14 balance = $1,494,630; difference = $425,476; increase of 39.8%

   Analysis: The difference of $425,476 consists entirely of an increase in the provision for depreciation.

8. OE account 391.2 General Plant Data Processing Equipment: 8/31/14 balance = $1,022,533 and 11/30/14 balance = $1,404,404; difference = $381,871; increase of 37.3%

   Analysis: The difference of $381,871 consists entirely of an increase in the provision for depreciation.

9. OE account 392 General Plant Transportation Equipment: 5/31/14 balance = $24,792 and 8/31/14 balance = $62,634; difference = $37,842; increase of 152.6%

   Analysis: The difference of $37,842 consists of an increase in the provision for depreciation of $37,830 and other minor activity.

10. TE account 365 Distribution Plant Overhead Conductors and Devices: 5/31/14 balance = $76,764,348 and 8/31/14 balance = $76,651,446; difference = $(112,902); decrease of -0.1%

    Analysis: The difference of $(112,902) consists of an increase in the provision for depreciation of $1,902,844, offset by $(936,744) in cost of removal charges and $(1,079,002) in retirements.

11. TE account 390 General Plant Structures and Improvements: 5/31/14 balance = $19,224,705 and 8/31/14 balance = $18,762,929; difference = $(461,776); decrease of -2.4%

    Analysis: The difference of $(461,776) consists of an increase in the provision for depreciation of $323,826, offset by $(297,978) in cost of removal charges and $(472,966) in retirements. Also, activity of $(14,658) was associated with an ongoing adjustment as a result of identification in the 2013 DCR audit report (see 2013 Rider DCR audit report, p. 60, item #1).

12. TE account 391.1 General Plant Office Furniture and Equipment: 5/31/14 balance = $2,097,315 and 8/31/14 balance = $2,008,739; difference = $(88,576); decrease of -4.2%

    Analysis: The difference of $(88,576) consists of an increase in the provision for depreciation of $21,569, offset by $(110,144) in retirements.

13. TE account 394 General Plant Tools, Shop, and Garage Equipment: 5/31/14 balance = $2,028,748 and 8/31/14 balance = $1,951,232; difference = $(77,516); decrease of -3.8%

    Analysis: The difference of $(77,516) consists of an increase in the provision for depreciation of $44,382, offset by $(121,898) in retirements.

Year-to-Year and Quarter-to-Quarter DCR Filing ADIT Balances

Blue Ridge found no significant variances regarding year-to-year and quarter-to-quarter ADIT balances.

Year-to-Year and Quarter-to-Quarter DCR Filing Service Company Balances

Blue Ridge requested and FirstEnergy provided the calculations by which the Service Company balances were derived. Blue Ridge evaluated the change in Service Company balances through the evaluation of additions, retirements, transfers, and adjustments (see below) and through our work order testing activity discussed in the associated chapter of this report.

End-of-year 2013 DCR Filing to 2013 FERC Form 1 Plant-in-Service Balances

Blue Ridge compared the 2013 plant-in-service account balances in the Companies' DCR Compliance Filings to their 2013 FERC Forms 1. The examination revealed major differences in account 392 – Transportation Equipment for all three Companies. FirstEnergy explained that the differences in their entirety were attributable to Capital Leases, which are non-jurisdictional to Rider DCR and therefore removed from the Compliance Filings.[88]

Additionally, several other 2013 account balances in the DCR Compliance Filings differed from the balances for those accounts in the 2013 FERC Forms 1. Besides the differences attributable to Capital Leases, as discussed above, other differences were attributable to excluding the pre-2007 impact of a change in pension accounting and non-jurisdictional plant.[89]

After accounting for these items, Blue Ridge found that the balances from the 2013 end-of-year DCR filings matched the balances of the 2013 FERC Forms 1.

[88] FirstEnergy's response to Data Request BRC Set 2-INT-002.
[89] FirstEnergy's response to Data Request BRC Set 2-INT-003, Attachment 1 – Confidential.

2014 Work Order Population totals to 2014 DCR Filing Year-to-Year Plant-In-Service Activity

Blue Ridge compared the work order population totals for the year with the difference between the DCR 11/30/14 adjusted plant balances and the 12/31/13 adjusted plant balances for all Companies.[90] While several accounts showed differences, these were expected due to (1) adjustments made as a result of the Year 2013 DCR Audit, (2) manual adjustments after year-end PowerPlant close, and (3) other exclusions (e.g., Rider EDR(g)). When reviewing these adjustments and FirstEnergy's explanation of them, Blue Ridge had questions about two manual year-end adjustments made after PowerPlant closed that increased the plant DCR balances:

1. CEI account 365 Distribution Plant Overhead Conductors & Devices adjustment of $541,551[91]
2. TE account 356 Transmission Plant Overhead Conductors & Devices adjustment of $96,989[92]

FirstEnergy explained that for both these accounts, capital projects were completed and placed in service in 2013, thereby becoming part of the 2013 DCR. However, they were placed in service following the closing of PowerPlant in 2013. Therefore, although a general ledger entry was made for them to include them in 2013, they were not assigned to the appropriate FERC account until 2014. The adjustments had to be made, then, to avoid double counting since the projects were already accounted for in the 2013 DCR.[93] Blue Ridge finds the activity reasonable.

Blue Ridge also found a difference of $(67,051) between the 2014 Work Order population totals and the 2014 DCR in the Service Company Intangible Plant accounts. FirstEnergy explained that this difference was entirely attributable to an ongoing adjustment to Account 303 as a result of the Year 2013 Rider DCR audit in which the Oracle system upgrade fee incorrectly accrued AFUDC. The total AFUDC was in the amount of $67,051. The adjustment to correct this was incorporated into gross plant starting with the first quarter ending March 31, 2014, based on the timing of the recommendation, and therefore would understandably still appear in the calculated difference from 12/31/2013 to 11/30/2014.[94]

2014 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 to which FirstEnergy provided explanations as follows:[95]

1. CEI Account 355 Transmission Plant Poles and Fixtures: Negative Addition of $(547,786)

   Analysis: The negative addition was a reversal of a non-unitized asset, related to work order 12899059, moved as a unitized asset to account 364 Distribution Plant Poles, Towers, and Fixtures.

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[90] WP FE 2014 DCR Comparison Filing to WO Totals – Confidential.xlsx.
[91] FirstEnergy's response to Data Request BRC Set 4-INT-001, page 2 of 5 – Confidential.
[92] FirstEnergy's response to Data Request BRC Set 4-INT-001, page 4 of 5 – Confidential.
[93] FirstEnergy's responses to Data Requests BRC Set 13-INT-001 and 13-INT-002.
[94] FirstEnergy's response to Data Request BRC Set 4-INT-002.
[95] FirstEnergy's response to Data Request BRC Set 5-INT-001 Confidential.

2. CEI Account 356 Transmission Plant Overhead Conductors, Devices: Retirement of $(557,269) greater than Addition of $541,989

   Analysis: These retirements included assets previously automatically closed to a transmission account although they should have been recorded as distribution assets. They were subsequently retired early from account 356 as new additions were unitized to the correct account 365 Distribution Plant Overhead conductors, Devices.

3. CEI Account 356 Transmission Plant Overhead Conductors, Devices: Transfer of $4,627,413

   Analysis: This amount includes transfers of plant from ATSI to CEI that was subsequently reversed in January 2015. Although reversed in January 2015, this amount related to ATSI was included in the Rider DCR plant in service balance.[96] Therefore, the 2014 Rider DCR plant in service should be reduced by the $4,627,413 transfer amount.

4. CEI Account 362 Distribution Plant Station Equipment: Transfer of $(1,814,790)

   Analysis: An offsetting transfer of $1,851,774 to this account associated with Rider AMI plant was excluded from this total due to its AMI status. The remaining $36,984 was a correction of an asset location assignment from ATSI to CEI.

5. CEI Account 362 Distribution Plant Station Equipment: Adjustment of $(232,713)

   Analysis: This adjustment is the reversal of manual year-end adjustments made after PowerPlant closed. (These were corrections to General Ledger account 106 only and did not include AFUDC or depreciation adjustments.)

6. CEI Account 394 General Plant Tools, Shop, Garage Equipment: Retirement of $(459,156) greater than Addition of $241,071

   Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

7. CEI Account 395 General Plant Laboratory Equipment: Retirement of $(105,864) greater than Addition of $23,714

   Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

8. CEI Account 397 General Plant Communication Equipment: Transfer of $(2,583,836)

   Analysis: An offsetting transfer of $2,583,836 to this account associated with Rider AMI plant was excluded from this total due to its AMI status.

9. OE Account 353 Transmission Plant Station Equipment: Negative Addition to plant of $(500,761)

   Analysis: The negative addition is primarily due to a reversal of $(1,080,265) related to work order 13260022. The work order had been transferred out of OE to ATSI.

[96] FirstEnergy's response to Data Request BRC Set 5-INT-001, a-iii, with Attachment 2 - Confidential and FirstEnergy's response to Data Request BRC Set 14-INT-001 - Confidential.

10. OE Account 353 Transmission Plant Station Equipment: Transfer of $400,578

    Analysis: This transfer was related to assets originally captured under ATSI and subsequently transferred to OE.

11. OE Account 355 Transmission Plant Poles and Fixtures: Negative Addition to plant of $(4,087)

    Analysis: A reversal of $(147,105) was related to work order OE-001727-DO-MSTM non-unitized asset going to various other distribution accounts.

12. OE Account 356 Transmission Plant Overhead Conductors, Devices: Negative Addition to plant of $(934,720)

    Analysis: This negative addition came from a reversal of $(1,461,107) related to work order 13464446, which was originally set up under OE but subsequently moved to ATSI.

13. OE Account 360 Distribution Plant Land and Land Rights: Negative Addition to plant of $(34,967)

    Analysis: Some transmission easement assets were erroneously placed into a distribution land account and were reversed resulting in this negative addition.

14. OE Account 365 Distribution Plant Overhead Conductors, Devices: Positive Retirement of $275,899

    Analysis: A reversal of $4,381,521 of prior retirements associated with work order PA77411650 was made to correct an error from the original CREWS design.

15. OE Account 365 Distribution Plant Overhead Conductors, Devices: Adjustment of $(1,425,222)

    Analysis: This adjustment represents the reversal of manual year-end adjustments made after PowerPlant closed. (These were corrections to General Ledger account 106 only and did not include AFUDC or depreciation adjustments.)

16. OE Account 366 Distribution Plant Underground Conduit: Negative Addition to plant of $(5,590)

    Analysis: Reversals drove this negative addition as a result of assets placed in incorrect accounts for work orders 13499853, 13616753, and OE-001211-DU.

17. OE Account 391 General Plant Office Furniture, Equipment: Retirement of $(1,396,673) greater than Addition of $365,307

    Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

18. OE Account 397 General Plant Communication Equipment: Negative Addition to plant of $(96,147)

    Analysis: Reversals drove this negative addition as a result of assets placed in incorrect accounts for work orders 13332158, OE-0001717-TQ, and 13241772.

19. TE Account 356 Transmission Plant Overhead Conductors, Devices: Negative Addition to plant of $(1,262)

    Analysis: This was primarily driven by work order TW-700226 amount of $(38,928) going to account 303.

20. TE Account 365 Distribution Plant Overhead Conductors, Devices: Adjustment of $(351,842)

    Analysis: This adjustment represents the reversal of manual year-end adjustments made after PowerPlant closed. (These were corrections to General Ledger account 106 only and did not include AFUDC or depreciation adjustments.)

21. TE Account 391 General Plant Office Furniture, Equipment: Negative Addition to plant of $(57,438)

    Analysis: These are driven by $(92,839) resulting from unitization of work order TW-700235 where the non-unitized asset was under Account 391, but the unitized asset went to Account 303.

22. TE Account 394 General Plant Tools, Shop, Garage Equipment: Retirement of $(121,898) greater than Addition of $95,804

    Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

23. TE Account 396 General Plant Power Operated Equipment: Retirement of $(33,296) greater than Addition of $2,923

    Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

24. FESC Account 391 General Plant Office Furniture, Equipment: Retirement of $(12,598,855) greater than Addition of $9,911,736

    Analysis: Retirements were greater than additions due to the retirement of fully depreciated assets.

25. FESC Account 392 General Plant Transportation Equipment: Transfer/Adjustment of $(978,925)

    Analysis: These transfers are associated with work orders XSC-900960, FD-0000020-1, and LA096. WO XSC-900960 represents the transfer of $(55,200) to account 396. The other two are transfers out of FESC to other FirstEnergy entities.

A number of transfers were made to ATSI. However, no mention is made as to whether the accrued depreciation was also moved. If the accrued depreciation was not moved, the accumulated reserve for depreciation would be overstated by an amount based on the FERC depreciation rate times the number of months the asset resided in the DCR for 2014. Blue Ridge's analysis indicates that the amount would not be material.[97]

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. The changes in total plant balances for each of the Companies were not unreasonable.

Variance analysis revealed leasehold improvement activity associated with Work Order 13563242 was erroneously included in the DCR filings throughout 2014. Blue Ridge recommends an adjustment to Rider DCR regarding the $150,772 to remove this leasehold improvement activity. Additionally, the ATSI activity of $4,627,413 associated with Work Order HE123 that was erroneously transferred to CEI for 2014 should be removed from the Rider DCR calculation for 2014. All other variances are explained reasonably.

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 (reaffirmed in Case No. 12-1230-EL-SSO[98]) 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.[99] The Schedule within the Rider DCR Compliance Filings labeled "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 adjustments include exclusions for net plant related to land leased to ATSI, FirstEnergy's transmission subsidiary.

Blue Ridge found no indication that projects related to Riders LEX, EDR, and AMI or other riders approved by the Commission were not properly excluded from the Rider DCR.

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.[100]

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."[101]

[97] WP FEOH Adjustments to Plant and Reserve - CONFIDENTIAL.xlsx, tab – ATSI Transfers.
[98] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[99] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[100] Case No. 08-0935-EL-SSO Stipulation and Recommendation, Section B.3, page 16.
[101] CEI, OE, and TE Rider DCR Compliance Filings dated 12/3114, page 19.

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.[102]

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.[103] 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 and continued in Case No. 12-1230-EL-SSO.

The Companies' Rider DCR Compliance Filings stated that the exclusions related to Rider EDR(g) are determined by the WBS CE-000303. During the 2013 Rider DCR examination, CEI stated that it expected to make accounting adjustments so that these work orders would be removed from the Rider DCR gross plant and reserve balances as of March 3, 2014, and would therefore no longer need to be manually excluded.[104] The Companies made accounting adjustments in 2014 such that these balances did not have to be manually excluded in the Companies' Rider DCR filings. The Companies continue to identify and manually exclude, on an on-going basis, capital additions recovered through Rider EDR(g).[105] CEI manually excluded the Rider EDR(g) in the 2014 Rider DCR examination for both the actual 11/30/14 and estimated 2/28/15 balances as shown in the following table.

Table 13: Rider EDR(g) Costs Excluded from Rider DCR[106]

	Actual 11/30/14		Estimated 2/28/15	
FERC Account	**Gross**	**Reserve**	**Gross**	**Reserve**
364	14	65	14	65
365	23	66	23	66
366	49,038	1,222	49,038	1,222
367	336	-177	336	-177
368	0	54	0	54
369	0	17	0	17
371	20	0	20	0
Total	49,431	1,247	49,431	1,247

Slight difference from filing due to rounding

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. The one work order that was identified was appropriately excluded from the Rider DCR.[107]

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[102] Additional Validation Testing from Sampled Workorders, Testing Criteria T1b.
[103] Case No. 10-0388-EL-SSO Stipulation and Recommendation, Section F.2, pages 27-28.
[104] FirstEnergy's 2013 response to Data Request BRC Set 3-INT-004 – Confidential.
[105] FirstEnergy's response to Data Request BRC Set 8-INT-014.
[106] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/14, page 19 and page 44.
[107] Additional Validation Testing from Sampled Workorders, Testing Criteria T1c.

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.[108]

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. The Summary of Exclusions in the Compliance filings lists the following amounts associated with Rider AMI that were excluded from Rider DCR.

Table 14: CEI AMI Project Costs Excluded from Rider DCR[109]

	Actual 11/30/14		Estimated 2/28/15	
FERC Account	**Gross**	**Reserve**	**Gross**	**Reserve**
303	2,121,419	676,008	2,121,419	726,282
362	3,451,979	312,126	3,451,979	339,385
364	212,057	73,059	212,057	78,246
365	2,032,465	524,064	2,032,465	561,601
367	12,949	2,768	12,949	3,094
368	212,402	46,845	212,402	52,155
370	17,614,975	2,196,472	17,614,975	2,662,189
397	2,583,836	12,1849	2,583,836	170,296
Total	28,242,082	3,953,191	28,242,082	4,593,248

Slight difference from filing due to rounding

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include AMI work. The one workorder that was identified was appropriately excluded from the Rider DCR.[110]

Other Riders

In addition to Riders LEX, EDR, and AMI, the Combined Stipulation (reaffirmed in Case No. 12-1230-EL-SSO[111]) 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.[112] In addition to the Riders DCR, LEX, EDR, and AMI, the Companies' tariffs include the following riders:

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[108] Case No. 09-1820-EL-ATA, et. al., Application pages 5-7.
[109] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/14, page 19 and page 44.
[110] Additional Validation Testing from Sampled Workorders, Testing Criteria T1a.
[111] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[112] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

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
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.[113] 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.

Table 15: ATSI Land Lease (FERC Account 350) Excluded from Rider DCR[114]

	Actual 11/30/14		Estimated 2/28/15	
Company	**Gross**	**Reserve[115]**	**Gross**	**Reserve**
CEI	57,224,624	0	57,224,624	0
OE	85,567,532	0	85,567,532	0
TE	15,628,438	0	15,628,438	0
Total	158,420,594	0	158,420,594	0

In the 2013 DCR, the Companies modified their methodology for identifying the ATSI land lease values. After further review, it was determined that the previous method was more appropriate. The ATSI Land Lease calculation methodology was reverted to the previous methodology for this and future filings to be consistent with prior years' methodologies. The ATSI Land Lease exclusion value was changed by the amount of incremental activity (net of additions, retirements, transfers,

[113] FirstEnergy's response to Data Request BRC Set 5-INT-008.
[114] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/14, page 19 and page 44.
[115] The amounts removed are associated with land, thus there is no depreciation reserve.

and adjustments) in FERC Account 350.[116] The ATSI Land Lease exclusions are shown in the following table.

Table 16: ATSI Land Lease-Change in Amounts from Case No. 07-551-EL-AIR and Prior Audits

Description	CEI	OE	TE	Total
Case No 07-551-EL-AIR				
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	$158,185,855
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	
11/30/14 Rider DCR Amounts	$ 57,224,624	$ 85,567,532	$ 15,628,438	
Difference 2014 vs Case 07-551-EL-AIR	$ (41,807)	$ 276,908	$ (362)	

The Companies included the more appropriate calculation methodology in the normal reconciliation of the actual March 31, 2014, Rider DCR filing. The Companies stated that reconciliation to reflect the revenues that would have been collected in Q4 2013 and Q1 2013 under the original methodology was not done. Such an adjustment would result in an increase to the Companies Rider DCR revenue requirements.[117]

Variance analysis revealed a number of transfers related to ATSI. Of those, one set of transfers related to work order HE123 erroneously moved $4,627,413 from ATSI to CEI. FirstEnergy discovered the error and reversed the transfer in January 2015; however, the amount remained in the Rider DCR plant-in-service balance throughout the year.[118] Therefore, the 2014 Rider DCR plant in service should be reduced by the $4,627,413. There was no indication that any other amounts related to ATSI transfers were inappropriately transferred, and there were no indications that Rider DCR included ATSI amounts, other than the $4,627,413 noted, that had not been appropriately excluded.

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include ATSI Land Lease amounts. Blue Ridge found no ATSI Land Lease amounts included within the sample work orders that should have been removed.[119]

Generation

In prior audits, generation workorders were identified that should be excluded from Rider DCR. The Companies manually excluded these workorders from Rider DCR gross plant and reserve balances. Blue Ridge reviewed the workpaper removing the impact of these generation workorders from the current and future Rider DCR.[120]

[116] FirstEnergy's response to Data Request BRC Set 1-INT-029.
[117] FirstEnergy's response to Data Request BRC Set 8-INT-015 – Confidential.
[118] FirstEnergy's response to Data Request BRC Set 5-INT-001, a-iii, with Attachment 2 – Confidential and FirstEnergy's response to Data Request BRC Set 14-INT-001 – Confidential.
[119] WP FEOH Sample Work Order Testing Matrix - Confidential.
[120] FirstEnergy's response to Data Request BRC SET 1-INT-001, Attachment 3 and Attachment 4 – Confidential.

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include generation amounts. Blue Ridge found no generation amounts included within the sample work orders that should have been removed.[121]

Conclusion

Except as noted regarding the ATSI transfer of $4,627,413, Blue Ridge found no other indication that projects related to Riders LEX, EDR, and AMI or other riders approved by the Commission were not properly excluded from the Rider DCR.

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.

Table 17: Incremental Change in Gross Plant from 12/31/13 to 11/30/14[122]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	2,706,050,456	2,763,669,699	57,619,243
Ohio Edison Company	2,980,199,487	3,077,641,832	97,442,345
The Toledo Edison Company	1,085,084,199	1,110,320,138	25,235,939
Total	6,771,334,142	6,951,631,669	180,297,527

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 the Companies did not have any large construction and/or replacement programs in 2014 in comparison to prior year spend level of similar programs. Each company had normal, recurring replacement programs in 2014, including Pole Replacements, Underground Cable Replacement, Feeder Repair/Replacement, Worst Performing Circuit/ECMI Program, and Downtown Network Upgrades.[123]

Blue Ridge's review of gross plant through transactional testing of the work order sample had several findings that impact the gross plant included in the DCR. The impacts of these findings are discussed in the Overall Impact of Findings on Rider DCR Revenue Requirements section of this report.

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

[121] WP FEOH Sample Work Order Testing Matrix - Confidential.
[122] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[123] FirstEnergy's response to Data Request BRC Set 1-INT-022.

forward to the revenue requirement calculation correctly. We did not identify anything in the mathematical computations as unreasonable.[124]

Source Data Validation

Blue Ridge traced the values used for actual 11/30/14 and estimated 2/28/15 gross plant in service balances to source documentation. The actual and estimated balances reconciled to the supporting documents. The supporting workpapers for the 2/28/15 estimate recognize a true up of forecast to actual 11/30/14 balances and adjustments from prior audits.[125]

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.[126]

Blue Ridge found FirstEnergy's explanation to be not unreasonable. In addition, Blue Ridge compared the Change in Pension Accounting amounts in the 2013 audit to the amounts in the filing under review in this audit and found that the amounts were the same.[127]

Additional Validation Testing from Sampled Workorders

The Companies provided a list of workorders that support gross plant in service for January 2014 through November 2014.[128] The following table provides the number of workorders provided by the Companies.

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[124] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[125] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 – Confidential.
[126] FirstEnergy's response to 2011 audit Data Request BRC Set 14-INT-001 – Confidential.
[127] WP FEOH Pre-Date Certain Pension Impact Analysis 2012-2014 - CONFIDENTIAL.
[128] FirstEnergy's response to Data Request BRC Set 1-INT-002, Attachment 1 – Confidential.

Table 18: Number of Workorders by Company

Period	CEI	OE	TE	Service Company	Total
1/1/14 - 11/30/14	36,553	43,741	15,062	192	95,548

Blue Ridge validated that the workorder amounts reconciled to the Companies' DCR filing gross plant balances.[129] Using probability-proportional-to-size (PPS) sampling techniques[130] and professional judgment, Blue Ridge selected 80 workorders for testing. The following table identifies the number of workorders selected for each company and the Service Company.

Table 19: Number of Workorders Selected for Additional Testing

Company	Total # of Workorders Selected for Testing
Cleveland Electric	26
Ohio Edison	17
Toledo Edison	21
Service Company	16
Total	80

The testing of workorders included review of project justifications, project actual vs. budgeted cost, variance explanations, reasonableness of the in-service dates in comparison to the estimated in-service dates, proper charge of the actual detailed cost to the proper FERC account, AFUDC charge on the workorder (if so, it was appropriate), timeliness of recording of asset retirements for replacement workorders, and appropriate charge of cost of removal. The results of the detailed transaction testing performed on the workorder sample are included in the workpapers.[131] Specific observations and findings about the testing are listed below.

Description of Projects

The Company provided a description of the projects included in the workorder sample. In general, the projects center on the following types of additions, replacements, adjustments, and transfers.

1. Installation of underground and overhead conduit, conductors, and device
2. Meters
3. Station equipment
4. Street lighting
5. Structures
6. Office furniture and equipment
7. Transportation and power operated equipment
8. Poles, towers and fixtures
9. Services
10. Miscellaneous intangible plant (software)

[129] WP - Reconciliation of unadjusted GP to Population BRC Set 1-INT-002 Attachment 1 - Confidential.
[130] WP FEOH 2014 Sample Size Calculation Workorders through 11-30-14-Confidential.xlsx.
[131] WP FEOH Sample Workorder Testing Matrix - Confidential.

11. Adjustments, transfers, plant amortization of general equipment, sales of assets, and plant unitization clean up

Project Testing

The sampled workorders were evaluated based on objective criteria identified as T1 through T8 in the following section.[132] Blue Ridge's observations and findings against the criteria are also summarized below.

T1: The work is appropriately includable in Rider DCR. Rider DCR includes plant in service associated with distribution, subtransmission, and general and intangible plant, including general plant from FirstEnergy Service Company that supports the Companies.

Blue Ridge found that, except for any specific issues discussed below in T1A- T10, the work is includable in Rider DCR.

T1a: Exclusions Rider AMI: Review project descriptions for Distribution projects (FERC 360 accounts) to ensure that those descriptions exclude any discussion of AMI or Smart Grid projects,.

Blue Ridge found that the workorder sample for CECO contained one AMI work order (Work order 996263). The work order had appropriately been excluded from the Rider DCR.[133] AMI is exclusive to CECO.

T1b: Exclusions Rider LEX: Review descriptions for Distribution projects only (FERC 360 accounts) to ensure that they do not include line extension work.

Blue Ridge found that the population of workorders that comprise utility plant for the DCR did not include any LEX workorders.[134] LEX workorders relate to FERC 360 (Distribution) accounts only. Blue Ridge reviewed the project scope for each workorder that had FERC 360 accounts charged to confirm that LEX workorders were properly excluded from Rider DCR.

T1c: Exclusions Rider EDR: Review project descriptions for CECO and FE only to ensure that the projects do not include work for the Cleveland Clinic Foundation.

Blue Ridge identified one workorder (CECO 13414295) for the Cleveland Clinic Foundation in our workorder sample. The workorder had appropriately been excluded for the calculations of Rider DCR.[135] Blue Ridge reviewed project descriptions for each workorder in the sample and concluded that except as noted above no other EDR workorders were included.

T1d: Exclusions GEN: Review project descriptions to ensure that the projects do not include Generation work.

Blue Ridge found no workorders in the sample that were related to generation.

T2: Workorder packages contain the project approval documentation or workorder was approved at the project level.

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[132] WP FEOH 2014 Sample Workorder Testing Matrix.
[133] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 1, Line 1 – Confidential.
[134] FirstEnergy's response to Data Request BRC Set 1-INT-003, d.
[135] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 1, Line 2 – Confidential.

Blue Ridge found that the Company has adequate procedures in place to approve workorders. That procedure has not changed since our prior year review and, if followed, will yield the proper project approvals. Blue Ridge found no instance where the Companies did not follow its stated policies.[136]

T3: For specific workorders (i.e., not a blanket workorder or multi-year projects like pole and meter replacements), the workorder packages contain project justification.

Blue Ridge reviewed the justification for all projects in the sample, exclusive of blanket, multi-year projects, transfers, and adjustments. The following three FECO workorder were related to the merger with Allegheny Power.

- FECO Workorder ITS-SC-M00002-1
  - Capital Project Cost: $2,217,865.59
  - Description: Eliminate/migrate legacy Allegheny mainframe applications. T
  - Project Justification: The project was required to support decommissioning of the Allegheny mainframe by eliminating or mitigating legacy Alleghany mainframe applications to FirstEnergy applications or systems of record. There were no quantifiable benefits.[137]
- FECO Workorder ITS-SC-M00021-1
  - Cost: $224,796.51
  - Description: Create an internal mainframe operations support staff, and transition administration from HP to FE. The project was required to support the decommissioning of the Allegheny mainframe. The projected savings were offset by increased hardware and software costs to support the transfer of applications and data to a distributed environment (i.e., servers, storage, application software licenses), resulting in a net increase of costs of approximately $100k over a 3-year time period.
  - Project Justification: The project was required to support the decommissioning of the Allegheny mainframe. The projected savings were offset by increased hardware and software costs to support the transfer of applications and data to a distributed environment (i.e., servers, storage, application software licenses) resulting in a net increase in costs of approximately $100,000 over a three-year period.[138]
- FECO Workorder XSC-600011-1
  - Cost: $1,552,300.47
  - Description: Standardize legacy AE's building facility access control systems from current set-up to one standard system across all FE combined companies.
  - Project Justification: Project was required as a result of Allegheny merger system integration.[139]

[136] FirstEnergy's response to Data Request BRC Set 1-INT-015 – Confidential and BRC Set 1-INT-028.
[137] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[138] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[139] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.

The Companies stated that inclusion of the projects is consistent with the Stipulation and PUCO Order in the Companies' ESP III (Case No. 12-1230-EL-SSO):

> Rider DCR ("Delivery Capital Recovery") will continue to be in effect and 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 for FirstEnergy Service Company that supports the Companies.*** ... (Emphasis added.)

The Companies continued in their response: "Further, the Companies benefit from the implementation of these projects. The projects referred above ***drive consistency and efficiencies in Information Technology (IT)*** by standardization of IT platform, standards policies and architecture across all of FirstEnergy, which ***benefits*** all of the entities supported by FirstEnergy Service Company, including the Companies. As a result of these projects, IT's business customers, through adoption of common system and standard processes, are also more ***efficient***." (Emphasis added.)[140]

The Companies explanation that the IT projects in connection with the decommissioning of the Allegheny mainframe would result in "consistency," "efficiency," and "benefits" appears to be inconsistent with the Companies' justification for those projects. Neither of the Allegheny mainframe projects included any discernable net benefits. The projects' justification is reiterated below.

- FECO Workorder ITS-SC-M00002-1- Capital Project Cost: $2,217,865.59 "There were no quantifiable benefits."[141]
- FECO Workorder ITS-SC-M00021-1 Cost: $224,796.51 "The projected savings were offset by increased hardware and software costs to support the transfer of applications and data to a distributed environment (i.e., servers, storage, application software licenses) resulting in a net increase in costs of approximately $100,000 over a three year period."[142]

Blue Ridge recommends that Workorder ITS-SC-M00002-1, Cost $2,217,865.59, and Workorder ITS-SC-M00021-1, Cost $224,796.51, be excluded from the Rider DCR. These two projects are directly related to the Allegheny merger with no discernable benefit to the Ohio Companies.

Workorder XSC-6000011-1, Cost $1,522,300.47, should also be excluded from Rider DCR. The work was related to standardizing building facility access control systems at the legacy AE facilities from current set-up to one standard system across all FE combined companies. The work was a result of Allegheny merger system integration without any discernable benefit to the Companies in Ohio.

T4: Project costs are within the approved budget. Explanations and approval for cost overruns were provided.

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140 FirstEnergy's response to Data Request BRC Set 9-INT-001 - Confidential.
141 FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.
142 FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.

Blue Ridge found that, in most instances, the project costs were within the approved budget.

However, three FECO projects were over budget by more than 15%. The significant cost overruns from the original budgets were due to expanded scope or unexpected complexity in the project. Blue Ridge is not recommending an adjustment to these projects in regard to the Rider DCR. However, the Companies should review their IT project planning to ensure that the methodology allows for projects to be fully scoped prior to execution.

- FECO Workorder ITS-SC-000192-1 - E-recruiting, enhancements
    - Capital Project Cost: $510,145.55
    - Over budget by 50%: $170,089.53
    - Description: Enhancing e-Recruiting System to activate changes from SAP Enhancement Pack 4[143]
    - Reason for cost overrun: The need for additional web-based forms to allow for the incorporation of desired features was identified during the implementation of the e-Recruiting Enhancements. The creation of these forms resulted in greater than anticipated contractor and internal labor hours.[144]
- FECO Workorder ITS-SC-000203-1 -Financial Transformation
    - Capital Project Cost $15,413,771.19
    - Over budget by 35%: $3,992,491.30
    - Description: Implementation of new processes and technology in the Finance organization, including QlikView, UIPlanner, SAP BPC, and SAP New GL along with an enterprise-wide financial accountability model and standard financial management reports.[145]
    - Reason for cost overrun: Consulting and internal costs associated with detail design, build, and testing significantly increased due to greater than anticipated complexity with the new financial accountability model in SAP, and integrating this model and DAP and PowerPlant data in the new UI Planner Budget/Forecast/Planning tool.[146]
- FECO Workorder ITS-SC-000211-1 - SAP ERP Archiving project
    - Capital Project Cost $149,327.78
    - Over budget by 19%: $23,635.78
    - Description: Archive additional data in the SAP ERP systems, reducing the overall size of the systems, which will result in better performance for targeted business processes.[147]
    - Reason for cost overrun: The project experienced more labor hours due to expanded scope to archive more objects than originally planned.[148]

[143] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[144] FirstEnergy's response to Data Request BRC Set 9-INT-003 – Confidential.
[145] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[146] FirstEnergy's response to Data Request BRC Set 9-INT-003 – Confidential.
[147] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[148] FirstEnergy's response to Data Request BRC Set 9-INT-003 – Confidential.

The following workorder also exceeded the original budget. The Companies' explanation for the overrun was not unreasonable.

- FECO Workorder: XSC-600011-1 - AE Stndrd Facility Access Prowatch
  - Capital Project Cost $1,552,300.47
  - Over Budget by 70%: $639,080.47
  - Description: Standardize Legacy AE's building facility access control systems from current set-up to one standard system across all FE Combined companies.[149]
  - Reason for cost overrun: Work that was originally planned for 2015 was made a priority in 2014. Components of the system were outdated and the manufacturer no longer supported the product. In some instances this left locations without a working security system. Funding was made available to accelerate the completion of work at specific sites in order to reduce security risk.[150]

T5: Cost detail in Power Plant supports the workorder charge and the categories of cost are reasonable.

Blue Ridge determined that, except as noted below, the costs in PowerPlant support the workorder charge and the categories of cost are reasonable.

- FECO Workorder IF-SC-000082-1, Relocation of SvcCo Offices.
  - Capital Project Cost: $539,354.85
  - Description: Relocation of numerous departments from the Summit Park Square Facility to other Company sites and renovation of those sites.[151]
  - Company's comment: FirstEnergy determined that the project included approximately $374,000 that was not jurisdictional for the purposes of the Rider DCR. The Company stated that it will include a reconciliation calculation in the next Rider DCR filing to reflect the cumulative revenue requirement impact of removing these costs.[152]
  - Blue Ridge comment: Recommend Utility Plant in Service be reduced by $374,000 and the accumulated reserve for depreciation be reduced based on the calculation of the over accrual of depreciation from the in-service date of March 2014 through November 2014.[153]
- FECO Workorder ITF-SC-000026-1, PowerPlant Upgrade Fee 2013 Cap.
  - Capital Project Cost: $367,765.31
  - Description: Capital portion of annual software fee.[154]
  - Company's comment: The project is a software upgrade, which should not include AFUDC. The project costs contained approximately $2,002 of AFUDC. The Company explained that the PowerPlant system defaults to calculating

[149] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[150] FirstEnergy's response to Data Request BRC Set 9-INT-003 – Confidential.
[151] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 7 – Confidential.
[152] FirstEnergy's response to Data Request BRC Set 3-INT-001, updated supplement 3/2/2015 – Confidential.
[153] WP FEOH 2014 Sample Workorder Testing Matrix.
[154] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.

AFUDC for all workorders. Following the issuance of the final report in the audit of the 2013 Rider DCR, IT increased its emphasis on the project setup process in order to avoid AFUDC accruing on capital upgrade fees. Prior to the 2014 year-end close, IT and Business Services reviewed all open work orders, and currently pending work orders, to confirm that no capital upgrade fee projects that were included in the review had accrued AFUDC. This particular PowerPlant Upgrade Fee work order was set up in 2012, and was in-serviced in January 2014, so it had already been established at the time of the issuance of the final report in the audit of the 2013 Rider DCR. As such, it was outside of the scope of the internal review discussed above. The Companies stated it will remove all gross plant and reserve associated with the $2,002 of inappropriately accrued AFUDC.[155]

- Blue Ridge comment: Recommend Utility Plant in Service be reduced by $2,002 and the accumulated reserve for depreciation be reduced by the depreciation accrued on the AFUDC.

The costs for the following workorders included within the sample did not agree to the cost detail.

Table 20: Difference in Provided Workorder Cost

Company	Work Order	Activity Cost	Work Order List Supporting DCR	Difference
CECO	13989846	$100,076	$98,169	$1,907
CECO	14178085	$90,581	$84,745	$5,836
CECO	CE-000729-DO-MSTM	$618,336	$445,285	$173,051
CECO	HE123	$5,130,080	$4,703,501	$426,579
OECO	PA80794420	$24,977	$23,948	$1,029
OECO	14339030	$32,052	$26,544	$5,508
OECO	IF-OE-000014-1	$531,411	$452,789	$78,622
OECO	PA41719420	$12,112	$11,489	$623
OECO	PA79969750	$4,557	$4,316	$241
TECO	14025826	$50,357	$40,957	$9,400
TECO	14069083	$324,763	$236,088.31	$88,675
TECO	14375119	$2,673	$2,041	$632
TECO	PA76905480	$19,207	$17,905	$1,302
TECO	PA79037510	$516	$347	$169
TECO	PA79116100	$27,874	$27,664	$210
		3-INT-001 Att 2	1-INT-002 Att 1	

The Company explained that those differences were related to retirements for each work order. The explanation is not unreasonable.[156]

T6: For replacement workorders, project detail indicates that assets were retired and costs are incurred for cost of removal and salvage. If applicable, complete T6a and T6b.

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[155] FirstEnergy's response to Data Request BRC SET 8-INT-013 – Confidential.
[156] FirstEnergy's response to Data Request BRC Set 8-INT-012.

Blue Ridge found that for replacement workorders assets were retired and cost of removal was charged. Scrap sales are not recorded on an individual workorder. Scrap is charged to a separate workorder and the proceeds from the sales are spread pro rata to the individual active workorders. When equipment is sold, other than for scrap, the proceeds are charged to the accumulated reserve for depreciation.[157] The process for recording scrap and equipment sales is common in the utility industry and the end result conforms to FERC accounting requirements. Additional comments related to retirements and costs of removal are included in T6a and T6b below.

T6a: Replacement workorders: The date assets were retired, cost of removal date, and replacement asset in-service dates are in line.

Blue Ridge found that five replacement workorders had assets retired from 6 to 20 months after the replacement assets were put into service.[158]

- CECO Workorder CE-000729-DO-MSTM - Assets in service December 1, 2013, and retirement June 2014 (6 month delay)
- OECO Workorder OC-001010-SD - Assets in service December 2011 and retirement October 2014 (34 month delay)
- OECO Workorder PA77417650 - Assets in service September 2013 and retirement July 2014 (11 month delay)
- TECO Workorder 14069083 - Assets in service July 2012 and retirement January 2014 (18 month delay)
- TECO Workorder PA76905480 - Assets in service November 2013 and retirement April 2014 (6 month delay)

The Companies' explanations for the delay in retiring assets were not unreasonable.

CECO Work Order CE-000729-DO-MSTM is a storm work order. The Company indicated that retirements for this storm work order were not booked until all the assets were installed. That delay results in an over accrual of depreciation of $3,276. We recommend that the reserve for deprecation be reduced by the amount of the over accrual.[159]

OECO Work Order PA77417650 had assets retired in error in 2013. Those assets were brought back on the books in 2014. The impact of that delay created a $98,584 under accrual of depreciation.[160]

TECO Work Order PA-76905480 had assets retired and not recorded until after the unitization analysis was complete which occurred five months after the work order was placed in service. The delay resulted in an overstatement of depreciation reserve of $12.

T6b: Replacement workorders: Cost of removal has been appropriately charged.

Blue Ridge found that three workorders had cost of removal charged from 2 months to 27 months after the assets were placed in service. One replacement workorder did not have any cost of removal charged.[161]

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[157] FirstEnergy's response to Data Request BRC Set 5-INT-006.
[158] WP FEOH 2014 Sample Workorder Testing Matrix.
[159] FirstEnergy's response to Data Request BRC Set 8-INT-9, c.
[160] FirstEnergy's response to Data Request BRC Set 8-INT-9, a.

- CECO Workorder CE-000729-DO-MSTM - Assets in service December 1, 2013, and Cost of Removal follows retirement date of June 2014
- OECO Workorder OC-001010-SD - Assets in service December 2011 and Cost of Removal March 2014
- TECO Workorder PA76905480 - Assets in service November 2013 and Cost of Removal charged various dates starting February 2014

Blue Ridge found that the Companies' explanations for the delays in recording cost of removal were not unreasonable.[162]

T7: Following completion of the work, the workorder was closed out to the proper FERC 300 account(s).

Blue Ridge found that all workorders were closed to the proper FERC accounts based on the description of the work being performed.[163]

OECO Work Order OC-001010-SD represents the sale of a transformer that was originally retired in 2012. The Companies reversed the original transfer at the time the transformer was sold to a third party. The reversal of the original retirement increased gross plant by $823,555 and increased depreciation reserve by $823,555. The correct retirement, which includes a gain/loss calculation for net salvage related to the sale, will be booked in March 2015 on Workorder 14371102. The correct retirement will decrease gross plant by $823,555, decrease the reserve by $823,555, and increase the reserve by $650,000 due to a gain for net salvage. The cost of doing the sale was $20,373, and the gain on the sale was $137, 664.[164]

Blue Ridge recommends that an adjustment be made to the Rider DCR to recognize the correct adjustment on the 2014 Rider DCR.

T8: Actual in-service date is in line with the estimate (at or before).

T9: The workorders were placed in service and closed to EPIS within a reasonable timeframe from project completion. If not, AFUDC was stopped.

Blue Ridge found several workorders in which the actual in-service dates were from 172 to 456 days after the estimated in-service dates.

- FECO Work Order ITF-SC-00026-1: PowerPlant Upgrade Fee 2013 - Capital.
  - Capital Project Cost: $367,765.31
  - Description: Capital portion of annual software fee.[165]
  - Placed in-service 323 days after the estimated in-service date
  - Company explanation: The project was completed on time; however, close down activities took place later than expected. The actual in service date did not result in any additional expenditures or AFUDC. No overstated AFUDC resulted from this delay.[166]

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[161] WP FEOH 2014 Sample Workorder Testing Matrix and FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 4 - Confidential.
[162] FirstEnergy's response to Data Request BRC Set 8-INT-10.
[163] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachments 1 and 7 - Confidential.
[164] FirstEnergy's response to Data Request BRC Set 8-INT-4 Confidential.
[165] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.
[166] FirstEnergy's response to Data Request BRC Set 9-INT-002, a - Confidential.

  - Blue Ridge comment: The Companies' explanation failed to explain the cause of the delay. However, the Companies did confirm that no additional expenditures or AFUDC were incurred.

- FECO Work Order ITS-SC-000181-1: Pension Administration Retirement – Capital.
  - Capital Project Cost: $371,043.89
  - Description: Convert existing AYE Retiree data from the PAS/Metlife systems to the SAP systems to enable retirees to be paid from the FE SAP system with all of the other retirees. Retire the existing AYE applications related to pension processing (On-line Pension Calculator Website and Pension Admin System (PAS), MetLife System).[167]
  - Placed in service 422 days after the estimated in-service date
  - Company explanation: The project was completed on time; however, close down activities took place later than expected and AFUDC was overstated by $21,581.82.[168]
  - Blue Ridge comment: The Companies' explanation failed to explain the cause of the delay. The delay resulted in over accrual of AFUDC. Blue Ridge recommends that the accumulated reserve for depreciation be reduced by $21,581.82, which is the amount of the over accrual.

- FECO Work Order ITS-SC-000192-1: e-Recruiting Enhancements- Capital.
  - Capital Project Cost: $510,145.55
  - Description: Enhancing e-Recruiting System to activate changes from SAP Enhancement Pack 4.[169]
  - Placed in-service 209 days after the estimated in-service date.
  - Company explanation: The In-service date was extended to be compatible with the ERP Upgrade.[170] Work continued throughout the additional 209 days the work order was open.[171]
  - Blue Ridge comment: The Companies explanation is not unreasonable.

- FECO Work Order ITS-SC-000195-1: 2012 SAP FI Enhancements – Capital.
  - Capital Project Cost: $299,462.37
  - Description: Implement multiple enhancements to the SAP Finance Modules.[172]
  - Placed in-service 340 days after the estimated in-service date.
  - Company explanation: The project was completed on time; however, close down activities took place later than expected and AFUDC was overstated by $14,256.41.[173]
  - Blue Ridge comment. The Companies' explanation failed to explain the cause of the delay. The delay resulted in over accrual of AFUDC. Blue Ridge

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[167] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[168] FirstEnergy's response to Data Request BRC Set 9-INT-002, b - Confidential.
[169] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[170] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 – Confidential.
[171] FirstEnergy's response to Data Request BRC Set 9-INT-002, d – Confidential.
[172] FirstEnergy's response to Data Request BRC Set 3-INT-001 Attachment 6 – Confidential.
[173] FirstEnergy's response to Data Request BRC Set 9-INT-002, e – Confidential.

recommends that the accumulated reserve for depreciation be reduced by $14,256.41, which is the amount of the over accrual.

- FECO Work Order ITS-SC-000211-1: SAP ERP Archiving Project - Capital.
  - Capital Project Cost: $149,327.78
  - Description: Archive additional data in the SAP ERP systems, reducing the overall size of the systems, which will result in better performance for targeted business processes.[174]
  - Placed in-service 456 days after the estimated in-service date.
  - Company explanation: In-service date was extended to be compatible with the BW Archiving Project.[175] Work continued throughout the additional 456 days the workorder was open.[176]
  - Blue Ridge comment: FirstEnergy's explanation for extending the in-service date was not unreasonable.
- FECO Work Order ITS-SC-M00002-1: Consolidated Fixed Assets - Capital.
  - Capital Project Cost: $2,217,865.59
  - Description: Eliminate/migrate legacy Allegheny mainframe applications.[177]
  - Placed in-service 172 days after the estimated in-service date.
  - Company explanation: In-service date was extended to accommodate loading of records into Filenet.[178] Work continued throughout the additional 172 days the workorder was open.[179]
  - Blue Ridge comment: FirstEnergy's explanation for extending the in-service date was not unreasonable.

Blue Ridge noted that the projects with significant delays from the planned in service are IT projects. The Companies' explanations for the delays were frequently vague and could be an indication that IT projects are not being budgeted properly or not being monitored.

T10: For work performed in 2014, this project is a candidate for field verification to determine if it is used and useful.

Blue Ridge identified five work orders within the sample as candidates for field visits. The field inspections are discussed in the next section.

Field Inspections

Blue Ridge selected five projects for field verification from the workorder sample. The purpose of the field verification was to determine whether the assets have been installed per the workorder scope and description and whether they are used and useful in rendering service to the customer. The workorder/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

[174] FirstEnergy's response to Data Request BRC Set 3-INT-001 Attachment 6 - Confidential.
[175] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.
[176] FirstEnergy's response to Data Request BRC Set 9-INT-002, f - Confidential.
[177] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.
[178] FirstEnergy's response to Data Request BRC Set 3-INT-001, Attachment 6 - Confidential.
[179] FirstEnergy's response to Data Request BRC Set 9-INT-002, g - Confidential.

4th and 5th, 2014. Staff was provided with information for each workorder/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. CECO Workorder 14178085: Replace transformer. The project included a 36KV MAT upgrade at a shopping center, adding a third single phase 1667 KVA transformer to the MAT in order to increase mat capacity by closing existing "open delta" primary configuration. The final cost of the project was $84,745. The in-service date was July 17, 2014. The physical observation confirmed that the assets were installed.
2. CECO Workorder IF-CE-000015-1: CE Brooklyn - Replace Roof R05. The project replaced the existing roof system on roof section R05 at the Brooklyn Service Center. The Companies' roofing consultant performed a roof assessment and found that life expectancy was poor and recommended replacement. The final cost of the project was $35,624. The in-service date was October 2014. During the field inspection the roof was snow covered and icy and not directly physically assessable. Visual observation from a window above the roof confirmed that the assets were installed.
3. OECO Workorder IF-OE-000014-1: OE Warren - Roof Repl B Offices & C Main. The project replaced the main and office roof. The Companies' roofing consultant performed a roof assessment and found that the roof failed life expectancy and recommended replacement. The final cost of the project was $452,789. The in-service date was February 2014. The physical observation confirmed that the assets were installed.
4. TECO Workorder 14025826: Relocate Distribution for Roundabout. The project relocated the distribution line for a roundabout. The final cost of the project was $40,958. The in-service date was September 14, 2014. The physical observation confirmed that the assets were installed.
5. FECO Workorder IF-SC-000082-1: SvcCo - Relocation of Offices. The project included relocation of numerous departments from a leased facility to other Company sites and renovation of those sites. The final cost of the project was $539,354. The in-service date was March 2014. The physical observation confirmed that the assets were installed. The ground floor has one training room and a break room for trainees to check emails and voicemails. It also has a set-up area. The training on the second floor has two conference rooms back-to-back and a training room.

The five projects selected for field verification confirmed that the assets were installed and used and useful.

Workorder Backlog

Blue Ridge found that the Companies have experienced a significant increase in the unitization backlog from the prior audits. The backlog has increased by 204% compared to the number of orders in the unitization backlog as of last year's Rider DCR audit as shown in the following table.

Table 21: 2014 Unitization of Workorders Backlog as of 11/30/14[180]

	As of 12/31/13	As of 11/30/14	Total Increase	% of Total Increase
(1) 0 to 3 months	323	1,677	1,354	49%
(2) 4 to 6 months	358	760	402	14%
(3) 7 to 9 months	238	557	319	11%
(4) 10 to 12 months	158	321	163	6%
(5) 13 to 15 months	73	261	188	7%
(6) Over 15 months	216	580	364	13%
(7) **Total Backlog Orders**	1,366	4,156	2,790	100%

The Companies explained, "The increase in the backlog is primarily attributable to an increased focus on the correct set-up of work orders and related accounting for new construction. As new construction costs are charged to work orders, they need to be assigned to the appropriate company, project, FERC account, location code, and retirement unit asset. The accurate set-up of a work order ensures that the appropriate amount of accumulated reserve for depreciation is calculated from the time the asset is placed in-service. The unitization process is used to confirm that all appropriate charges related to the work order are assigned correctly. . . . An over or under accrual of accumulated reserve for depreciation may arise in instances where the unitization process results in changes to the assignment of work order charges. The focus, however, of the Companies is to ensure the accurate set-up of work orders so as to minimize the impact of changes that may come about as a result of the unitization process.. As such, while the total backlog has increased, the Companies do not expect the current backlog to have a material impact on the accumulated reserve for depreciation."[181]

Blue Ridge concludes that an increased focus on front-end review and the proper set up of FERC accounts has value in helping ensure that work order charges are recorded to the proper account. However, that process does not ensure that the units of property were recorded in the proper FERC account as it will not catch errors in charging work orders. That is one of the functions of the unitization process. Blue Ridge recommends that the Companies continue to work toward a reduction in the backlog of the workorders not unitized.

Insurance Recoveries

Insurance recoveries can reduce gross plant and should be taken into consideration in the calculation of the DCR. FirstEnergy stated that there were no insurance recoveries charged to capital from January 1, 2014, through December 31, 2014, for capital for the Service Company. Two insurance recoveries for the Ohio Operating Companies were charged to capital during that period. These recoveries reduced gross plant.[182]

[180] FirstEnergy's response to Data Request BRC Set 5-INT-005, Attachment 1 – Confidential.
[181] FirstEnergy's response to Data Request BRC Set 5-INT-005, Attachment 1 – Confidential
[182] FirstEnergy's response to Data Request BRC Set 1-INT-023 and BRC Set 5-INT-004.

Table 22: Insurance Recoveries - 2014

Company	Order	Description	Amount Recovered
OE	13536721	OE MSTM DIST LN HURRICANE SANDY 10/29/12	$(858)
CE	13525334	CE Major Stm Distribution Line 10-27-12	$(5,065)

There are no 2014 pending insurance recoveries not recorded or accrued that would be charged to the Companies.[183]

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 impacts of these findings are discussed in the Overall Impact of Findings on Rider DCR Revenue Requirements section of this report.

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 December 31, 2013 through actual November 30, 2014.

Table 23: Incremental Change in Reserve for Depreciation from 12/31/13 to 11/30/14[184]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	(1,098,013,774)	(1,149,324,026)	(51,310,253)
Ohio Edison Company	(1,158,106,675)	(1,217,382,937)	(59,276,263)
The Toledo Edison Company	(519,919,664)	(540,356,852)	(20,437,188)
Total	(2,776,040,112)	(2,907,063,816)	(131,023,704)

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, and 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.

[183] FirstEnergy's response to Data Request BRC Set 1-INT-024.
[184] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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 11/30/14 and estimated 2/28/15 reserve balances to the source documentation. The actual and estimated balances reconciled to the supporting documents. The supporting workpapers for the 2/28/15 estimate recognize a true up of forecast to actual 11/30/14 balances and adjustments from prior audits.[185]

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, 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 80 sample work orders Blue Ridge obtained as part of the validation testing, 39 work orders were for replacement work.[186] 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.

[185] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 – Confidential.
[186] WP FEOH Sample Work Order Testing Matrix - Confidential.

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.[187] 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, except for the work orders where retirements were not recorded on a timely basis. 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.[188] 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. The impacts of these findings are discussed in the Overall Impact of Findings on Rider DCR Revenue Requirements section of this report.

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 24: Incremental Change in ADIT from 12/31/13 to 11/30/14[189]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	(459,354,961)	(438,612,962)	20,741,999
Ohio Edison Company	(483,336,490)	(478,234,260)	5,102,231
The Toledo Edison Company	(135,457,342)	(137,594,493)	(2,137,150)
Total	(1,078,148,794)	(1,054,441,715)	23,707,079

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. The Companies will recognize the impact of the Tax Increase Prevention Act of 2014 that extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015, in future filings.

187 See Work Orders CE-000729MSTM, PA77411650, and PA76905480 discussed in the Gross Plant in Service section of the report.
188 WP FEOH Adjustments to Plant and Reserve-Confidential.
189 WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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 following:

> 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.[190] [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.[191]

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.[192] No exceptions were noted.

Source Data Validation

The ADIT balances included within the Compliance filings reconciled to the supporting documentation.

The Tax Increase Prevention Act of 2014 extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015. The impact of the act was not known at the time the ADIT balances in the December 31, 2014, Rider DCR compliance filing. The Companies stated that the Rider DCR filing to be made on or about March 31, 2015, will include a reconciliation of the forecasted ADIT balances as of February 28, 2015, included in the December 31, 2014, Rider DCR filing.[193]

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. The Companies will recognize the impact of the Tax Increase Prevention Act of 2014 that extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015, in future filings.

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[190] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[191] Blue Ridge's Compliance Audit of the 2011 Delivery Capital Recovery (DCR) Rider, submitted April 12, 2012, page 52.
[192] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[193] FirstEnergy's response to Data Request BRC Set 5-INT-009.

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 25: Incremental Change in Depreciation Expense from 12/31/13 to 11/30/14[194]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	86,146,016	88,320,541	2,174,525
Ohio Edison Company	87,705,721	91,262,492	3,556,771
The Toledo Edison Company	34,460,384	35,484,826	1,024,442
Total	208,312,121	215,067,860	6,755,739

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. Any revisions to 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 depreciation expense on Schedule B-3.2 and the Intangible Depreciation Schedule rolled forward to the revenue calculation correctly.[195]

Source Data Validation

The last approved depreciation study for the Companies was conducted by the PUCO Staff 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.[196]

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.[197] 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

[194] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[195] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[196] FirstEnergy's response to Data Request BRC Set 1-INT-025.
[197] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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 the Staff 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. Any revisions to 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.[198] The Company confirmed that the depreciation study is underway and the final updated study will be provided to Staff no later than June 1, 2015.[199]

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.

Table 26: Incremental Change in Property Tax Expense from 12/31/13 to 11/30/14[200]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	99,931,823	104,023,491	4,091,668
Ohio Edison Company	89,907,692	92,081,650	2,173,957
The Toledo Edison Company	29,165,334	30,360,268	1,194,933
Total	219,004,850	226,465,408	7,460,558

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 while the calculation of property tax is not unreasonable, two incorrect numbers were inadvertently used in the calculation of TE's property tax that overstated TE's Rider DCR revenue requirement. The calculated impact of these oversights is provided in the Overall Impacts of Findings on Rider DCR Revenue Requirements section within this report.

[198] Case No. 12-2855-EL-RDR Joint Comments Submitted on Behalf of the PUCO and the FirstEnergy Companies.
[199] FirstEnergy's response to Data Request BRC Set 1-INT-011, i.
[200] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

As the Rider DCR uses plant-in-service balances to develop the property tax component of the revenue requirements, any revisions to 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.[201]

Source Data Validation

Blue Ridge found that the workpapers were well organized and fully sourced. While Blue Ridge found that the calculation of property tax is not unreasonable, TE inadvertently used two incorrect numbers in the calculation of TE's property tax on Schedule C-3.10a1. First, the Companies inadvertently used $77,536,453 rather than $84,205,681 on the Real Property Capitalization Cost on the Actual 11/30/14 schedule. The Real Property Capitalization Cost is used to calculate the True Value of Taxable Real Property. Overstating the True Value of Taxable Real Property results in property tax being overstated. The Companies estimate that the impact is an overstatement of $70,949 during 2014. The amount was corrected on the Estimated 2/28/15 schedules. [202]

Second, an incorrect Capitalized Interest Rate used to determine the Transmission Capitalized Interest that should be excluded from the property tax calculation in both the Actual and Estimated Schedule C-3.10a1 was inadvertently used. The Companies used 0.049 instead of 0.0649.[203] The result is that TE's Rider DCR revenue requirement is overstated by $7,113.[204] All other values in the schedules reconciled to the provided source data.

Conclusion

Blue Ridge found that while the calculation of property tax is not unreasonable, two incorrect numbers were inadvertently used in the calculation of TE's property tax that overstated TE's Rider DCR revenue requirement. The calculated impact of these oversights is provided in the Overall Impacts of Findings on Rider DCR Revenue Requirements section within this report.

As the Rider DCR uses plant-in-service balances to develop the property tax component of the revenue requirements, any revisions to 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

[201] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[202] FirstEnergy's response to Data Request BRC Set 11-INT-002 – Confidential.
[203] FirstEnergy's response to Data Requests BRC SET 1-INT-001 – Confidential and BRC SET 11-INT-001 – Confidential, and WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[204] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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.

Table 27: Change in Service Company Rate Base and Expense from 12/31/13 to 11/30/14[205]

Description	CEI	OE	TE	Total
Actual 11/30/14				
Gross Plant	81,735,306	99,048,696	43,599,833	224,383,835
Reserve	31,922,819	38,684,795	17,028,499	87,636,113
ADIT	9,228,058	11,182,770	4,922,497	25,333,325
Rate Base	**40,584,429**	**49,181,131**	**21,648,837**	**111,414,397**
Depreciation Expense	3,577,919	4,335,803	1,908,559	9,822,282
Property Tax Expense	52,850	64,045	28,192	145,086
Total Expenses	**3,630,769**	**4,399,848**	**1,936,751**	**9,967,368**
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**
Incremental				
Gross Plant	8,605,686	10,428,565	4,590,506	23,624,757
Reserve	4,856,233	5,884,893	2,590,447	13,331,573
ADIT	(3,125,415)	(3,787,448)	(1,667,181)	(8,580,044)
Rate Base	**6,874,867**	**8,331,120**	**3,667,241**	**18,873,228**
Depreciation Expense	1,043,224	1,264,203	556,484	2,863,911
Property Tax Expense	1,517	1,838	809	4,164
Total Expenses	**1,044,741**	**1,266,041**	**557,293**	**2,868,075**

The Compliance Filings include actual 11/30/14 and estimated 2/28/15 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 workorders were identified during the transactional testing related to the Service Company that should be adjusted. The specific adjustments are discussed in the Gross Plant in Service section of this report. Other than these adjustments, Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable.

[205] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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 (reaffirmed in Case No. 12-1230-EL-SSO[206]) provide the authority for the Service Company allocation factors used within Rider DCR. Section B.2 of the Combined Stipulation specifically states the following:

> 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.[207] (Emphasis added.)

The following allocation factors were used in Case No. 07-551-EL-AIR[208] and were appropriately used in accordance with the Combined Stipulation to allocate Service Company costs in Rider DCR:

Table 28: 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.[209]

Source Data Validation

The actual and estimated Service Company general and intangible gross plant, reserve, and ADIT were also reconciled to their source documents.[210] 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. Service Company work orders were included within the performed testing.

Conclusion

Several workorders were identified during the transactional testing related to the Service Company that should be adjusted. The specific adjustments are discussed in the Gross Plant in Service section of this report. Other than these adjustments, Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable.

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206 Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
207 Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
208 FirstEnergy's response to 2011 audit Data Request BRC Set 10-INT-010 and BRC Set 10-INT-011.
209 WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
210 WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.

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 29: Incremental Change in CAT and Income Tax Expense from 12/31/13 to 11/30/14[211]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	7,250,753	8,056,529	805,777
Ohio Edison Company	7,838,815	9,099,603	1,260,788
The Toledo Edison Company	1,355,724	1,438,854	83,130
Total	16,445,291	18,594,986	2,149,695

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

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

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 (reaffirmed in Case No. 12-1230-EL-SSO[212]) 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. . . .[213] (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.

[211] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[212] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[213] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

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 include federal, Ohio, and municipalities' tax rates.[214]

Conclusion

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

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 30: Incremental Change in Return on Rate Base from 12/31/13 to 11/30/14[215]

Company	12/31/13	11/30/14	Incremental
Cleveland Electric Illuminating Company	20,439,097	22,733,129	2,294,032
Ohio Edison Company	22,460,621	26,129,947	3,669,326
The Toledo Edison Company	3,843,503	4,069,218	225,714
Total	46,743,222	52,932,294	6,189,072

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.[216]

[214] FirstEnergy's response to Data Request BRC Set 8-INT-016 – Confidential.
[215] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.
[216] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

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 11/30/14 and estimated 2/28/15 balances.[217]

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 and a comparison of the annual DCR revenues to the adjusted annual cap taking into account prior years' under and over collections as recommended in prior audits.

The change in quarterly ending dates, however, did create some difficulty as it relates to analyzing the cap since the audit period is no longer equivalent to the calendar year. Since the Companies' December 31, 2014, Rider DCR included only eleven months of actual 2014 Rider DCR revenues, an analysis of actual revenues compared to the annual revenue cap would require either a proration of the annual cap to match the audit period or an analysis of the cap beyond the audit period. As such, Blue Ridge requested the actual annual 2014 Rider DCR revenues to conduct the comparison. Blue Ridge found that the Companies were over their aggregate annual cap for 2014 and it will be required that they reduce their 2015 aggregate annual cap by an amount equal to the 2014 over-recovery.

The Stipulations provide for an allocated cap amount for the Companies of 50%, 70%, and 30% for Ohio Edison, Cleveland Electric, and Toledo Edison, respectively, of the total aggregate caps. After applying the Companies' calculation of cumulative under (over) recovery, the Companies are under the allocated Company caps.

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[217] Column B of the Revenue Requirement Calculation Summary (pages 2 and 27) of the filings is mislabeled. Column B for the actual sheet is labeled 8/31/2014 and should be labeled 11/30/14. Column B for the estimated sheet is labeled 11/30/14 and should be labeled 2/28/2015. The mislabeling is an oversight that has no impact on the DCR.

Mathematical Verification

The various actual 11/30/14 and estimated 2/28/15 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

Recovery through the DCR is subject to annual caps. The annual cap was modified effective June 1, 2014, thus the cap for the DCR under this examination is a composite from two stipulations approved by the Commission. The Combined Stipulation from Case No. 10-388-EL-SSO 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 <u>the following five months, the revenues collected under Rider DCR shall be capped at $75 million</u> [emphasis added].[218]

The Stipulation in Case No. 12-1230-EL-SSO modified the annual cap of the Rider DCR Revenue collected effective June 1, 2014, as follows:

> <u>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</u>, for the following twelve-month period, the revenue collected under Rider DCR shall be capped at $210 million [emphasis added].[219]

The Companies applied the annual caps in the stipulations in Case Nos. 10-388-EL-SSO and 12-1230-EL-SSO that resulted in an annual cap for the 2014 DCR as follows:

Table 31: Companies' Calculation of Annual Cap Prior to Under (Over) Recovery Adjustment[220]

1/1/14-5/30/14		$ 75,000,000
12-months 6/1/14-5/31/15	$ 195,000,000	
Prorated for seven months		$ 113,750,000
Annual Cap Calculated by Companies		$ 188,750,000

Blue Ridge notes that the Companies modified the quarterly end dates in 2014 from a December 31 year end to a November 30 year end, resulting in an eleven-month period. The Companies stated that the modification to the Rider DCR quarterly filing dates was made to align with the terms of the Companies' ESP III (Case No. 12-1230-EL-SSO), which is in effect for the period June 1, 2014, through May 31, 2016. The Commission approved this modification as follows:

> 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

[218] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[219] Case No. 12-12-1230-EL-SSO Opinion and Order, July 18, 2012, page 10.
[220] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.xlsx.

> effective for bills rendered as of June 1, 2014. [PUCO Opinion and Order in the Companies ESP III, page 10, final paragraph][221]

The Companies did not prorate the annual cap to apply to eleven months of revenue following this change in end dates. The appropriate comparison should include actual annual 2014 Rider DCR revenue.

Adjustment to OE Rates to Prevent Exceeding the Annual Aggregate Revenue Cap

In preparing the Companies' October 2, 2014, Rider DCR filing, the Companies estimated that the rates calculated based on estimated 11/30/14 rate base, if left unadjusted, would produce revenues in 2014 that exceeded the aggregate revenue cap by $1,908,878.[222] An adjustment was made to OE's rates effective December 1, 2014, to reduce the likelihood that the Companies' 2014 DCR revenue would not exceed the annual cap.[223]

The adjusted rates actually in effect as of December 1, 2014, were appropriately used in the quarterly reconciliation in the filing under this review.

Over/Under Recovery

The Stipulations in Case Nos. 10-388-EL-SSO and 12-1230-EL-SSO contain similar language addressing over or under recoveries against the annual caps as follows:

> 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.[224]

The December 31, 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 2014." The Companies provided a table showing its Rider DCR Revenue to the caps as shown in the following table.

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221 FirstEnergy's response to Data Request BRC Set 1-INT-005.
222 FirstEnergy's response to Data Request BRC Set 10-INT-001, Attachment 1 – Confidential.
223 FirstEnergy's response to Data Requests BRC Set 10-INT-001 – Confidential and BRC Set 10-INT-002 – Confidential.
224 Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 12 and Case No. 12-12-1230-EL-SSO Opinion and Order, July 18, 2012, page 10.

Table 32: Excerpt from Companies DCR Filing 12/31/14 - DCR Revenue to Cap

Annual Rider DCR Revenue To-Date and Rider DCR Revenue Cap

X. Annual Rider DCR Revenue Through November 30, 2014

(A) Company	(B) Annual Revenue Thru 11/30/2014	(C) 2013 Revenue vs. Revenue Cap	(D) 2014 Revenue Cap	(E) Actual 2014 Revenue Cap	(F) Under (Over) 2014 Revenue Cap
CEI	$ 84,034,399			$ 132,651,274	[redacted]
OE	$ 67,352,639			$ 94,750,910	[redacted]
TE	$ 23,180,409			$ 56,850,546	[redacted]
Total	[redacted]	$ 751,820	$ 188,750,000	[redacted]	[redacted]

NOTES

(C) The actual annual 2013 Rider DCR revenue cap was equal to $186,383,747. Actual annual 2013 Rider DCR revenue billed was equal to $185,631,927. Pursuant to the Stipulation in Case No. 10-388-EL-SSO (page 15): "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."

(D) Source: Case No. 10-388-EL-SSO Stipulation (page 14) and Case No. 12-1230-EL-SSO Stipulation (page 20). Note that the 2014 revenue cap is calculated as the January - May 2014 cap of $75M plus the equivalent of 7 months of the June 2014 - May 2015 cap of $195M.

(E) Calculation: Column C + Column D. The sum of the individual company caps does not equal the total company cap. Each individual company has a cap of 50%, 70% and 30% for OE, CEI, and TE, respectively, of the total aggregate cap. Source: Case No. 10-388-EL-SSO Stipulation (page 14) and Case No. 12-1230-EL-SSO Stipulation (page 20).

(F) Calculation: Column E - Column B

The Companies' calculation of under/over recovery indicates that they are under recovering on a year-to-date basis. However, the above table is comparing a 12-month annual cap to 11 months of revenue in 2014, resulting in a potential distortion of over/under recovery. There are two methods to compare the revenue and annual cap under the same time periods. First, convert the cap to eleven months to match the eleven months of revenue. Second, compare the 12-month annual cap to 12-months of revenue for 2014. Since the 2015 annual cap will be determined based on the Companies' ESP III Stipulation for calendar year 2015 plus any under / (over) recovery from 2014, the latter comparison is more appropriate. As such, Blue Ridge included actual calendar year 2014 Rider DCR revenues in its comparison.

Table 33: Annual DCR Revenues vs. Annual Cap Under (Over) Recovery[225]

Period	Annual Cap	Annual Revenue	Under (Over)	Cum Under (Over)
2012	$ 150,000,000	$128,616,253	$ 21,383,747	$ 21,383,747
2013	$ 165,000,000	$185,631,927	$(20,631,927)	$ 751,820
2014	$ 188,750,000	$191,709,557	$ (2,959,557)	$ (2,207,737)

As shown above, actual Rider DCR revenues in 2014 exceeded the 2014 adjusted annual cap by $2,207,737.

Once the Companies' revenues are compared to the aggregate annual cap, the Companies are then limited to a Company cap. The Stipulations in Case Nos. 10-388-EL-SSO and 12-1230-EL-SSO state that "each Company will have a cap of 50%, 70% and 30% for Ohio Edison, CEI and Toledo Edison, respectively, of the total aggregate caps."[226] The following table shows the Companies'

[225] WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential.xlsx with 12 months 2014 Rider DCR Revenues provided in Supplemental Discovery Response - 3.24.15-Confidential.
[226] Case No. 10-0388-EL-SSO Stipulation, page 14 and Case No. 12-12-1230-EL-SSO Stipulation, page 20.

revenue to the aggregate annual cap (adjusted for the cumulative under (over) recovery and the allocated Companies' caps through 12/31/14.[227]

Table 34: Annual DCR Revenue to Aggregate and Allocated Caps (12-months 2014)

Period	Aggregate Annual Cap	CEI	OE	TE
% of Aggregate Annual Cap		70%	50%	30%
2012 Annual Cap	$ 150,000,000	$ 105,000,000	$ 75,000,000	$ 45,000,000
2013 Annual Cap	$ 165,000,000	$ 115,500,000	$ 82,500,000	$ 49,500,000
2014 Annual Cap	$ 188,750,000	$ 132,125,000	$ 94,375,000	$ 56,625,000
Allocation of Under (Over)-2013	$ 751,820	$ 526,274	$ 375,910	$ 225,546
2014 Adjusted Annual Cap	$ 189,501,820	$ 132,651,274	$ 94,750,910	$ 56,850,546
2014 Annual Revenue	$ 191,709,557	$ 84,034,399	$ 67,352,639	$ 23,180,409
Under (Over) 2014 Revenue Cap	$ (2,207,737)	$ 48,616,875	$ 27,398,271	$ 33,670,137

The comparison of the twelve-month annual cap to twelve months of revenue in 2014 demonstrates that the Companies are over the aggregate annual cap by $2,207,373 but are still under the allocated annual cap by Company.

Conclusion

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

Blue Ridge notes that the change in quarterly ending dates, however, did create some difficulty as it relates to analyzing the cap since the audit period is no longer equivalent to the calendar year. As such, Blue Ridge asked for the Companies to provide full 2014 Rider DCR revenues. The Companies were over their aggregate annual cap for 2014 and it will be required that they reduce their 2015 aggregate annual cap by an amount equal to $2,207,737.

Once the Companies' revenues are compared to the aggregate annual cap, the Companies are then limited to a Company cap. The Stipulations provide for an allocated cap amount for the Companies of 50%, 70%, and 30% for Ohio Edison, Cleveland Electric, and Toledo Edison, respectively, of the total aggregate caps. The Companies are under the allocated Company caps.

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 two months in 2015. To develop the first quarter 2015 estimates, the Companies used estimated plant-in-service and reserve balances as of 2/28/15 from the 2014 Forecast Version 10+2 from PowerPlant.[228] The estimated 2/28/14 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate

[227] NOTE: CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/14, page 57, Section X, Column E shows the Companies' allocated cap, but the total is the aggregate annual cap ($189,501,820) rather than the sum of the Companies' allocated cap ($284,252,730).
[228] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 - Confidential.

recommendations from prior Rider DCR Audit Reports, 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 and continued in Case No. 12-1230-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 August 31, November 30, February 28, and May 31,respectively, with any reconciliation between actual and forecasted information being recognized in the following quarter.[229]

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 2/28/15 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 two months of 2015 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.

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. Corrections were made to the values used in the calculation of property taxes. Explanations of the issues are provided in the appropriate sections.

[229] Case No. 12-1230-EL-SSO Stipulation and Recommendation April 13, 2012, page 22.

Table 35: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement[230]

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 106,009,226**	**$ 105,847,866**	**$ 29,017,173**	**$ 240,874,265**
1	Correct property tax capitalized interest rate	$ -	$ -	$ (7,113)	$ (7,113)
2	Impacts 2014 Only - See Below	See Below	See Below	See Below	See Below
3	Leasehold Improvements Not Excluded	$ -	$ -	$ (21,867)	$ (21,867)
4	Fee with AFUDC ITF_SC-000026-1	$ (69)	$ (84)	$ (37)	$ (190)
5	Delay, AFUDC Not Stopped ITS-SC-000181-1	$ (747)	$ (904)	$ (398)	$ (2,048)
6	Delay, AFUDC Not Stopped ITS-SC-000195-1	$ (491)	$ (594)	$ (261)	$ (1,346)
7	Not Jurisdictional IF-SC-000082-1	$ (7,908)	$ (9,561)	$ (4,204)	$ (21,673)
8	Allegheny Merger ITS-SC-M00002-1	$ (76,362)	$ (92,424)	$ (40,658)	$ (209,444)
9	Allegheny Merger ITS-SC-M00021-1	$ (7,461)	$ (9,030)	$ (3,972)	$ (20,464)
10	Allegheny Merger XSC-600011-1	$ (40,367)	$ (48,829)	$ (21,474)	$ (110,670)
11	Delay in Retirements CE-000729-DO-MSTM	$ 374	$ -	$ -	$ 374
12	Delay in Retirements PA77411650	$ -	$ (11,220)	$ -	$ (11,220)
13	Delay in Retirements PA-76905480	$ -	$ -	$ 1	$ 1
14	ATSI Not Excluded	$ (972,015)	$ -	$ -	$ (972,015)
15	Sale of Ford Sub Transformer #2	$ -	$ (122,896)	$ -	$ (122,896)
	Total	**$ (1,105,046)**	**$ (295,541)**	**$ (99,983)**	**$ (1,500,570)**

Impacts 2014 Only

2	Real Property Capitalized Cost (2014 Only)	$ (1,575)	$ (1,909)	$ (72,753)	$ (76,237)
	Grand Total	**$ (1,106,621)**	**$ (297,450)**	**$ (172,736)**	**$ (1,576,808)**

230 WP FEOH Adjustments to Plant and Reserve – Confidential and WP Impact of Finding BRC Set 1-INT-001 Att 1 FE DCR Compliance Filing 12.31.14 Confidential and .

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 net job losses resulted due to involuntary attrition in regard to the merger between FirstEnergy Corp. and Allegheny Energy, Inc., completed in 2011. 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.[231] 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.[232]

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.[233]

In originally defining its intent regarding FirstEnergy 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.[234] 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 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.

In the cover letters from FirstEnergy to the Commission of all three Companies' quarterly Rider DCR adjustments submitted in 2014 on April 23, July 2, October 2, and December 31, a statement reads as follows:

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[231] Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 17.
[232] Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 12.
[233] Case No. 12-1230-EL-SSO Opinion and Order, July 18, 2012, page 11.
[234] Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 35.

> 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.[235]

In the 2011, 2012, and the 2013 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 last quarterly Rider DCR Compliance filing as of 11/30/2014. 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 11/30/2014 totals to those of year-end 2013. This data, provided by FirstEnergy, indicates that the number of employees did, in fact, decrease by 80 from last year's total.

Table 36: Pre Merger and End of Year Headcount Comparison[236]

Company	12/31/13	11/30/14	Change 13 to 14
CE	848	815	-33
OE	1,130	1,083	-47
TE	354	333	-21
FESC	1,567	1,588	21
TOTAL	**3,899**	**3,819**	**-80**

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 80 headcount decrease was calculated as follows:[237]

Voluntary Attrition	(187)
Non-merger-related involuntary attrition	(38)
New hires	106
Net non-merger-related transfers in/out of Ohio	3
Net non-merger-related transfers within Ohio	36
Total Change	(80)

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

235 2014 Rider DCR Tariff Compliance Filings for The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for the referenced dates.
236 FirstEnergy's response to Data Request BRC Set 5-INT-003, Attachment 1 - Confidential.
237 FirstEnergy's response to Data Request BRC Set 5-INT-003, Attachment 1 - Confidential.

Commission order in 10-388-EL-SSO, as a result of involuntary attrition due to the merger between FirstEnergy Corp. and Allegheny Energy, Inc.

APPENDICES

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, 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. Ooint 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.

> 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 hi 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 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 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 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 I, 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 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 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, 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 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. 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(B), (C), Revised Code. It supports reliability though 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 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 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, OCC/CP 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, OCC/CP contend that the alleged RTEP benefit was improperly double-counted by the Companies and should be excluded from the analysis. Specifically, OCC/CP 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 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 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 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.

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
PUCO	Public Utilities Commission of Ohio
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

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: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.**
1.01	For each company, please provide the workpapers and documents that support the information included within the December 31, 2014, Rider DCR Compliance Filing. Please provide the source data in its original electronic format.
1.02	For each company and the Service Company, please provide in a Microsoft Excel spreadsheet a list of work orders by FERC account for 1/1/14 through 11/30/14. Include the description, dollar amount, completion date, whether the work was an addition or replacement.
1.03	Workorders: Please provide a list of work orders by FERC account used for the following types of work in 2014: a. Generation b. AMI c. EDR d. LEX e. Annual blanket/program work orders (include any work that is a carryover from prior years f. IT g. Storms h. Joint-owned facilities
1.04	Please provide a reconciliation of the list of workorders provided in Data Request 1.2 to the amounts included in the December 31, 2014, DCR filing.
1.05	The DCR filing dated December 31, 2014, includes actual plant as of 11/30/14 and forecasted plant as of 2/28/2015. Please provide a narrative on the Companies' reasoning for modifying the DCR filings' quarter end dates.
1.06	Please provide a reconciliation of the Rider DCR balances to the balances in FERC Form 1.
1.07	Please provide the 2014 budget supporting the 2014 Compliance Filings. Also, please include the assumptions supporting the budget/projected data.
1.08	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 2014.
1.09	For each company and the Service Company, please provide a current organizational chart.
1.10	Please confirm that the following individuals were in the same positions for 2014. Please identify any changes.

DR #	Request Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.
1.11	Please provide a narrative on how the companies have addressed the recommendations agreed to in the Joint Stipulation dated May 28, 2014 from Blue Ridge's Compliance Audit of the 2013 DCR Riders dated April 9, 2014. a. Page 11, application of CIACs application to correct work orders and FERC account b. Page 11, issue identified in 2013 SOX compliance issues related to AFUDC rates in PowerPlant c. Page 12, change in ATSI Land Lease calculation methodology d. Page 13 – removal of cumulative impact of AMI projects e. Page 15 – correct errors identified in work order transactional testing f. Page 15 – remove building improvements from Rider DCR g. Page 15 – revisions to process to ensure that AFUDC is not accrued on projects that are not eligible h. Page 15 – status of review of entire population of utility plant to ensure other similar fees have not accrued AFUDC i. Page 17 – status of updated deprecation study j. Page 19 – inclusion of comparison of the annual Rider DCR revenue to the adjusted annual cap taking into account prior years' under and over collections k. Page 24 – quantification of any increase in efficiency and savings within IT project justifications that are justified on the basis of an increase in efficiency and savings
1.12	Please provide the work papers that support the amounts recorded as Audit Recommendations.
1.13	Please provide a narrative of any changes made to the development process of the 2014 Rider DCR schedules from the 2013 schedules.
1.14	Please provide any changes to how the Rider DCR Compliance Filings are developed based on the narrative of its 2013 development as reflected in last year's audit report titled "Compliance Audit of the 2013 Delivery Capital Recovery Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company," dated 4/9/2014 in Docket # 13-221-EL-RDR.
1.15	For each company and the Service Company, please provide any changes for 2014 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 k. IT projects
1.16	Please provide the percentages by class that Rider DCR comprises of the total average winter bills for each operating company.

DR #	Request **Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.**
1.17	For each company and the Service Company, please provide a list of Internal Audits performed for 2014. List the name of the audit, scope, objective, and when the work was performed.
1.18	For each company and the Service Company, please provide a list of SOX compliance work performed during 2014. List the name of the audit, scope, objective, and when the work was performed.
1.19	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 1/1/14 through 11/30/14.
1.20	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 1/1/14 through 11/30/14.
1.21	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 1/1/14 through 11/30/14.
1.22	Did the company have any large construction and/or replacement programs in 2014 such as pole replacement, meters, underground line, etc? If so, please identify the program, company, and work orders associated with the program.
1.23	For each company and the Service Company, please provide a list of any insurance recoveries charged to capital from 1/1/14 through 12/31/14.
1.24	For each company and the Service Company, please provide a list and explanation of any 2014 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.
1.25	For each company and the Service Company, please provide the approved depreciation accrual rates by FERC 300 account from 1/1/14 through 11/30/14. Note any changes in rates during the year. Please provide the Commission order that approved the rates for each company and the Service Company.
1.26	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 2014: 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
1.27	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.
1.28	Please provide the level of signature authority (LOSA) document that supports the approval of capital projects in place as of 1/1/13 and any changes through 12/31/14. Please note the nature of the change and the effective date of the change.
1.29	Please provide the supporting documentation for the amounts associated with the ATSI Land Lease for actual 11/30/14 and estimated 3/31/14 on pages 19 and 44 of the DCR filing.
1.30	Please provide the supporting documentation for the amounts excluded from CEI for Rider AMI for actual 11/30/14 and estimate 2/28/15 (page 19 and 44 of DCR filing).
1.31	Please provide the supporting documentation for the amounts excluded for EDR(g) included on pages 19 and 44 of the DCR filing.
1.32	Please provide by company information regarding the backlog in the unitization of workorders for 2014. Please provide the number of workorders and the length of time in months by functional area (i.e., Distribution, Transmission, General, and Other).

DR #	Request Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.
1.33	Please provide the dollar value of the workorder backlog, by operating company and by workorder classification (distribution, transmission and general/other).
1.34	Please provide the number of employees for each operating company and the Service Company as of 12/31/14.
1.35	Please provide the number of merger-related changes in employees in 2014. Include an explanation of any changes and an explanation of the reasons for concluding that no merger related changes occurred in 2014.
2.01	(refer to attached spreadsheet FE DCR CF Variance 2014 QTRLY.xlsx) Regarding Plant in Service, Reserve, and Service Company Allocations found in the various DCR Quarterly Filings for 2014, please provide detailed narratives explaining the reasons for the variances between the quarterly or yearly actual balances for each account and period identified in the chart below (rows a through m).
2.02	(refer to attached spreadsheet FE DCR CF Variance 2014 QTRLY.xlsx) Regarding the actual 12/31/13 Plant-in-Service adjusted balances recorded in the DCR Quarterly Filings for each Company, issued on February 4, 2014, please provide detailed narratives explaining the reasons for the variances between the 2013 FERC Form 1 balances and the 12/31/13 adjusted balances found in the DCR Quarterly Filings for each account identified below: a) CE acct 392 - Transportation Equipment: DCR balance = $3,908,819; FF1 balance = $24,797,547; Difference $20,888,728 or 84.2% b) OE acct 392 - Transportation Equipment: DCR balance = $2,054,201; FF1 balance = $30,673,789; Difference $28,619,588 or 93.3% c) TE acct 392 - Transportation Equipment: DCR balance = $2,054,201; FF1 balance = $28,619,588 or 93.3%
2.03	(refer to attached spreadsheet FE DCR CF Variance 2014 QTRLY.xlsx) Regarding a comparison between the actual 12/31/13 Plant-in-Service adjusted balances recorded in the DCR Quarterly Filings for each Company, issued on February 4, 2014, and the balances recorded in the 2013 FERC Form 1, please explain why the FERC Form 1 account balances do not generally match the DCR balances (albeit by small variances) for most accounts.

DR #	Request ***Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.***
3.01	For the attached work order list (BRC Set 2-2014 Workorders Confidential.xlsx), please provide the following information in Microsoft Excel spreadsheets. a. A work order sample summary. 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 i. Approval ii. Project justification iii. Budget and actual costs with explanation for cost variances +/- 15% iv. 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. An updated list of cost elements g. 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.
4.01	(refer to attached spreadsheet FE 2014 DCR Filing to WO Totals.xlsx) The tab labeled "Comparison" of the referenced attached spreadsheet shows, by FERC account and company, the adjusted plant balances at the beginning of the year and the 11 months ended November 30, 2014 (taken from the associated DCR filings) and their differences (which is the activity for the year). Additionally, this spreadsheet tab shows the adjusted work order population for the year by FERC account and company based on the information provided in the response to Data Request 1-INT-002 attachment 1. Please provide the reasons and support, as necessary, for the highlighted differences between the adjusted plant activity for the 11 months ended November 30, 2014, and the adjusted work order population.
4.02	(refer to attached spreadsheet FE 2014 DCR Filing to WO Totals.xlsx) The spreadsheet tab labeled "ServCo" of the referenced attached spreadsheet shows FERC account beginning of year and November 30, 2014, balances and their differences (i.e., the activity for the year). Additionally, this spreadsheet tab shows the adjusted work order population for the year by FERC account based on the information provided in the response to Data Request 1-INT-002 attachment 1. Please explain the $67,051 difference between the adjusted Intangible Plant account balance (activity for the 11 months ended November 30, 2014, and the adjusted work order population for that same period.
4.03	Follow up to Data Request response BRC Set 1-INT-018 – Attachments 1-3 Confidential: Please identify any exceptions noted during the SOX Compliance testing along with the degree of risk associated with the exception and how the exception was remediated or mitigated.
5.01	(refer to response to Data Request 1-INT-019 Attachment 1 – Confidential.xlsx) Please provide the

DR #	Request Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.
	detailed reasons and support, as necessary, for the items below: a) Tab CEI • Acct 355 – Negative Addition to plant of $(547,786) • Acct 356 – Retirement of $(557,269) greater than Addition of $541,9899 • Acct 356 – Transfer of $4,627,413 • Acct 362 – Transfer of $(1,814,790) • Acct 362 – Adjustment of $(232,713) • Acct 394 – Retirement of $(459,156) greater than Addition of $241,071 • Acct 395 – Retirement of $(105,864) greater than Addition of $23,714 • Acct 396 – Retirement of $(106,970) greater than Addition of $125,834 • Acct 397 – Transfer of $(2,583,836) b) Tab OE • Acct 353 – Negative Addition to plant of $(500,761) • Acct 353 – Transfer of $400,578 • Acct 355 – Negative Addition to plant of $(4,087) • Acct 356 – Negative Addition to plant of $(934,720) • Acct 360 – Negative Addition to plant of $(34,967) • Acct 365 – Positive Retirement of $275,899 • Acct 365 – Adjustment of $(1,425,222) • Acct 366 – Negative Addition to plant of $(5,590) • Acct 391 – Retirement of $(1,396,673) greater than Addition of $365,307 • Acct 397 – Negative Addition to plant of $(96,147) c) Tab TE • Acct 356 – Negative Addition to plant of $(1,262) • Acct 365 – Adjustment of $(351,842) • Acct 391 – Negative Addition to plant of $(57,438) • Acct 394 – Retirement of $(121,898) greater than Addition of $95,804 • Acct 396 – Retirement of $(33,296) greater than Addition of $2,923 d) Tab FESC • Acct 391 – Retirement of $(12,598,855) greater than Addition of $9,911,736 • Acct 392 – Transfer/Adjustment of $(978,925)
5.02	(refer to response to Data Request 1-INT-021 Attachment 1 – Confidential.xlsx) As shown in the referenced spreadsheet, the CWIP balances for CECO and OECO have increase from January 2014 to November 2014. Please provide a narrative and any support documentation explaining the increase.
5.03	(refer to response to Data Request 1-INT-035) The 1-INT-035 Data Request asked the Company to provide the number of merger-related changes in employees in 2014. The Data Request also asked that the Company provide an explanation of the reasons for concluding that no merger-related changes occurred in 2014. However, the response given was only that there were no merger-related changes in employee levels in 2014 without any corresponding explanation. Since number of employees changed in 2014 (3899 at end of 2013, as shown in 2013 DR responses 1-INT-02 and 1-INT-28, compared to 3819 at end of November 2014, as shown in 2014 DR response 1-INT-09), please provide a narrative detailing reasons for concluding that no merger-related changes in employee levels occurred in 2014. Please provide supporting detail, including, but not limited to, 2014 totals for voluntary attrition, non-merger-related involuntary attrition, new hires, net transfers in/out of Ohio, net transfers within Ohio, and any other categories which contribute toward the total headcount change from 3899 to 3819.

DR #	**Request** **Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.**
5.04	Follow up to BRC-1-23 Please review and confirm the response. The statement above the table appears to contradict what is stated below table. One sentence states there are insurance recoveries charged to capital and the next states there are no insurance recoveries charged to capital. Please clarify.
5.05	Follow up to Data Request response BRC Set 1-INT-032. Reference Blue Ridge 2013 DCR report, page 62. Table 25: 2013 change in work order Unitization Backlog (15 months or older) 2012-2013 The total unitization backlog as of 11/30/14 is 4156 work orders. As of 12/31/13 the backlog was 1346. Please explain the reason(s) for the significant increase in the back log and any potential ramifications to the accumulated reserve for depreciation as a result of possible closed work order dollars in the wrong FERC 300 account prior to unitization.
5.06	Follow up to Data Request response BRC Set 1 INT-015 Confidential a.v. Salvage. Please confirm the following process statement. If the statement is incorrect, please provide the correct process. Scrap sales are not recorded on an individual work order basis. Scrap is charged to a separate work order and the proceeds from the sales are spread pro rata to the individual active workorders. When equipment is sold, other than for scrap, the proceeds are charged to the accumulated reserve for depreciation.
5.07	Confidential: Follow up to Data Request BRC Set 1-017, attachment 1. Please provide the Executive Summary or Summary Findings and Recommendations for the following job numbers: a) 23368 b) 23538 d) 23803 e) 24747 f) 24748 g) 24749 h) 24850
5.08	Please confirm that none of the following riders have capital additions included within the Rider DCR.
5.09	The Tax Increase Prevention Act of 2014 extended the 50% bonus tax depreciation for qualified property placed into service before January1, 2015. Does FE DCR filing include the impact of the extended 50% bonus tax depreciation for qualified property placed into service before January 1, 2015?

DR #	Request **Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.**
6.01	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 Cleveland Electric: 1) Work Order: IF-CE-000015-1: Replace Roof R05, In-Service: October 2014 Cost: $35,623.87 - 2) Work Order: 14178085: Replace Transformer, In-Service: July 2014, Cost: $84,745.32 Ohio Edison: 3) Work Order: IF-OE-000014-1: Roof Replacement B Offices and C Main., In-Service: February 2014, Cost: $452,789.18 Toledo Edison: 4) Work Order: 14025826 – Relocate Distribution for Roundabout, In-Service: September 2014, Cost: $40,958.36, 364 - Poles, towers and fixtures - $16,306.40, 365 - Overhead conductors, devices - $7,187.34, 368 - Line transformers - $17,464.62, First Energy Service Corp: 5) Work Order: IF-SC-00082-1 –Relocation of Offices, In-Service: March 2014 Cost: $539,354.85
7.01	Follow Up to BRC-1-1, Attachment 5, Tab 2014 ADIT. The derivation of the estimated ADIT appears to be different than the workpapers provided for the 2013 DCR Audit. The 2013 Estimated ADIT workpaper provided by the Companies showed the components included within estimated ADIT (e.g., tax depreciation, book depreciation, cost of removal, etc.) The workpaper provided for the 2014 Estimated ADIT provides an amount for Net Book Value at 2/28/15 and Net Tax Value at 2/28/15 by Company. Please provide a narrative on how the Net Book Value at 2/28/15 and the Net Tax Value at 2/28/15 were calculated and provide appropriate source documentation for the amounts.
8.01	Follow up to 1stEnergy response to Data Request BRC 5-INT-7 parts b, e, f, and g: a. b. Internal Audit 23538:i. Please update the status of the open defects/issues that were categorized as low or medium priority as of November 6, 2014. ii. Do the open defects/issues impact the DCR? If so, please explain. b. e. Internal Audit 24747: i. Please update the status of the 10 control deficiencies that remained open as of March 31, 2014. ii. Do the 9 open control deficiencies impact the DCR? If so, please explain. c. f. Internal Audit 24748: i. Please update the status of the 6 control deficiencies that remained open as of June 30, 2014. ii. Do the 6 open control deficiencies impact the DCR? If so, please explain. d. g. Internal Audit 24749: i. Please update the status of the 9 control deficiencies that remained open as of September 30, 2014. ii. Do the 9 open control deficiencies impact the DCR? If so, please explain.
8.02	Reference: Set 3-INT-001 Att 1 Confidential: For the following workorders CECO-13414295, CECO-HE123, FECO-LA096 and TECO-14069083 a. Please explain in detail what the adjustments are for. b. Please provide the detail of the adjustments (accounting entries) by Company by FERC account

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	and how they impact the DCR
8.03	Reference: Set 3-INT-001 Att 1 Confidential: Please explain why the labor, contractor and/or materials expenses were different than budgeted for the following projects: CECO-PA80794420, OECO-13331732, and OECO-14201874.
8.04	Reference: Set 3-INT-001 Att 1 Confidential: Please provide the accounting entries by FERC account for the sale of the Transformer in workorder OECO-OC-001010-SD.
8.05	Reference: Set 3-INT-001 Att 1 Confidential: Workorder CECO-HE123: a. What is the impact of the transfers and adjustments on the DCR, including AFUDC? b. FERC 353, 362, 392, and 396 workorder types all indicate a replacement. The Company recorded retirements but it does not appear that any cost of removal where included in the transfer/adjustment. Please explain how cost of removal was transferred and/or adjusted..
8.06	Reference: Set 3-INT-001 Att 1 Confidential: Workorder TECO-14069083: a. What was the purpose of this workorder and the impact of the 2014 unitization clean up on utility plant in service and the reserve? Include in the explanation any reclassifications between Company's, FERC accounts, and the impact on AFUDC and Depreciation expense. b. Please provide the detail by Company by FERC account and the impact to the DCR.
8.07	Reference: Set 3-INT-001 Att 1 Confidential: Workorder OECO-OC-001010-SD: Please provide an explanation for the >90 day delay in actual vs. estimated in-service date and the impact on AFUDC and depreciation
8.08	Reference: Set 3-INT-001 Att 1 Confidential: Workorder OECO-13331732 had a 251 day delayed completion date and continued to accrue AFUDC. Please explain the impact of the delay on the DCR in terms of overstatement of Electric Plant in Service and the Depreciation reserve through over accrual of depreciation expense.
8.09	Reference Data Request response 3-1, Attachment 3. Please explain the significant delay in the retirement of assets compared to the in-service dates of replacement assets for the following workorders. Also, explain the impact of the delay on the accrual of AFUDC and the DCR. a. CECO workorder CE-000729-DO-MSTM: Assets in service December 1, 2013. retirements October 2014. (10 month delay) b. OECO workorder OC-001010-SD: Assets in service December 2011 and retirements October 2014. (34 month delay). c. OECO workorder PA-77417650: Assets in service September 2013 and retirements July 2014 (11 month delay), d. TECO workorder 14069083: Assets in service July 2012 and retirements January 2014 (18 month delay). e. TECO workorder PA-76905480: Assets in service November 2013 and retirements April 2014 (6 month delay).
8.10	Reference Data Request response 3-1, Attachment 4. Please explain the significant delay in the recording of Cost of Removal compared to the in-service dates of replacement assets for the following workorders. a. CECO workorder CE-000729-DO-MSTM: Assets in service December 1, 2013 and retirements October 2014. (10 month delay) b. OECO workorder OC-001010-SD: Assets in service December 2011 and retirements October 2014. (34 month delay). c. TECO workorder PA-76905480: Assets in service November 2013 and retirements April 2014 (6 month delay).

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8.11	Reference Data Request response 3-1, Attachment 3 and Attachment 4. Please explain the following: a. OECO Workorder PA77411650: Please explain why no cost of removal was charged on this workorder.
8.12	Reference Data Request response 3-1, Attachment 2: Several amounts that represent additions to plant did not agree to the workorder sample. Attached is a modified Attachment 2 that includes the amounts from the sample highlighted in Column Q labeled Blue Ridge. Please explain the difference and provide the appropriate support.
8.13	Reference Data Request response 3-1, attachment 2 Workorder PowerPlant Upgrade Fee 2013 - CAP, Please explain why a fee should accrue AFUDC and what in the PowerPlant system allows that to happen.
8.14	In last year's audit, the Companies stated that it expected to make accounting adjustments so that the EDR(g) will be removed from the Rider DCR gross plant and reserve balances as of March 3, 2014, and will no longer need to be manually excluded (see 2013 Data Request BRC-3-4). What is the status of the accounting adjustments?
8.15	In the 2013, the Companies modified their methodology for identifying the ATSI land lease values. The Companies stated that under further review, the original approach was more appropriate. A reconciliation calculation was made to reflect the revenues that would have been collected in Q4 2013 and Q1 2014 under the original methodology. Please provide the reconciliation.
8.16	Reference DCR Compliance Filing Summary. Please provide the supporting documents and calculations for the tax rate used to calculate the Actual 11/30/14 and Estimated 2/28/15 Rider DCR Requirement.
9.01	(Refer to response to Data Request BRC Set 3-INT-001, updated response 2/25/15, Attachment 6) The following work orders appear to be related to the merger with Allegheny Power. Please explain in detail the reason that FirstEnergy includes the costs for these projects in the Ohio DCR. a. Work Order ITS-SC-M00002-1 - cost $2,217,865.59 Description: Eliminate/migrate legacy Allegheny mainframe applications. The project was required to support decommissioning of the Allegheny mainframe by eliminating or mitigating legacy Alleghany mainframe applications to FirstEnergy applications or systems of record. There were no quantifiable benefits. b. Work Order ITS-SC-M00021-1 - cost $224,796.51 Description: Create an internal mainframe operations support staff, and transition administration from HP to FE. The project was required to support the decommissioning of the Allegheny mainframe. The projected savings were offset by increased hardware and software costs to support the transfer of applications and data to a distributed environment (i.e., servers, storage, application software licenses), resulting in a net increase of costs of approximately $100k over a 3-year time period. c. Work Order XSC-600011-1 - cost $,552,300.47 Description: Standardize legacy AE's building facility access control systems from current set-up to one standard system across all FE combined companies. Project was required as a result of Allegheny merger system integration.

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9.02	(Refer to response to Data Request BRC Set 3-INT-001, updated response 2/25/15, Attachment 6) The actual completion dates for the following work orders were thirty (30) days or greater than the Company-estimated completion dates. Please respond to the specific requests for each referenced work order. a. Work Order ITS-SC-00026-1: PowerPlant Upgrade Fee 2013 – Capital. The project was placed in-service 323 days after the estimated in-service date. First-Energy explained the review process but did not give the reason for the delay. Please provide the reason for the delay, explaining its cause and indicating the amount of any overstated AFUDC based on that delay. b. Work Order ITS-SC-000181-1: Pension Administration Retirement – Capital. The project was placed in- service 422 days after the estimated in-service date. FirstEnergy explained the review process but did not give the reason for the delay. Please provide the reason for the delay, explaining its cause and indicating the amount of any overstated AFUDC based on that delay. c. Work Order ITS-SC-000189-1: Office Productivity – Capital. The project was placed in-service 44 days after the estimated in-service date. FirstEnergy indicated that the project was completed on schedule. Please provide an explanation for the seeming contradiction between the indication of completion on schedule and the completion date occurring 44 days after the estimated in-service date. Also, please provide the reason for the delay, explaining its cause and indicating the amount of any overstated AFUDC based on that delay. d. Work Order ITS-SC-000192-1: e-Recruiting Enhancements- Capital. The project was placed in-service 209 days after the estimated in-service date. FirstEnergy's explanation for extending the in-service date was reasonable. Please indicate whether work continued during the extension. If work did not continue, please indicate whether AFUDC was discontinued when the in-service date was extended. If AFUDC was not discontinued, please explain why it was not, and indicate the amount of any overstated AFUDC. e. Work Order ITS-SC-000195-1: 2012 SAP FI Enhancements – Capital. The project was placed in-service 340 days after the estimated in-service date. FirstEnergy explained the review process but did not give the reason for the delay. Please provide the reason for the delay, explaining its cause and indicating the amount of any overstated AFUDC based on that delay f. Work Order ITS-SC-000211-1: SAP ERP Archiving Project – Capital. The project was placed in-service 456 days after the estimated in-service date. FirstEnergy's explanation for extending the in-service date was reasonable. Please indicate whether work continued during the extension. If work did not continue, please indicate whether AFUDC was discontinued when the in-service date was extended. If AFUDC was not discontinued, please explain why it was not, and indicate the amount of any overstated AFUDC. g. Work Order ITS-SC-M00002-1: Consolidated Fixed Assets – Capital. The project was placed in-service 172 days after the estimated in-service date. FirstEnergy's explanation for extending the in-service date was reasonable. Please indicate whether work continued during the extension. If work did not continue, please indicate whether AFUDC was discontinued when the in-service date was extended. If AFUDC was not discontinued, please explain why it was not, and indicate the amount of any overstated AFUDC.

DR #	Request Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.
9.03	(Refer to response to Data Request BRC Set 3-INT-001, updated response 2/25/15, Attachment 6) The costs for the following work orders were over budget by more than 15%, and FirstEnergy's explanations require further clarification to determine the reasons for the cost overruns. Please respond to the specific requests for each referenced work order. a. Work Order ITS-SC-000192-1: e-Recruiting Enhancements- Capital. The project was over budget by 50% (170,089.53). FirstEnergy's explanation was that the project experienced higher than expected contractor and internal labor hours. Please provide additional detailed information regarding the reason that the project experienced higher than expected contractor and internal labor hours resulting in the 50% cost overrun. b. Work Order ITS-SC-000203-1: Financial Transformation – Capital. The project was over budget by 35% ($3,992,491.50). FirstEnergy did not provide and explanation of the cost overrun. Please explain in detail the reason that the project was 35% over budget. c. Work Order ITS-SC-000211-1: SAP ERP Archiving Project – Capital. The project was over budget by 19% ($23,365.78). FirstEnergy explained the cost increase as follows: "Project experienced slightly more labor hours than originally anticipated." Please provide additional detailed information regarding the reason that the project experienced slightly more labor hours than originally anticipated, which then resulted in the 19% cost overrun. d. Work Order XSC-600011-1: AE Stndrd Facility Access Pro Watch – Capital. The project was over budget by 70% ($639,080.47). FirstEnergy explained the cost increase as follows: "Work that was originally planned for 2015 was made a priority in 2014." Please provide additional detailed information regarding the reason that work which was planned for 2015 was made a priority in 2014, which resulted in the 70% cost overrun.
10.01	Tab DCR Rider Workpaper, Section III. Estimated Rider DCR Reconciliation for March-May 2015, Column (C). The amounts included in the December 31, 2014, filing, Tab DCR Rider Workpaper, Section III, Column C for OE are hardcoded and do not match the amounts in Section I, Column J. Please explain the difference.
10.01	Tab DCR Rider Workpaper, Section III. Estimated Rider DCR Reconciliation for March-May 2015, Column (C) footnote states that the source is Section I, Column J, OE rates are as filed in the October 2, 2014, DCR filing, which include an adjustment such that the estimated aggregate 2014 DCR revenue does not exceed the annual cap. a. Please explain the comment and provide the workpapers showing the adjustment and the derivation of the amounts included in the December 31, 2014, filing for OE for Column C. b. Please explain the reason for the modification in OE, Column D, Actual Rate Base
11.01	DR BRC-1-1, Attachment 6, Second and Final Updated Response states that an incorrect capitalized interest rate for Distribution plant was used in the calculation of the TE personal property tax expense. It appears that the incorrect rate was used for Transmission, not Distribution. Please confirm and update the response as appropriate.
11.02	DR BRC-1-1, Attachment 6, Second and Final Updated Response provides the support for estimated 2/28/15. The actual 11/30/14 property tax support was not included. Please provide.
12.01	Reference 3-INT-001 Attachment 2 – Cost Detail – Please provide the following information for workorder OECO-PA77411650. a. Supporting detail for assets (units and dollars by FERC account) added to utility plant from the Power Plant system.
13.01	(Refer to response to Data Request 4-INT-001 – Confidential.pdf) Please provide a detailed narrative and any supporting documentation to explain the CEI Account 365 $541,551 "manual year end adjustment ... made after PowerPlant closed." Please provide the date of the adjustment and explain what the adjustment was for, why it was needed, and why it increased the DCR balance.

DR #	**Request** **Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.**
13.02	(Refer to response to Data Request 4-INT-001 – Confidential.pdf) Please provide a detailed narrative and any supporting documentation to explain the TE Account 356 $96,989 "manual year end adjustment made after PowerPlant closed." Please provide the date of the adjustment and explain what the adjustment was for, why it was needed, and why it increased the DCR balance.
14.01	(Refer to response to Data Request 5-INT-001 – Confidential.pdf) Response to the referenced DR in part (a) item iii (CEI Acct 356), FE mentions that the transfer of $4,627,413 was from ATSI to CEI in 2014 and was subsequently reversed in January 2015. Please respond in detail to the following: a) Why was it transferred from ATSI to CEI in 2014? b) Why was it reversed in 2015? c) Has the 2014 transfer from ATSI to CEI been excluded from the 2014 DCR? If so, please provide supporting documentation. If not, why not?
14.02	(Refer to response to Data Request 5-INT-001 – Confidential.pdf) Response to the referenced DR in part (a) item iv (CEI Acct 362), FE mentions that an offsetting transfer of $1,851,774 associated with Rider AMI plant was recorded in a Rider AMI depreciation group and non-jurisdictional to Rider DCR. Please provide the associated Work Order number and journal entry(-ies) or PowerPlant screen prints.
14.03	(Refer to response to Data Request 5-INT-001 – Confidential.pdf) Response to the referenced DR in part (a) item iv (CEI Acct 362), FE mentions that $36,984 an offsetting transfer of $1,851,774 associated with Rider AMI plant was recorded in a Rider AMI depreciation group and non-jurisdictional to Rider DCR. Please provide the associated Work Order number and journal entry(-ies) or PowerPlant screen prints.
Sup	Supplemental Requests Adjustment - Depreciation Accrual Reserve - Depreciation Impact on Adjustments Leasehold Improvements Not Excluded 2014 Revenue

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.

- Summary
- DCR Rider Workpaper
- Quarterly Reconciliation
- Billing Units
- Act-Summary
- Act-CEI 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.

- Field Observations
- WP - Reconciliation of unadjusted GP to Population BRC Set 1-INT-002 Attachment 1 - Confidential.xlsx
- WP 2012 BRC-1-19 Depreciation Accrual Rates from Staff's Reports.pdf
- WP BRC-Set 1-INT-002 Attachment 1 - Confidential (Workorder Population) - Sample.xlsx
- WP FE 2014 DCR Comparison Filing to WO Totals - Confidential.xlsx
- WP FE DCR CF Variance 2014 Qtrly - Confidential.xlsx
- WP FE V&V 2014 Rider DCR Compliance Filing 12-31-14 Confidential .xlsx
- WP FEOH 2014 DCR - Exclusion Report.xlsx
- WP FEOH 2014 Pre-Date Certain Pension Impact Analysis 2012-2014 - CONFIDENTIAL.xlsx
- WP FEOH 2014 Sample Size Calculation Work Orders through 11-30-14 - CONFIDENTIAL
- WP FEOH 2014 Sensitivity Analysis Summary
- WP FEOH 2014 Sample Workorder Testing Matrix.xlsx
- WP FEOH Adjustments to Plant and Reserve - CONFIDENTIAL.xlsx

- WP Impact of Findings BRC Set 1-INT-001 Att 1 FE DCR Compliance Filing 12.31.2014 Confidential.xlsx
- WP OAC - 5703-25-05 Definitions.
- WP ORC - 5727.111 Assessing at percentages of true value.
- WP Table for Report - BRC 8-12.xlsx

The following data responses were obtained in prior audits and were relied upon in the examination of the filings under review in this audit.

- 2011 – BRCS-14-1 (Cumulative Pre-2007 Impact of Change in Pension Accounting)
- 2011 – BRCS-7-2 (Depreciation Accrual Rate for FERC Account 359 Roads & Trails)
- 2011 – BRC-11-3 (Service Company Gross Plant and Reserve as of 5/31/07)
- 2011 – BRC-11-1 (Gross Plant, Reserve, ADIT, Depreciation Expense, and Property Tax Expense as of 5/31/07)
- 2011 – BRC-11-2 (ATSI Land Lease Amounts in Case No. 07-551-EL-AIR)
- 2012 – BRC-1-19 (Case No. 07-551-EL-AIR - Staff's Report Depreciation Accrual Rates, dated December 4, 2007)

The following personnel had key roles supporting the Rider DCR. Blue Ridge conducted interviews in 2012 (see names with *). For individuals that assumed the role in later years, Blue Ridge requested updates for any change in the role and responsibilities.

Table 37: Personnel in Key Roles Supporting the Rider DCR

#	Name	Title
1	Douglas Burnell*	Director, Business Services
2	Timothy Clyde*	Manager, Property Accounting
3	Randal Coleman*	Manager, Distribution Standards
4	Santino Fanelli*	Revenue Requirements Lead Ohio
5	Joseph Loboda[238]* Michele Jones*[239] Sandra Hemberger[240]	Manager, Corporate Services Sourcing Manager, Corporate Services Sourcing Manager, Corporate Services & Energy Efficiency
6	Thomas McDonnell*	Manager, Insurance Risk and Insurance Risk Analyst
7	Eileen Mikkelsen[241]*	Director Rates & Regulatory Affairs

[238] Joseph Loboda was in the position from 1/1/2012 through 2/12/2012.
[239] Michele Jones was in the position from 2/13/2012 through 12/31/2012. Michele Jones left the position of Manager, Corporate Services Sourcing on January 27, 2013. Sandra Hemberger (Manager, Corporate Services & Energy Efficiency) kept her existing title, but assumed all of Ms. Jones' responsibilities for corporate services relevant to Rider DCR through the end of 2013.
[240] Michele Jones left the position of Manager, Corporate Services Sourcing on January 27, 2013. Sandra Hemberger (Manager, Corporate Services & Energy Efficiency) kept her existing title, but assumed all of Ms. Jones' responsibilities for corporate services relevant to Rider DCR through the end of 2013.
[241] Eileen Mikkelsen participated in the interview with Erica Millen and Santino Fanelli. No separate interview notes were developed.

#	Name	Title
8	Erica Millen* Peter Blazunas[242]	OH State Regulatory Analyst II
9	John Nauer*	Director, Utilities Sourcing
10	Albert Pompeo*	FEU Business Services Policy and Control Lead
11	William Richards* Tom Pesich[243] Nicholas Fernandez[244]	Manager, Business Unit Financial Performance Manager, Financial Modeling Director, Business Planning & Performance
12	Steve Vucenovic*	Manager, General Accounting

*Interview conducted in 2012. Notes provided in previous workpapers.

[242] Peter Blazunas replaced Erica Millen. He updated the interview notes from the prior year's audit.
[243] Starting 11/1/2012, Tom Pesich (Manager, Financial Modeling) assumed the responsibilities for capital forecasting formerly held by Mr. Richards. There was no change to Mr. Pesich's role relevant to Rider DCR in 2013.
[244] Starting 8/22/2014, Nicholas Fernandez (Director, Business Planning & Performance) assumed the responsibilities as it relates to the capital forecast formerly held by Mr. Pesich. There was no change to Mr. Fernandez's role relevant to Rider DCR in 2014.