Docket No. 15-1739-EL-RDR

Compliance Audit of the 2015 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company

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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*: This section provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations that are presented in more detail in the body of the report.
- *Summary of Blue Ridge Recommendations*: This section contains a listing of recommendations resulting from the 2015 Rider DCR audit.
- *Overview of Investigation*: This section 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.
- *Prior Compliance Audits Recommendations Status*: This section presents the current status of the Companies implementation of recommendations from prior DCR Rider audits.
- *Findings and Recommendations*: This 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, 2013, and 2014 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.

The report also contains appendices.

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 2016.

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, 2015, and estimated plant in service through February 29, 2016. 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. Ohio Edison Company, the Cleveland Electric Illuminating Company, and the Toledo Edison Company (collectively FirstEnergy or the Companies) 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 2015 compliance audit. Blue Ridge also performed the 2011, 2012, 2013, and 2014 Rider DCR compliance audits, covering plant in service since the last distribution rate case (the audits covered 6/1/2007 through 11/30/2014).

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.
- Assess the substantive implementation of the provisions contained within the Joint Stipulation and Recommendations filed in Case No. 14-1929-EL-RDR.

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 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	**$ 104,174,250**	**$ 107,265,493**	**$ 28,153,742**	**$ 239,593,485**
1	Variance: FERC 390 TE Plaza Plant Understated	-	-	15,671	15,671
2	Variance: FERC 390 Reserve Leasehold Understated	-	-	(679)	(679)
3	Excluded Riders: Corrected Rider EDR Exclusion Balances	(1,424)	-	-	(1,424)
4	Excluded Riders: Rider AMI Work Order to be Excluded	(841)	-	-	(841)
5	Non Jurisdictional: FECO 303 Merger	(74,170)	(89,840)	(39,519)	(203,530)
6	Non Jurisdictional: FECO 390 Bethel Warehouse	(234)	(284)	(125)	(643)
7	Delay in Recording Retirements: CE 390 WO IF-CE-000017-1	213	-	-	213
8	Delay in Recording Retirements: CE 364 WO 14057988	67	-	-	67
9	Exclusions: ATSI Not Excluded	-	(1,042)	(16)	(1,058)
10	Unspecified Location Pension: Retirements not Recorded	(63,680)	(156,964)	(40,894)	(261,538)
	Impact of All Adjustments	**$ (140,069)**	**$ (248,130)**	**$ (65,562)**	**$ (453,761)**
	Recommended Adjusted Rider DCR Revenue Requirements	**$ 104,097,861**	**$ 107,174,327**	**$ 28,129,075**	**$ 239,401,262**

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 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.

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) from DCR year end 11/30/2014 across the four quarterly reports of 2015 (2/28/2015, 5/31/2015, 8/31/2015, and 11/30/2015).

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 gross plant (including allocation of Service Company Plant) by $91.4 million, $136.9 million, and $12.2 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 3.3%, 4.4%, and 1.1% for CE, OE, and TE, respectively.

[1] WP FEOH 2015 Adjustments to Plant and Reserve-Confidential and WP Impact of Findings BRC Set 1-INT-001 Attachment 1 – FE DCR Compliance Filing 12.31.2015-Confidnetial.

Table 2: Adjusted Plant Change from 11/30/2014 to 11/30/2015

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 11/30/14	Adjusted Balance 11/30/15	Difference (c)-(b)	% (d)/(b)
1	**The Cleveland Electric Illuminating Company**				
2	Transmission	$ 412,496,355	$ 417,288,386	$ 4,792,031	1.2%
3	Distribution	2,075,410,343	2,146,090,268	70,679,925	3.4%
4	General	145,387,196	149,771,872	4,384,676	3.0%
5	Other	48,640,496	53,736,519	5,096,023	10.5%
6	Service Company Allocated	81,735,306	88,149,759	6,414,453	7.8%
7	**Total Cleveland Electric Illuminating Company**	**$ 2,763,669,696**	**$ 2,855,036,804**	**$ 91,367,108**	**3.3%**
8	**Ohio Edison Company**				
9	Transmission	$ 208,139,877	$ 211,123,376	$ 2,983,499	1.4%
10	Distribution	2,548,369,201	2,661,407,297	113,038,096	4.4%
11	General	157,962,486	162,421,589	4,459,103	2.8%
12	Other	64,121,572	72,768,268	8,646,696	13.5%
13	Service Company Allocated	99,048,696	106,821,875	7,773,179	7.8%
14	**Total Ohio Edison Company**	**$ 3,077,641,832**	**$ 3,214,542,405**	**$ 136,900,573**	**4.4%**
15	**The Toledo Edison Company**				
16	Transmission	$ 22,433,203	$ 22,702,214	$ 269,011	1.2%
17	Distribution	924,469,265	956,752,720	32,283,455	3.5%
18	General	97,309,903	70,504,605	(26,805,298)	-27.5%
19	Other	22,507,933	25,500,420	2,992,487	13.3%
20	Service Company Allocated	43,599,833	47,021,476	3,421,643	7.8%
21	**Total Toledo Edison Company**	**$ 1,110,320,137**	**$ 1,122,481,433**	**$ 12,161,296**	**1.1%**
22	**FirstEnergy Ohio Operating Companies**	**$ 6,951,631,665**	**$ 7,192,060,642**	**$ 240,428,977**	**3.5%**

In the current audit of the DCR year 2015, 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 11/30/2014 through 11/30/2015, Blue Ridge submitted questions and received responses from FirstEnergy regarding 13 significant variances among the three FirstEnergy operating companies.

  FirstEnergy's explanations of these variances proved to be not unreasonable. However, the Company determined that the exclusion from TE account 390 in regard to leasehold improvements was overstated by $106,751. This overstatement was due to inadvertently misidentifying work order adjustments that should have continued after the transfer of the TE Plaza with those that should have ceased. Rather than total exclusions equaling $88,266 as shown in the DCR filing, they actually should have equaled $(18,304), and thus the exclusions were overstated by the $106,751. Blue Ridge has included that adjustment in its calculation of Impact of Findings on Rider DCR Revenue Requirement. Blue Ridge recommends that this oversight be corrected in future Rider DCR filings.

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

  In our analysis of specific reserve account variances by quarter from 11/30/2014 through 11/30/2015, Blue Ridge submitted questions and received responses from FirstEnergy regarding nine significant variances among the three FirstEnergy operating companies.

  Explanations of these variances proved to be not unreasonable. However, in association with the discovery noted above regarding TE account 390, the exclusion for reserve associated with leasehold improvements was also overstated by $5,977. Total exclusions as of 11/30/15 equaled $6,457. They should have equaled an exclusion of $480. Blue Ridge has included this adjustment in its calculation of Impact of Findings on Rider DCR Revenue Requirement and recommends that this oversight be corrected in future Rider DCR filings.

- 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 evaluated the change in Service Company balances through the evaluation of additions, retirements, transfers, and adjustments and through our work order testing activity discussed in the associated chapter of this report.

- End-of-year 2014 DCR Filing to 2014 FERC Form 1 Plant-in-Service Balances

  Blue Ridge asked FirstEnergy to provide a reconciliation between the 2014 plant-in-service account balances in the Companies' DCR Compliance Filings to their 2014 FERC Forms 1. FirstEnergy provided a chart comparing the balances and offering the explanations for the differences. After examination, Blue Ridge found the explanations not unreasonable and, with those explanations, found that the balances from the 2014 end-of-year DCR filings matched the balances of the 2014 FERC Forms 1.

- 2015 Work Order Population totals to 2015 DCR Filing Year-to-Year Plant-In-Service Activity

  Blue Ridge compared the difference between the DCR 11/30/15 adjusted plant balances and the 11/30/14 adjusted plant balances for all Companies with the Work Order totals for the same period. While some differences were found, FirstEnergy's responses satisfactorily reconciled the balances.

- 2015 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 a multi-part data request concerning these items to which FirstEnergy provided explanations that were not unreasonable.

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.

Rider LEX, EDR, AMI, and General Exclusions

The Combined Stipulation (reaffirmed in Case No. 12-1230-EL-SSO) 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.

During review, CEI identified minor corrections that needed to be made to the EDR(g) excluded in Rider DCR. Another minor adjustment was identified regarding an AMI gross plant charge to CEI's Miscellaneous Intangible Plant that should have been excluded from the Rider DCR filing. Additionally, activities associated with additions, retirements, transfers, and adjustments for OE and TE for the period December 2014 through February 2015 were inadvertently excluded from the calculations of the ATSI Land Lease exclusions values in subsequent Rider DCR filings.

Individually, these adjustments would not be material to Rider DCR. However, the cumulative impact is included in the overall findings and recommendations associated with this report.

Gross Plant In Service

The Rider DCR Compliance Filings include the following gross plant in service incremental change for each company from the time of the prior audit.

Table 3: Incremental Change in Gross Plant from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	2,763,669,699	2,855,036,804	91,367,105
Ohio Edison Company	3,077,641,832	3,214,542,405	136,900,573
The Toledo Edison Company	1,110,320,138	1,122,481,433	12,161,296
Total	6,951,631,669	7,192,060,642	240,428,974

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.

Additional Validation Testing from Sampled Work Orders

The Companies provided a list of work orders that support gross plant in service for December 2014 through November 2015. Blue Ridge selected a sample of 56 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 the work is includable in Rider DCR for all but two work orders. These two work orders should have been excluded because the work was not jurisdictional for the purpose of Rider DCR. The Company stated, and Blue Ridge recommends, that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact of having included these costs.
2. Regarding exclusions for Rider AMI, Blue Ridge found that the work order sample did not contain any AMI or SmartGrid work orders. However, as noted under section Rider LEX,

EDR, AMI, and General Exclusions above, FirstEnergy identified a work order in CEI 303 Miscellaneous Intangible Plant that should have been excluded because it was related to a Smart Grid project. The Company stated, and Blue Ridge recommends, that a reconciliation be included in the Rider DCR revenue requirement in the next filling that incorporates the effect on revenues had the activity been appropriately excluded.

3. Regarding exclusions for Rider LEX, Blue Ridge found that the population of work orders that comprise utility plant for the DCR did not include any LEX work orders. Blue Ridge reviewed the project scope for each work order that had FERC account 360 charged to confirm that LEX work orders were properly excluded from Rider DCR.
4. Regarding exclusions for Rider EDR, Blue Ridge found no work orders in the sample that were related to EDR.
5. Blue Ridge found no work orders in the sample that were related to generation work.
6. Blue Ridge found that the Company has adequate procedures in place to approve work orders. 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. Blue Ridge reviewed the justification for all projects in the sample, exclusive of blanket, multi-year projects, transfers, and adjustments and found all project work orders included justifications that were not unreasonable.

   Several work orders referred to pension adjustment charged to existing assets, which were previously unitized. The adjustment posted in September 2015 was a reclassification of the Pension Mark to Market assets created as unspecified assets in 2012. The reclassification eliminated the balances residing in the unspecified location and assigned them to the specific assets. After further investigation, it was determined that, for the period of time in which the pension assets resided in unspecified locations, retirements were not recorded on these assets. Consequently, gross plant and reserve for the period January 2012 through August 2015 were overstated for each company.

   The Companies stated, and Blue Ridge recommends that it intends to include a reconciliation calculation and the next rider DCR filing will reflect the cumulative revenue requirement impact (in the form of depreciation and property tax expense) that results from the inclusion of the associated amounts and rider DCR.

   Furthermore, the Companies have determined that there are residual pension asset balances associated with FERC account 303 residing in unspecified locations as of September 2015 for OE and CE. The Companies stated (and Blue Ridge recommends) that it intends to move these assets to specified locations. Additionally, there were no retirements associated with the vintages of these assets for the period in question. As such, there was no depreciation or property tax expense impact as a result of their placement in an unspecified location, so there was no impact on rider DCR.
8. In reviewing whether project costs were within the approved budget, Blue Ridge found that many of the project costs in the sample were within +/- 15% of the approved budget. However, 15 projects of the 56 work orders in the sample were over budget by more than 15%. The Companies provided explanations for the overages. The Companies reasoning for the actual costs exceeding the budget for most of the projects were specific and unique to

that project and not unreasonable. However, there were a number of projects that indicated a potential concern related to the planning process. Labor, contractor, and/or material costs were greater than planned or the budget did not include all categories of costs. Blue Ridge is not recommending an adjustment to these projects in regard to the Rider DCR. However, Blue Ridge recommends that the Companies review their project planning process 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 noted that most of the costs in PowerPlant support the work order charge and the categories of cost. However, there were several work orders included within the sample that did not agree to the cost detail. In previous Blue Ridge examinations, the Companies explained that those differences were related to retirements for each work order. We were able to confirm this during testing.
10. Blue Ridge found that, for replacement work orders, assets were retired and cost of removal was charged.
11. Regarding the dates assets were retired, Blue Ridge found that two replacement work orders had assets retired greater than six months after the replacement assets were put into service, the total impact to depreciation reserve for the two was $2,461. While the impact on Rider DCR associated with the delay is immaterial, we have included the adjustments within the total impact calculations. In addition, Blue Ridge recommends that the Companies evaluate the process used to record retirements. The recording of retirements should take place at or before the plant additions are recorded to plant in service to ensure that both the replacement asset and the retired asset are not recording depreciation at the same time.
12. Blue Ridge found that there were no work orders in the sample with inappropriately charged cost of removal.
13. Blue Ridge found that all work orders, except for the work orders noted in #7 above, were closed to the proper FERC accounts based on the description of the work being performed. The types of work orders identified in #7 above were pension adjustments, transfers, or accounting work orders and do not represent project work. While Blue Ridge cannot determine if the charges were made to the proper FERC account, no indication exists of any material impact to Rider DCR.
14. Blue Ridge found that all work orders, except for one, have in-service dates that are in line with the estimate. The Company explained that the system acceptance delayed placing in service. Work continued during the delay, and AFUDC continued to be appropriately accrued.
15. Blue Ridge found that all project work orders were closed to EPIS within a reasonable timeframe from project completion.

Field Inspections

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

Work Order Backlog

Blue Ridge found that the Companies have made significant progress to reduce the unitization backlog. The Company reduced the backlog of construction work orders greater than nine months past the in-service date by adding two temporary resources that were trained and assigned to perform the unitization close-out of new construction work orders, allowing full-time staff to work on the unitization of the older work orders.

Insurance Recoveries

There are currently no pending insurance recoveries that have not been recorded or accrued for TECO or the Service Company. However, an insurance claim associated with a 2012 storm event was resubmitted in 2015. The most significant part of the claim is related to a generating station in West Virginia that has sustained damage related to the storm event that would necessitate repairs in excess of $20 million. The claim could potentially result in future recoveries for OE ($9,000) and CE ($11,000). These potential recoveries have not yet been recorded or accrued since the claim is still under review. While the potential recovery to these two Ohio operating companies is immaterial, FirstEnergy has acknowledged that any recovery would reduce plant in service and would be recognized in a future Rider DCR.

ACCUMULATED RESERVE FOR DEPRECIATION

The Rider DCR Compliance Filings include the following accumulated reserve for depreciation ("reserve") incremental change from the prior audit for each company.

Table 4: Incremental Change in Reserve for Depreciation from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	(1,149,324,026)	(1,205,294,293)	(55,970,266)
Ohio Edison Company	(1,217,382,937)	(1,259,058,319)	(41,675,381)
The Toledo Edison Company	(540,356,852)	(549,228,366)	(8,871,513)
Total	(2,907,063,816)	(3,013,580,977)	(106,517,161)

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

ACCUMULATED DEFERRED INCOME TAXES

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

Table 5: Incremental Change in ADIT from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	(438,612,962)	(457,939,051)	(19,326,089)
Ohio Edison Company	(478,234,260)	(547,713,158)	(69,478,898)
The Toledo Edison Company	(137,594,493)	(146,538,304)	(8,943,812)
Total	(1,054,441,715)	(1,152,190,514)	(97,748,799)

Blue Ridge concludes that the ADIT is not unreasonable. The Companies recognized the significant impact of the extension of bonus depreciation on the ADIT balances.

Depreciation Expense

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

Table 6: Incremental Change in Depreciation Expense from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	88,320,541	92,035,989	3,715,448
Ohio Edison Company	91,262,492	96,378,099	5,115,607
The Toledo Edison Company	35,484,826	36,831,596	1,346,770
Total	215,067,860	225,245,684	10,177,825

Blue Ridge found that the calculation of depreciation expense is not unreasonable. 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.

The depreciation accrual rates used in the Rider DCR are based upon balances as of May 31, 2007. The Companies updated the depreciation study using plant as of December 31, 2013, and submitted the study to Staff on June 1, 2015, fulfilling their obligation.[2]

Property Tax Expense

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

Table 7: Incremental Change in Property Tax Expense from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	104,023,491	101,323,045	(2,700,446)
Ohio Edison Company	92,081,650	88,498,186	(3,583,464)
The Toledo Edison Company	30,360,268	29,195,338	(1,164,929)
Total	226,465,408	219,016,569	(7,448,839)

Blue Ridge found that the calculation of property tax is not unreasonable. 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

Several work orders 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.

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.

[2] FirstEnergy's response to data request BRC Set 1-INT-30-Confidential.

Table 8: Incremental Change in CAT and Income Tax Expense from 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	8,056,529	8,519,491	462,962
Ohio Edison Company	9,099,603	9,857,073	757,470
The Toledo Edison Company	1,438,854	1,276,607	(162,247)
Total	18,594,986	19,653,171	1,058,185

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 11/30/14 to 11/30/15

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	22,733,129	24,095,993	1,362,864
Ohio Edison Company	26,129,947	28,313,336	2,183,389
The Toledo Edison Company	4,069,218	3,589,733	(479,484)
Total	52,932,294	55,999,062	3,066,768

Although the adjustments discussed in other sections of this report will affect 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 11/30/15 and estimated 2/29/16 balances. Although Blue Ridge found that the balances used in the Rider DCR calculations should be adjusted, Blue Ridge found that the Rider DCR calculation is not unreasonable.

The Annual Rider DCR Revenue through 11/30/15 is under both the aggregate annual cap and the allocated annual cap by Company.

PROJECTIONS

The Compliance Filings include projections for the first two months in 2016. To develop the first quarter 2016 estimates, the Companies used estimated plant-in-service and reserve balances as of 2/29/16 from the 2015 Forecast Version 10+2 from PowerPlant. The estimated 2/29/16 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate recommendations from prior Rider DCR Audit Reports, and to remove the pre-2007 impact of a change in pension accounting.

Blue Ridge found that the projected amounts included within the first two months of 2016 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.

Findings and Recommendations – 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.[3] 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.

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.

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

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

SUMMARY OF BLUE RIDGE RECOMMENDATIONS

For the 2015 Rider DCR assessment, Blue Ridge summarizes its recommendations as follows:

Rec-01. Blue Ridge recommends that the TE account 390 leasehold improvements overstatement of $106,751 be corrected in future Rider DCR filings. (2015 DCR Report, p. 44)

Rec-02. Blue Ridge recommends that the overstatement of $5,977 regarding the TE account 390 exclusion for reserve associated with leasehold improvements be corrected in future Rider DCR filings. (2015 DCR Report, pp. 45–46)

Rec-03. Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirement be included in the next filing that incorporates the cumulative effect of the corrections needed to be made to the EDR(g) exclusions. (2015 DCR Report, p. 52)

Rec-04. Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirement be included in the next filing that incorporates the effect on revenues had the additional $3,413.43 of AMI-related charge been appropriately excluded. (2015 DCR Report, p. 53)

Rec-05. Blue Ridge recommends that a reconciliation of the Rider DCR revenue requirements be included in the next filing that incorporates the effect on revenues had the December 2014 through February 2015 ATSI Land Lease exclusion value activity been incorporated beginning with the actual 2/28/2015 plant balances. (2015 DCR Report, p. 55)

Rec-06. Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact regarding the non-jurisdictional work under FECO ITS-SC-M-00041-1 that should have been excluded from Rider DCR. (2015 DCR Report, p. 59)

Rec-07. Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact regarding the non-jurisdictional work under FECO IF-SC-000178-1 that should have been excluded from Rider DCR. (2015 DCR Report, p. 59)

Rec-08. Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact (in the form of depreciation and property tax expense) that that results from the inclusion of the pension adjustments that did not have retirements recorded. (2015 DCR Report, p. 61)

Rec-09. Blue Ridge recommends that FirstEnergy move the residual pension asset balances associated with FERC account 303 that were residing in unspecified locations as of September 2015 to specified locations. (2015 DCR Report, p. 61)

Rec-10. The Companies made modifications to their IT budget process that were completed as of March 31, 2016. However, Blue Ridge recommends that the Companies review their project planning process on non-IT-related projects to ensure that the methodology allows for projects to be fully scoped prior to execution. (2015 DCR Report, p. 66)

Rec-11. Blue Ridge recommends that the Companies evaluate the process used to record retirements so that the recording of retirements takes place at or before the plant additions are recorded to plant in service to ensure that both the replacement asset and the retired asset are not recording depreciation at the same time. (2015 DCR Report, p. 68)

Rec-12. Blue Ridge recommends that the formulas in the Estimated first quarter Intangible Depreciation Expense-CECO net plant calculation for 101/6-303 Software be inserted so that these cells may be used to turn off/on the depreciation expense calculation to ensure that depreciation expense is calculated or not calculated depending on whether the assets are fully amortized. (2015 DCR Report, p. 75)

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, 2015, and estimated plant in service through February 29, 2016. 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. The Companies 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 2015 compliance audit. Blue Ridge also performed the 2011, 2012, 2013, and 2014 Rider DCR compliance audits, covering plant in service since the last distribution rate case (the audits covered 6/1/2007 through 11/31/2014).

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.

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.
- Assess the substantive implementation of the provisions contained within the Joint Stipulation and Recommendations filed in Case No. 14-1929-EL-RDR.

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."[4]

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 Nos. 11-5428-EL-RDR, 12-2855-EL-RDR, 13-2100-EL-RDR, and 14-1929-EL-RDR Compliance Audit of the Delivery Capital Recovery (DCR) Rider
- Applicable testimony and workpapers

[4] 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 from December 1, 2014 through November 30, 2015.[5] The information was included in the December 31, 2015, 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 No. 11-5428-EL-RDR, and contained in the Stipulations in Case Nos. 12-2855-EL-RDR, 13-2100-EL-RDR, and 14-1929-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, 2015, 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, 2015, and projected balances for the three months ended February 29, 2016. 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 11/30/15 and Projected 2/29/16[6]

	Revenue Requirements		
Operating Company	**Actual 11/30/15**	**Projected 2/29/16**	**Total**
Cleveland Electric Illuminating Company	$ 101,009,518	$ 3,164,732	$ 104,174,250
Ohio Edison Company	$ 103,675,694	$ 3,589,799	$ 107,265,493
The Toledo Edison Company	$ 26,271,274	$ 1,882,468	$ 28,153,742
Total	$ 230,956,486	$ 8,636,999	$ 239,593,485

[5] The RFP stated that the period covered would include the actual year ended December 31, 2015. 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 WP FirstEnergy's 2014 response to Data Request BRC-1-5.

[6] WP V&V FE DCR Compliance Filing 12.31.2015 – 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.

PRIOR COMPLIANCE AUDITS RECOMMENDATIONS STATUS

Blue Ridge performed the Rider DCR compliance audit that covered capital additions from December 1, 2013, through November 30, 2014. Blue Ridge's report included several findings and recommendations and was filed in Case No. 14-1929-EL-RDR. The Commission Staff and the Companies stipulated and recommended that the Commission adopt the recommendations made by Blue Ridge in its March 30, 2015, Compliance Audit Report.[7] The following list includes those recommendations. Following each recommendation is FirstEnergy's response regarding the recommendation's status and Blue Ridge's associated comments based upon observations from this compliance audit.

a) On Page 13 of the Report, Blue Ridge recommended that the ATSI Work Order HE123 reversal transferred from CEI back to ATSI in January 2015 be removed from the Rider DCR calculation for 2014 and the effect of that carried forward into 2015.

   FirstEnergy Response: The full amount associated with work order HE123 was removed from the Rider DCR calculation in 2014 and the effect of that has been carried forward. For additional details, please refer to "BRC Set 1-INT-001 Attachment 5 – Confidential." Upon further review, however, the Companies determined that only $4,192,079.86 was non-jurisdictional to Rider DCR and should be transferred back to ATSI. Approximately $435,332.74 was determined to be jurisdictional to Rider DCR and therefore kept in FERC Account 356 at The Cleveland Electric Illuminating Company. The Companies will include a reconciliation in the Rider DCR revenue requirement in the next filing that incorporates the effect on revenues had the Companies excluded only $4,192,079.86 from the Rider DCR calculation in 2014 and carried the effect of that adjustment forward.[8]

   The Companies further clarified that the fully corrected adjustment amount of ATSI work included in HE123 has been permanently removed from Rider DCR gross plant balances in PowerPlant. As a result, there is no need for an ongoing manual adjustment to gross plant. However, the accumulated reserve was not transferred to ATSI. Consequently, the Companies have continued to manually exclude the applicable accumulated reserve balance as of January 2015 from Rider DCR. Furthermore, the Companies did make an adjustment as part of the July 1, 2015, Rider DCR Compliance Filing to return the revenues associated with the full amount of the work order for the period in which it was included in DCR.[9]

   Blue Ridge's Comments: The Companies have permanently transferred the work associated with ATSI in HE123 from the plant balances used to calculate the Rider DCR. Blue Ridge recommends that the Companies implement its planned reconciliation in the Rider DCR revenue requirement in the next filing to incorporate the effect on revenues had the Companies excluded only $4,192,079.86 from the Rider DCR calculation in 2014 and carried the effect of that adjustment forward.

[7] Case No. 14-1429-EL-RDR Joint Stipulation and Recommendation of Commission Staff and Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company, dated May 18, 2015.
[8] FirstEnergy's response to data request BRC Set 1-INT-10 a Confidential.
[9] FirstEnergy's response to data request BRC Set 13-INT-1-Confidential.

In addition, Blue Ridge recommends that the Companies should continue to manually adjust the accumulated reserve that was not permanently transferred to ATSI.

b) On Page 15 of the Report, Blue Ridge recommended that the Companies should review their IT project planning to ensure that the methodology allows for projects to be fully scoped prior to execution. On Page 30 of the Report, Blue Ridge also recommended that the Companies continue documenting any increase in efficiency and savings within its IT project justifications that are justified on that basis. The Companies and the Staff agree that the Companies will conduct an internal audit of their IT project planning and implementation. The Companies shall coordinate with Staff to determine the scope of the internal audit, and the results shall be reviewed in the next Rider DCR compliance audit. The audit shall be completed by December 31, 2015.

FirstEnergy Response: The Company provided a copy of the Audit of the Information Technology Budget Process as of December 2, 2015.[10]

Blue Ridge's Comments: The Audit of the Information Technology Budget Process as of December 2, 2015, was reviewed. The audit report acknowledged the concern that Information Technology (IT) projects may not be fully vetted initially, resulting in emergent work that changes the overall project benefits. In the 2013 Rider DCR audit, the Companies agreed to include quantification of any increase in efficiency and savings within its projects justification. In 2015, in the Joint Stipulation and Recommendation with Staff, the Companies agreed to the following:

- Review their IT project planning process to ensure the methodology allows for projects to be fully scoped prior to execution
- Continue documenting any increase in efficiency and savings within its IT project justifications for projects that are justified on that basis
- Coordinate with PUCO Staff to determine the scope of the internal audit of the IT project budgeting, planning, and implementation process, to be completed by December 31, 2015, with the results to be reviewed in the next Rider DCR audit

In coordination with Staff, it was determined that the internal audit scope would be a process review of FirstEnergy's current IT project budgeting, planning, and implementation process used for initial IT project scoping and benefit quantification, and for any project scope changes. The audit's conclusion summary reads as follows:

> FE's IT project management methodology allows for projects to be fully vetted prior to execution and selected IT personnel confirmed their understanding of their accountabilities and responsibilities for specific project management processes within this methodology, relating to the scope of this process review.
>
> Initial justification for in-scope projects selected for review included project benefits (e.g., efficiency, savings). The project charter value statements describing initial justification for a project could be improved by quantifying project benefits with specific and measurable terms (for projects justified on the basis of quantified benefits).

[10] FirstEnergy's response to data request BRC Set 1-INT-11 Confidential.

> The IT Project Management Office (PMO) Change Control process was invoked for most of the in-scope projects that were selected for review but the changes associated with these projects did not impact the initial quantified benefits. The IT PMO Change Control process could be enhanced by including a mechanism for identifying when a change is impacting the initial quantified benefits, and in these cases, the proposed impacts, as documented on the change control form, should also use specific and measurable terms.[11]

The IT audit report included assignments to implement solutions to the audit's recommendations identified above.

1. The process documentation (e.g., training materials and templates) will be updated to emphasize usage of more specific and measurable terms within project charter value statements (for projects justified on the basis of an increase in efficiency and savings). The target completion date for this work is March 31, 2016. An initial communication to project managers will occur by December 31, 2015, to influence project charter creation for 2016 projects.[12]
2. The Change Control process will be expanded to include a mechanism for identifying when a change has impacted the initial quantified benefits. This mechanism will emphasize usage of specific and measurable terms in documentation of projected impacts. The target completion date for this work is March 31, 2016.[13]

Blue Ridge found that the Companies conducted the recommended IT audit, and the changes recommended from the audit were completed as of March 31, 2016.[14] Blue Ridge expects that the process changes and increased focus will result in IT projects being fully scoped prior to execution and that the Companies will continue to document any increase in efficiency and savings within its IT project justifications that are justified on that basis. No additional work is required.

c) On Page 22 of the Report, Blue Ridge recommended that the Companies correct certain errors identified as part of its work order transactional testing and review of the Rider DCR filings and adjust Rider DCR accordingly. The Companies agree to reflect the adjustments in the Rider DCR filing expected to be filed on or about June 30, 2015.

FirstEnergy Response: Starting with the July 1, 2015, 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 and the review of the Rider DCR filings in the audit of the 2014 Rider DCR. The Companies' July 1, 2015, Rider DCR filing also included an adjustment to remove the cumulative revenue requirement impact associated with the aforementioned corrections.[15]

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[11] FirstEnergy's response to data request BRC Set 1-INT-11 Confidential, page 2.
[12] FirstEnergy's response to data request BRC Set 1-INT-11 Confidential, page 2.
[13] FirstEnergy's response to data request BRC Set 1-INT-11 Confidential, page 3.
[14] FirstEnergy's response to data request BRC Set 1-INT11 Supplemental Confidential.
[15] FirstEnergy's response to data request BRC Set 1-INT-10 c Confidential.

Blue Ridge's Comments: The workpapers linking the adjustments from prior audits to the current Rider DCR were reviewed.[16] No additional work is required beyond continuing to recognize these past adjustments in future Rider DCR calculations.

d) On Page 22 of the Report, Blue Ridge recommended that the Companies continue to work toward a reduction in the unitization backlog of work orders. The Companies committed to decreasing the unitization backlog in 2015 with a goal of returning to 2013 levels.

FirstEnergy Response: The Companies provided the number and dollar amount of the work orders in the unitization backlog.[17]

Blue Ridge's Comments: The Companies have made significant progress to reduce the unitization backlog. The backlog is less than the 2013 levels. No additional work is required.

Table 11: Backlog of Work Order Unitization[18]

Description	Unitization Backlog
as of 12/31/13	1,346
as of 11/30/14	4,156
as of 11/30/15	983

e) On Page 27 of the Report, Blue Ridge recommended that future audits include testing steps to confirm that AFUDC is correctly applied.

FirstEnergy Response: As stated on Page 27 of the report, the Companies implemented remediation plans to address AFUDC control deficiencies identified in the audit of the 2013 Rider DCR. First, the Companies updated the monitoring control over AFUDC rates by including fields that review the AFUDC rates for reasonableness. Second, the Companies created a prompt in the system that required employees to evaluate work order types to determine the need to apply AFUDC charges for projects. Furthermore, an additional measure placed alerts on employee dashboards to prompt them to go into the system and evaluate the project for AFUDC. The Companies are not aware of any additional actions needed on their end to comply with this recommendation. The Companies will participate in any requested testing steps in this audit to confirm that AFUDC is correctly applied.[19]

Blue Ridge's Comments: The Companies implemented changes to the AFUDC application. In this year's audit, as in past audits, Blue Ridge's work order testing reviewed the cost detail and compared it to the work order description. Blue Ridge did not identify any fees or work orders typically closed in 30 days with inappropriately applied AFUDC. No additional work is required.

f) On Page 27 of the Report, Blue Ridge recommended that the Rider DCR preparation process continue using the established methodology to recognize the impact of both past and future adjustments on Rider DCR.

[16] FirstEnergy's response to data requests BRC Set 1-INT-001 Attachments 3, 4, and 5-Confidential.
[17] FirstEnergy's response to data request BRC Set 1-INT-36 and BRC Set 1-INT-37.
[18] FirstEnergy's response to data request BRC Set-5-INT-03.
[19] FirstEnergy's response to data request BRC Set 1-INT-10 e Confidential

FirstEnergy Response: The Companies have continued to use in their preparation of Rider DCR the established methodology to recognize the impact of both past and future adjustments on Rider DCR.[20]

Blue Ridge's Comments: The Companies Rider DCR preparation process continues to use workpapers linking the adjustments from prior audits to the current Rider DCR.[21] The workpapers recognize adjustments to net plant from the 2012, 2013, and 2014 audits that must be made on an ongoing basis within the DCR until adjustments are made to the Companies' books. 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 29 of the Report, Blue Ridge reiterated its recommendation from the 2013 Rider DCR audit report (Case No. 13-2100-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. The Companies shall submit this study to Staff no later than June 1, 2015.

FirstEnergy Response: The Company supplied a copy of the depreciation studies prepared by an outside consultant related to electric plant as of December 31, 2013. The study was filed with the Commission on June 1, 2015, fulfilling their obligation[22]

Blue Ridge's Comments: Blue Ridge reviewed the Depreciation Studies supplied by the Companies. No further work is required by the Companies.

h) On Pages 83 through 87 of the Report, Blue Ridge recommended a decrease to the 2015 aggregate annual cap by an amount equal to $2,207,737. Rider DCR effective June 1, 2015, incorporates this recommendation.

FirstEnergy Response: Beginning with the April 2, 2015, Rider DCR filing, the Companies incorporated this recommendation (see page 57 of the Rider DCR, Section X).[23]

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

Blue Ridge also 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 list includes the recommendations from Blue Ridge's April 9, 2014, Compliance Audit Report that are still open that Commission Staff and the Companies stipulated and recommended that the Commission adopt.[24] Following each recommendation is FirstEnergy's response regarding the recommendation's status and Blue Ridge's comments based upon observations from this compliance audit.

i) On Page 11 of the 2013 Report (dated 2014), 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.

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[20] FirstEnergy's response to data request BRC Set 1-INT-10 f Confidential.
[21] FirstEnergy's response to data request BRC Set 1-INT-001 Attachments 3, 4 and 5-Confidential.
[22] FirstEnergy's response to data request BRC Set 1-INT-12-Confidential.
[23] FirstEnergy's response to data request BRC Set 1-INT-10 h Confidential.
[24] Case No. 13-2100-EL-RDR Joint Stipulation and Recommendation of Commission Staff and the FirstEnergy Ohio Operating Companies, dated May 28, 2014.

The Companies stated that a programming change to the PowerPlant system designed to address this issue is scheduled to be implemented in the latter half of 2015.[25] Blue Ridge followed up on the status of the programming change to eliminate the manual process used to move CIACs in this year's audit.

FirstEnergy Response: The CIAC process change (CIAC Spillover) is an automated process that is scheduled to be updated in the first half of 2016. These changes include updating the GL transaction to include the work order, revising the timeframe to when Spillover is triggered to run, modifying the code to handle late charges to the work order, and data clean up of previous transactions.

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

[25] FirstEnergy's response to data request BRC Set 1-INT-011, a.

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 process and control 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 (CAT) 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 2016.

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[26]) provide the authority for what should be included within Rider DCR. Section B.2 of the Combined Stipulation specifically states the following items 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").[27]
>
> 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.[28]

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[26] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[27] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
[28] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

> 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.[29]

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 2014 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 calculations. Furthermore, we reviewed post-2014 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 areas:

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

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)[30]

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."[31]

The Capitalization Policy also holds the relevant policies for plant additions, retirements, removal cost, and salvage applicable to Rider DCR. The policy provides the qualifications for capital additions, which include extensions, enlargements, expansions, or replacements made to an existing asset. Once an asset is capitalized, the Company tracks it using the Continuing Property Records (CPR). This CPR is a PowerPlant[32] ledger that contains a full audit trail for all plant transactions (additions, retirements, adjustments, inter and 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

[30] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a, Attachment 1, Capitalization Policy – Confidential.
[31] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a, Attachment 1, Capitalization Policy – Confidential.
[32] "PowerPlant" is a commercially available computer software application used in plant accounting.

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 (CCNC). Finally, after unitization, the asset is transferred to electric plant in service (EPIS).

FirstEnergy had no significant procedural or policy changes in regard to the capitalization policy in 2015.[33]

FirstEnergy did make some minor accounting revisions to reimbursable costs for employee travel expenses and offsite group meetings.[34]

Preparation and Approval of Work Orders[35]

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 (Customer Request) in the CREWS name, 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 2015.[36]

Contributions in Aid of Construction (CIAC)[37]

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 for the Companies in 2015.[38]

Application of AFUDC[39]

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

[33] FirstEnergy's responses to Data Requests BRC Set 1-INT-017 – Confidential and BRC Set 1-INT-018.
[34] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[35] 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.
[36] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[37] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, e, Attachment 1, Invoicing Process Flow Chart – Confidential.
[38] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[39] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, d, Attachment 1, Accounting For Capitalized Financing Costs During Construction – Confidential.

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 for the Companies in 2015.[40]

Purchasing/Procurement[41]

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.

In 2015, as part of a periodic review, updates were made to the FirstEnergy SCPR-SRC001 Enterprise Sourcing of Materials and Services effective July 1, 2015. No changes were significant as related to their effect on the DCR process.[42]

Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax)[43]

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 for the Companies in 2015.[44]

Insurance Recovery[45]

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 for the Companies in 2015.[46]

Property Taxes[47]

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 for the Companies in 2015.[48]

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[40] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[41] 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.
[42] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[43] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, m, Attachment 1, Income Tax Policy and Procedure – Confidential.
[44] FirstEnergy's response to Data Request BRC 1-INT-017 – Confidential.
[45] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, a - Confidential.
[46] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[47] FirstEnergy's response to 2011 audit Data Request BRC Set 1-INT-003, n, Attachment 1, Ohio Property Tax Returns – Confidential.
[48] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.

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."[49] The most recent base distribution rate case is Case No. 07-0551-EL-AIR. There were no changes to these allocation factors for the Companies in 2015.[50]

Budgeting/Projections[51]

The Rider DCR Compliance Filings include three months of projected data through the end of February 2016. The estimate is based on the 2015 forecast adjusted to reflect current assumptions, to incorporate recommendations from the March 2013, April 2014, and April 2015 Rider DCR Audit Reports, and to remove the cumulative pre-2007 impact of a change in pension accounting.[52] 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.

FirstEnergy's capital budgeting is known internally as "Multi-Year Enterprise Capital Portfolio."[53] Individual business unit programs drive the approval of the capital budgets at the business unit level.[54] In addition, the procedure for creating and acquiring approval for the capital

[49] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.
[50] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[51] 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.
[52] DCR Filings: CE 12-31-15 DCR Filing.pdf, OE 12-31-15 DCR Filing.pdf, and TE 12-31-15 DCR Filing.pdf.
[53] FirstEnergy's response to 2011 audit BRC Set 1-INT-003, c, Attachment 1, Creating Multi-Year Enterprise Capital Portfolio – Confidential.
[54] 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.

portfolio states, "Business Units will utilize internal review and approval processes to analyze and create a prioritized Capital Portfolio."[55]

In 2014, FirstEnergy 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.[56] Additionally, FirstEnergy made no significant procedural or policy change in 2015.[57]

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).[58]

FirstEnergy did not modify this process for the Companies in 2015.[59]

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 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:[60]

- 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

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[55] 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.
[56] FirstEnergy's response to 2014 Data Request BRC Set 1-INT-015 – Confidential.
[57] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[58] FirstEnergy's response to 2013 audit Data Request BRC Set 1-INT-032 – Confidential.
[59] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential.
[60] Summary of the process repeats process as recorded in previous Rider DCR Compliance Audit Reports. See Compliance Audit of the 2011, 2012, 2013, and 2014 Delivery Capital Recovery (DCR) Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company.

- 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
- 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 continues its ongoing effort to incorporate and track specific recommendations that come out of the previous years' Rider DCR audits.[61] For this year, that effort included the following:

- Exclusion of gross plant and reserve balances associated with activity that is 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 2014 Rider DCR

<u>Internal Audit and SOX Compliance</u>

Blue Ridge reviewed the list of internal audits performed in 2015 regarding controls that would affect Rider DCR.[62] In particular, we examined and were satisfied with the findings and

[61] FirstEnergy's response to Data Request BRC Set 1-INT-015.

recommendations associated with seven of the audits: Audit Nos. 25533, 25779, 25367, 25482, 25489, 25493, and 25501.[63]

Audit 25533 related to the Information Technology (IT) budget process. While recommendations for improvement were presented, there were no findings of problem areas. Audit 25779 related to IT operations controls. The review yielded no findings or recommendations. Audit 25367 reviewed capital projects to verify charges were properly supported and appropriately recorded as capital expenditures. All activity was deemed appropriate and in accordance with the capitalization policies. However, Internal Audit recommended that capitalization policies be reviewed on a periodic basis and updated when necessary.

Four of the audits Blue Ridge reviewed were in regard to Sarbanes-Oxley assessment of internal controls. Regarding these audits, none was found to have resulted in a significant control deficiency.[64]

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 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.[65]

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.

In the current audit of the DCR year 2015, 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
- 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 2014 DCR Filing to 2014 FERC Form 1 Plant-in-Service Balances
- 2015 Work Order Population totals to 2015 DCR Filing Year-to-Year Plant-In-Service Activity
- 2015 Plant Additions, Retirements, Transfers, and Adjustments

[62] FirstEnergy's response to Data Request BRC Set 1-INT-020, Attachment 1 – Confidential.
[63] FirstEnergy's response to Data Request BRC Set 5-INT-005, Attachment 1 – Confidential.
[64] FirstEnergy's response to Data Request BRC Set 5-INT-005.
[65] FirstEnergy's response to Data Request BRC Set 8-INT-001 – Confidential.

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) from DCR year end 11/30/2014 across the four quarterly reports of 2015 (2/28/2015, 5/31/2015, 8/31/2015, and 11/30/2015).

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 gross plant (including allocation of Service Company Plant) by $91.4 million, $136.9 million, and $12.2 million for CE, OE, and TE, respectively. These increases represent a year-over-year percentage increase of 3.3%, 4.4%, and 1.1% for CE, OE, and TE, respectively.

Table 12: Adjusted Plant Change from 11/30/2014 to 11/30/2015[66]

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 11/30/14	Adjusted Balance 11/30/15	Difference (c)-(b)	% (d)/(b)
1	**The Cleveland Electric Illuminating Company**				
2	Transmission	$ 412,496,355	$ 417,288,386	$ 4,792,031	1.2%
3	Distribution	2,075,410,343	2,146,090,268	70,679,925	3.4%
4	General	145,387,196	149,771,872	4,384,676	3.0%
5	Other	48,640,496	53,736,519	5,096,023	10.5%
6	Service Company Allocated	81,735,306	88,149,759	6,414,453	7.8%
7	**Total Cleveland Electric Illuminating Company**	**$ 2,763,669,696**	**$ 2,855,036,804**	**$ 91,367,108**	**3.3%**
8	**Ohio Edison Company**				
9	Transmission	$ 208,139,877	$ 211,123,376	$ 2,983,499	1.4%
10	Distribution	2,548,369,201	2,661,407,297	113,038,096	4.4%
11	General	157,962,486	162,421,589	4,459,103	2.8%
12	Other	64,121,572	72,768,268	8,646,696	13.5%
13	Service Company Allocated	99,048,696	106,821,875	7,773,179	7.8%
14	**Total Ohio Edison Company**	**$ 3,077,641,832**	**$ 3,214,542,405**	**$ 136,900,573**	**4.4%**
15	**The Toledo Edison Company**				
16	Transmission	$ 22,433,203	$ 22,702,214	$ 269,011	1.2%
17	Distribution	924,469,265	956,752,720	32,283,455	3.5%
18	General	97,309,903	70,504,605	(26,805,298)	-27.5%
19	Other	22,507,933	25,500,420	2,992,487	13.3%
20	Service Company Allocated	43,599,833	47,021,476	3,421,643	7.8%
21	**Total Toledo Edison Company**	**$ 1,110,320,137**	**$ 1,122,481,433**	**$ 12,161,296**	**1.1%**
22	**FirstEnergy Ohio Operating Companies**	**$ 6,951,631,665**	**$ 7,192,060,642**	**$ 240,428,977**	**3.5%**

In our analysis of specific account variances by quarter from 11/30/2014 through 11/30/2015, Blue Ridge submitted questions and received responses from FirstEnergy regarding

[66] BRCS WP FE DCR CF Variance 2015 Qtrly – Confidential.xlsx, tab – PIS Summary. Source data for the table and its supporting workpaper: DCR Compliance Filings 2/28/2015, 5/31/2015, 8/31/2015, and 11/30/2015 for all three Companies.

13 significant variances among the three FirstEnergy operating companies,[67] resulting in the following determinations:

1. CEI account 356 Overhead Conductors & Devices: 11/30/14 balance = $56,281,126 and 11/30/15 balance = $53,623,287; difference = $2,657,839; decrease of 3.6%

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

2. CEI account 370 Meters: 11/30/14 balance = $96,715,496 and 3/31/15 balance = $100,171,091; difference = $3,455,595; increase of 3.6%

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

3. CEI account 397 Communication Equipment: 11/30/14 balance = $19,368,469 and 11/30/15 balance = $21,919,671; difference = $2,551,202; increase of 13.2%

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

4. OE account 370 Meters: 11/30/14 balance = $136,104,615 and 11/30/15 balance = $144,219,355; difference = $8,114,740; increase of 6%

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

5. OE account 397 Communication Equipment: 11/30/14 balance = $21,262,673 and 11/30/15 balance = $24,423,615; difference = $3,160,942; increase of 14.9%

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

6. OE account 303 Intangible Software: 11/30/14 balance = $60,216,076 and 11/30/15 balance = $68,862,709; difference = $8,646,633; increase of 14.4%

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

7. TE account 355 Poles & Fixtures: 11/30/14 balance = $4,016,817 and 11/30/15 balance = $3,408,842; difference = $607,975; decrease of 15.1%

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

8. TE account 370 Meters: 11/30/14 balance = $39,387,894 and 11/30/15 balance = $43,080,762; difference = $3,692,868; increase of 9.4%

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

9. TE account 389 Land & Land Rights: 11/30/14 balance = $1,826,097 and 11/30/15 balance = $723,725; difference = $1,102,372); decrease of 60.4%

[67] FirstEnergy's response to Data Requests BRC Set 3-INT-002 – Confidential with Attachments.

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

10. TE account 390 Structures & Improvements: 11/30/14 balance = $56,212,421 and 11/30/15 balance = $34,517,337; difference = $21,695,084; decrease of 38.6%

    Analysis: FirstEnergy provided documented work order detail supporting the change in account balance. The Company had been excluding from Rider DCR $2,428,790 of gross plant associated with the TE Plaza pursuant to the recommendations from the audit of the 2013 Rider DCR. As of September 2015, certain balances were moved out of service pending an anticipated sale of the facility, which included the $2,428,790 previously excluded. So as not to double count the impact, the adjustment was reversed.

    Additionally, the Company determined that the exclusion from account 390 in regard to leasehold improvements was overstated by $106,751. This overstatement was due to inadvertently misidentifying work order adjustments that should have continued after the transfer of the TE Plaza with those that should have ceased.[68] Rather than total exclusions equaling $88,266 as shown in the DCR filing, they actually should have equaled $(18,304), and thus the exclusions were overstated by the $106,751. [**ADJUSTMENT #1**] Blue Ridge recommends that this oversight be corrected in future Rider DCR filings.

11. TE account 397 Communication Equipment: 11/30/14 balance = $9,555,188 and 11/30/15 balance = $12,015,118; difference = $2,459,930; increase of 25.7%

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

12. TE account 399.1 ARO: 11/30/14 balance = $7,345,237 and 11/30/15 balance = $158,513; difference = $7,186,724; decrease of 97.8%

    Analysis: FirstEnergy provided documented work order detail supporting the transfer change in account balance. This activity was associated with the anticipated sale of the TE Plaza.

13. TE account 303 Intangible Software: 11/30/14 balance = $22,213,630 and 11/30/15 balance = $25,206,116; difference = $2,992,486; increase of 13.5%

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

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

In our analysis of specific reserve account variances by quarter from 11/30/2014 through 11/30/2015, Blue Ridge submitted questions and received responses from FirstEnergy regarding nine significant variances among the three FirstEnergy operating companies,[69] resulting in the following determinations:

1. CEI account 354 Transmission Towers & Fixtures: 11/30/14 balance = $1,577,023 and 11/30/15 balance = $1,577,023; difference = $0; No change in reserve although the account includes plant-in-service amounts

[68] FirstEnergy's response to Data Request BRC Set 8-INT-001-Confidential.
[69] FirstEnergy's response to Data Request BRC Set 3-INT-002, with Attachments – Confidential.

Analysis: FirstEnergy explained that due to transfer activity that had occurred in the account, the reserve balance was greater than the gross plant balance, and therefore, no additional depreciation was recognized during the DCR year.

2. CEI account 370 Distribution Plant Meters: 11/30/14 balance = $23,238,990 and 11/30/15 balance = $21,665,288; difference = $(1,573,702); decrease of about 6.8%

   Analysis: The difference consists of an increase in the provision for depreciation of $3,184,790, offset by $(3,092,208) in cost of removal charges and $(1,686,065) in retirements and $(42) in transfers. Additionally, activity of $19,824 associated with AMI work order exclusion.

3. OE account 370 Distribution Plant Meters: 11/30/14 balance = $46,200,569 and 11/30/15 balance = $38,274,146; difference = $7,926,423; decrease of 17.2%

   Analysis: The difference consists of an increase in the provision for depreciation of $4,604,196, offset by $(7,784,204) in cost of removal charges and $(4,746,415) in retirements.

4. OE account 373 Distribution Plant Street Lighting: 11/30/14 balance = $39,645,423 and 11/30/15 balance = $38,062,045; difference = $1,583,378; decrease of 4%

   Analysis: The difference consists of an increase in the provision for depreciation of $736,407, offset by $(790,078) in cost of removal charges and $(1,529,707) in retirements.

5. OE account 391.2 General Plant Data Processing Equipment: 11/30/14 balance = $1,404,404 and 11/30/15 balance = $1,916,136; difference = $511,732; increase of 36.4%

   Analysis: The difference consists of an increase in the provision for depreciation of $1,715,866, offset by $(1,204,134) in retirements.

6. OE account 392 General Plant Transportation Equipment: 11/30/14 balance = $45,588 and 11/30/15 balance = $128,002; difference = $82,414; increase of 180.8%

   Analysis: The difference consists of an increase in the provision for depreciation of $150,143, offset by $(68,629) in retirements, $1,260 in salvage credits, and $(595) in transfers. Also, activity of $235 associated with a generation work order exclusion.

7. TE account 353 Transmission Plant Station Equipment: 11/30/14 balance = $4,646,326 and 11/30/15 balance = $4,449,748; difference = $196,578; decrease of 4.2%

   Analysis: The difference consists of an increase in the provision for depreciation of $188,542, offset by $(29,301) in cost of removal charges and $(355,819) in retirements.

8. TE account 390 Distribution Plant Structures: 11/30/14 balance = $19,072,098 and 11/30/15 balance = $9,125,740; difference = $9,946,358; decrease of 52.2%

   Analysis: The difference consists of an increase in the provision for depreciation of $1,109,364, offset by $(78,374) in cost of removal charges, $(64,499) in retirements, and $(10,968,345) in transfers. Additionally, adjustments of $(6,629) as a result of the audit of the 2014 Rider DCR and a change in adjustments of $62,126 as a result of the audit of the 2013 Rider DCR.

   While reviewing this account, the Companies determined that TE Account 390 exclusion for reserve associated with leasehold improvements was overstated by $5,977. Total exclusions as of 11/30/15 equaled $6,457. They should have equaled an exclusion of $480 [**ADJUSTMENT #2**]. Blue Ridge recommends that this oversight be corrected in future Rider DCR filings.

9. CEI portion of Service Company allocation: 11/30/14 balance = $31,922,819 and 11/30/15 balance = $38,492,298; difference = $6,569,479; increase of 20.6%

   Analysis: The difference is calculated by multiplying CEI's allocated percentage (14.21%) by the total Service Company reserve change of $46,231,382, which consists of an increase in the provision for depreciation of $61,421,280, offset by $(132,496) in cost of removal charges, $(190,861) in transfers/adjustments, $(14,116,346) in retirements, $(871,934) in adjustment from the 2014 Rider DCR Audit, and other minor adjustments totaling $121,739.

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 evaluated the change in Service Company balances through the evaluation of additions, retirements, transfers, and adjustments and through our work order testing activity discussed in the associated chapter of this report.

End-of-year 2014 DCR Filing to 2014 FERC Form 1 Plant-in-Service Balances

Blue Ridge asked FirstEnergy to provide a reconciliation between the 2014 plant-in-service account balances in the Companies' DCR Compliance Filings to their 2014 FERC Forms 1. FirstEnergy provided a chart comparing the balances and offering the explanations for the differences. After examination, Blue Ridge found the explanations not unreasonable and, with those explanations, found that the balances from the 2014 end-of-year DCR filings matched the balances of the 2014 FERC Forms 1.[70]

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

Blue Ridge compared the difference between the DCR 11/30/15 adjusted plant balances and the 11/30/14 adjusted plant balances for all Companies with the Work Order totals for the same period. Blue Ridge found some anomalies, but based on FirstEnergy's responses,[71] the following accounts about which we had questions were satisfactorily answered:

1. CEI Account 361 Distribution Plant Structures and Improvements: 11/30/14 gross plant balance = $(478,453) and 11/30/15 gross plant balance = $(474,374); difference $4,079; increase 0.85%

   Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15.

2. CEI Account 362 Distribution Plant Station Equipment: 11/30/14 gross plant balance = $493,063 and 11/30/15 gross plant balance = $533,219; difference = $40,156; increase 8.14%

[70] FirstEnergy's response to Data Request BRC Set 1-INT-007 – Confidential with Attachments.
[71] FirstEnergy's responses to Data Requests BRC Set 11-INT-001 – Confidential, BRC Set 14-INT-001 - Confidential, and BRC Set 14-INT-002 – Confidential.

Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15.

3. CEI Account 364 Distribution Plant Poles Towers: 11/30/14 gross plant balance = $(311,027) and 11/30/15 gross plant balance = $56,054; difference $367,081; increase 118.02%

   Analysis: The difference is attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account and an incremental change in the Rider EDR(g) exclusion of $(14) between 11/30/14 and 11/30/15.

4. CEI Account 365 Distribution Plant Overhead Conductor: 11/30/14 gross plant balance = $(10,623) and 11/30/15 gross plant balance = $(1,985,700); difference $(1,975,077); decrease 18,591.7%

   Analysis: The difference is attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account and an incremental change in the Rider EDR(g) exclusion of $(8) between 11/30/14 and 11/30/15.

5. CEI Account 366 Distribution Plant Underground Conduit:

   Analysis: The difference is entirely attributable to the incremental change in the Rider EDR(g) exclusion of $(49,038) between 11/30/14 and 11/30/15.

6. CEI Account 367 Distribution Plant Underground Conduit: 11/30/14 gross plant balance = $15 and 11/30/15 gross plant balance = $(1,724); difference $(1,783); decrease 11,850.3%

   Analysis: The difference is attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account and an incremental change in the Rider EDR(g) exclusion of $159,052 between 11/30/14 and 11/30/15.

7. CEI Account 368 Line Transformers: 11/30/14 gross plant balance = $440,199 and 11/30/15 gross plant balance = $448,529; difference = $8,330; increase 1.89%

   Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15.

8. CEI Account 369 Services: 11/30/14 gross plant balance = $(87) and 11/30/15 gross plant balance = $(188); difference = $101; increase 115.6%

   Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

9. CEI Account 370 Meters: 11/30/14 gross plant balance = $930,026 and 11/30/15 gross plant balance = $398,005; difference = $(532,021); decrease 57.2%

   Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

10. CEI Account 391 Office Furniture & Equipment: 11/30/14 gross plant balance = $(4,138,260) and 11/30/15 gross plant balance = $(3,989,646); difference = $148,614; increase 3.6%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

11. CEI Account 397 Communication Equipment: 11/30/14 gross plant balance = $(1,719,998) and 11/30/15 gross plant balance = $(1,407,357); difference = $312,641; increase 18.2%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

12. CEI Account 303 Software: 11/30/14 gross plant balance = $(17,413) and 11/30/15 gross plant balance = $(67,382); difference = $(49,969); decrease 286.9%

    Analysis: The difference in total FERC Account 303 is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

13. OE Account 353 Station Equipment: 11/30/14 gross plant balance = $(13,040) and 11/30/15 gross plant balance = $(0); difference = $13,040; increase 100%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

14. OE Account 391 Office Furniture & Equipment: 11/30/14 gross plant balance = $(114,180) and 11/30/15 gross plant balance = $161,805; difference = $275,986; increase 241.7%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

15. OE Account 392 Transport Equipment: 11/30/14 gross plant balance = $633 and 11/30/15 gross plant balance = $21,288; difference = $20,655; increase 3,263.8%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

16. OE Account 303 Software: 11/30/14 gross plant balance = $(229,630) and 11/30/15 gross plant balance = $12,348; difference = $241,978; increase 105.4%

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

17. TE Account 390 Structures & Improvements:

    Analysis: The difference is entirely attributable to the incremental change in the 2013 DCR Audit Adjustment made to this account between 11/30/14 and 11/30/15

2015 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 a multi-part data request concerning these items to which FirstEnergy provided explanations as follows:[72]

1. CEI Account 352 Transmission Plant Structures and Improvements: Negative Additions of $32,047

    Analysis: The negative addition was the result of removing plant from plant in service primarily related to work order 1438791.

[72] FirstEnergy's response to Data Request BRC Set 8-INT-002, with Attachments 1 through 10 – Confidential.

2. CEI Account 353 Transmission Plant Station Equipment: Negative Transfers/Adjustments of $112,191

   Analysis: The negative transfer was largely the result of corrective transfers to the proper utility account, primarily involving work orders 13223973, 14055431, and 14211805.

3. CEI Account 355 Transmission Plant Poles and Fixtures: Negative Transfers/Adjustments of $385,837

   Analysis: Several work orders were transferred to correct accounts. These accounted for about 40% of the involved amount. Two work orders, 12871937 and 13897015, which accounted for almost 60% of the involved amount, were transfers to ATSI

4. CEI Account 357 Transmission Plant Underground Conduit: Positive Retirements of $12,433

   Analysis: The positive retirement involved work order HE123, in which a pension adjustment was retired, resulting in the positive retirement.

5. CEI Account 362 Distribution Plant Station Equipment: Negative Transfers/Adjustments of $452,213)

   Analysis: The negative transfer amount included a re-spread of capitalized pension costs from prior years from unspecified to specified asset locations, the transfer of plant to the correct utility account and locations, and transfers from CEI to OE and ATSI.

6. OE Account 353 Transmission Plant Station Equipment: Positive Transfers/Adjustments of $642,047

   Analysis: The amount represents several work orders transferring plant to the correct utility account.

7. OE Account 362 Distribution Plant Station Equipment: Positive Transfers/Adjustments of $1,460,137

   Analysis: The amount includes several transfers to the correct utility account and transfers from OE to ATSI and PennPower as well as transfers from CEI and ATSI to OE.

8. TE Account 354 Transmission Plant Towers and Fixtures: Negative Additions of $484,240

   Analysis: This amount represents the transfer of work order charges from TE to ATSI after the work order was in-serviced.

9. TE Account 391 General Plant Office Furniture, Equipment: Negative Transfers/Adjustments of $117,499

   Analysis: Work order JC607 includes adjustments transferring plant associated with TE Plaza from account 101 to 102 pending the sale of the facility.

10. TE Account 392 General Plant Transportation Equipment: Negative Additions of $44,928

    Analysis: Work order TW-900960-TRANSP-EQUIP charges were transferred from capital to expense.

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.

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[73]) requires that capital additions recovered through Commission-approved Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from Rider DCR and the annual cap allowance.[74] The Schedule within the Rider DCR Compliance Filings labeled "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.

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.[75]

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."[76]

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.[77]

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.[78] 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.

[73] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[74] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[75] Case No. 08-0935-EL-SSO Stipulation and Recommendation, Section B.3, page 16.
[76] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 19.
[77] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1b.
[78] Case No. 10-0388-EL-SSO Stipulation and Recommendation, Section F.2, pages 27-28.

The Companies' Rider DCR Compliance Filings stated that the exclusions related to Rider EDR(g) are determined by the WBS CE-000303.[79]

During the examination, CEI identified minor corrections that needed to be made to the EDR(g) excluded in Rider DCR. The Company explained the basis for the correction:

> First, please note that 3 instances of work order activity in Rider DCR depreciation groups as of 11/30/2015 and 2/29/2016 were originally associated with funding project "CE-900149-SNBC-DUR" but, based on internal review, have since been reassigned to funding project "CE-000303", the funding project associated with Rider EDR(g). The reassignment was made after the December 31, 2015 Rider DCR was compiled. All three instances of activity are associated with work order 14683504, were in-service as of 9/1/2015, and total $7,016. Second, the Companies have also identified work order activity in non-DCR depreciation groups that were included in the exclusion of dollars associated with Rider EDR(g). This overstated the exclusion by $71 in 37000 – Meters in the October 2, 2015 and December 31, 2015 Rider DCR filings. Third, in preparing this response, the Companies identified that the actual 11/30/2015 reserve balances included in the December 31, 2015 Rider DCR filing were slightly understated.[80]

CEI provided the corrected gross plant and reserve balances as of 11/30/2015, incorporating the above corrections as shown in the following tables. The Companies stated (and Blue Ridge recommends) that a reconciliation of the Rider DCR revenue requirement be incorporated in the next filing that incorporates the cumulative effect of the corrections on Rider DCR Revenues.

Table 13: Corrected Actual Rider EDR(g) Costs Excluded from Rider DCR as of 11/30/2015[81]

	As Filed		Corrected	
FERC Account	**Gross**	**Reserve**	**Gross**	**Reserve**
353	294	-240	294	***-239***
356	-3,628	2	-3,628	***-14***
358	-135,539	-448	-135,539	***-899***
360	0	0	0	0
362	20,762	628	20,762	***690***
364	0	65	***2,058***	***89***
365	15	67	***3,683***	***103***
366	0	1,976	0	1,976
367	159,388	2,605	159,388	***3,254***
368	0	54	***1,290***	***63***
369	0	17	0	17
370	71	1	***0***	***0***
371	0	1	0	1
390	30,092	90	30,092	***200***
Total	71,455	4,818	78,400	5,241

Slight difference from filing due to rounding

[79] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, pages 19 and 44.
[80] FirstEnergy's response to data request BRC Set 1-INT-35-Confidential.
[81] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 19 and FirstEnergy's response to data request BRC Set 1-INT-35-Confidential.

Individually, the difference between the "As Filed" and the "Corrected" *actual* Rider EDR(g) as of 11/30/2015 (Gross - $6,945, Reserve - $421) is immaterial to the Rider DCR revenue requirements calculation. However, we have included the adjustment within the total impact calculations [**ADJUSTMENT #3a**].

Table 14: Corrected Estimated Rider EDR(g) Costs Excluded from Rider DCR as of 2/29/2016[82]

	As Filed		Corrected	
FERC Account	**Gross**	**Reserve**	**Gross**	**Reserve**
353	294	-240	294	***-238***
356	-3,628	2	-3,628	***-40***
358	394,077	876	394,077	***-253***
360	9,234	0	9,234	0
362	803,380	2,389	803,380	***2,545***
364	0	65	***2,058***	***113***
365	15	67	***3,683***	***138***
366	0	1,976	0	1,976
367	159,388	2,605	159,388	***4,226***
368	191	55	***1,481***	***73***
369	0	17	0	17
370	71	1	***0***	***0***
371	0	1	0	1
390	30,092	90	30,092	***366***
Total	1,393,114	7,904	1,400,059	8,924

Slight difference from filing due to rounding

Individually, the difference between the "As Filed" and "Corrected" *estimated* Rider EDR(g) as of 1/29/2016 (Gross - $6,944, Reserve - $1,020) is immaterial to the Rider DCR revenue requirements calculation. However, we have included the adjustment within the total impact calculations [**ADJUSTMENT #3b**].

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. Nothing was identified within the sample.[83]

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.[84]

The Companies' Rider DCR Compliance Filings state 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

[82] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 44 and FirstEnergy's response to data request BRC Set 1-INT-35-Confidential.
[83] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1c.
[84] Case No. 09-1820-EL-ATA, et. al., Application pages 5-7.

Compliance filings lists the following amounts associated with Rider AMI that were excluded from Rider DCR.

Table 15: CEI AMI Project Costs Excluded from Rider DCR[85]

	Actual 11/30/15		Estimated 2/29/16	
FERC Account	**Gross**	**Reserve**	**Gross**	**Reserve**
303	413,920	154,917	413,920	165,265
362	5,647,865	651,398	5,647,865	792,595
364	207,959	94,202	207,959	99,401
365	1,621,608	689,490	1,621,608	730,031
367	11,080	863	11,080	1,140
368	205,810	60,016	205,810	65,162
370	15,045,179	3,784,637	15,045,179	4,160,766
397	4,798,115	1,129,373	4,798,115	1,219,337
Total	27,951,536	6,564,896	27,951,536	7,233,697

Slight difference from filing due to rounding

During this examination, the Companies identified an additional $3,413 in gross plant charged to CECO-Misc Intangible Plant that should have been excluded from the Rider DCR filing [**ADJUSTMENT# 4a and b**]. The Companies stated (and Blue Ridge recommends) that a reconciliation be done in the Rider DCR revenue requirement in the next filing that incorporates the effect on revenues had the activity been appropriately excluded in the July 1, 2015, October 2, 2015, and December 31, 2015, Rider DCR Compliance filings.[86] Individually, the amount is immaterial to the Rider DCR revenue requirements calculation. However, we have included the adjustment within the total impact calculations.

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include AMI work. Nothing was identified within the sample.[87]

Other Riders

In addition to Riders LEX, EDR, and AMI, the Combined Stipulation (reaffirmed in Case No. 12-1230-EL-SSO[88]) 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.[89] In addition to the Riders DCR, LEX, EDR, and AMI, the Companies' tariffs include the following riders:

[85] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 19 and page 44.
[86] FirstEnergy's response to data request BRC Set 1-INT-5-Confidential.
[87] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1a.
[88] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
[89] 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.[90] 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 16: ATSI Land Lease (FERC Account 350) Excluded from Rider DCR[91]

	Actual 11/30/15		Estimated 2/29/16	
Company	**Gross**	**Reserve[92]**	**Gross**	**Reserve**
CEI	56,418,950	0	56,418,950	0
OE	86,948,069	0	86,948,069	0
TE	15,628,312	0	15,628,312	0
Total	158,995,331	0	158,995,331	0

The ATSI Land Lease exclusion value was changed by the amount of incremental activity (net of additions, retirements, transfers, and adjustments) in FERC Account 350. The ATSI Land Lease exclusions for each year following the approval of Rider DCR are shown in the following table.

[90] FirstEnergy's response to Data Request BRC Set 1-INT-40.
[91] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 19 and page 44.
[92] The amounts removed are associated with land, thus there is no depreciation reserve.

Table 17: 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	
11/30/15 Rider DCR Amounts-Corrected	$ 56,418,950	$ 86,956,515	$ 15,628,438	DR-1-33
Change from 2014 to 2015	$ (805,674)	$ 1,388,983	$ -	
Difference 2015 vs Case 07-551-EL-AIR	$ (847,481)	$ 1,665,891	$ (362)	

During the examination, the Companies found that the activities associated with additions, retirements, transfers, and adjustments for OE and TE for the period December 2014–February 2015 were inadvertently excluded from the calculations of the ATSI Land Lease exclusions values in subsequent Rider DCR filings.[93]

The following table shows the amount included in the exclusion and the amount that should have been included.

Table 18: Corrected Balances for ATSI Land Lease Exclusion[94]

Company	As Filed	Corrected	Difference
CEI	$ 56,418,950	$ 56,418,950	$ -
OE	$ 86,948,069	$ 86,956,515	$ 8,446
TE	$ 15,628,312	$ 15,628,438	$ 126
Total	$ 158,995,332	$ 159,003,903	$ 8,571

Individually, the difference is immaterial to the Rider DCR revenue requirements calculations (OE - $8,446 and TE - $126) [**ADJUSTMENT #9**]. However, the adjustment has been included within the total impact calculations.

The Companies stated (and Blue Ridge recommends) that a reconciliation be included in the Rider DCR revenue requirements in the next filing that incorporates the effect on revenues had the December 2014–February 2015 ATSI Land Lease exclusion value activity been incorporated beginning with the actual 2/28/2015 plant balances.

Generation

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

[93] FirstEnergy's response to data request BRC Set 1-INT-33-Confidential.
[94] FirstEnergy's response to data request BRC Set 1-INT-33-Confidential.

from the current and future Rider DCR.[95] It is the Companies practice to update the amount in each quarterly filing to reflect the incremental activity associated with Generation work orders.[96]

During this examination, the Companies identified an additional $12,348 from the gross plant and reserve balances associated with work order GN-0002609-1 that should have been excluded in the October 2, 2015, Rider DCR filing and the December 31, 2015, Rider DCR Filing.[97] The oversight results in "net zero" and would not have an impact on the Rider DCR revenue requirements calculation.

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.[98]

Conclusion

There were minor adjustments that should be made to the exclusions associated with Rider EDR(g), Rider AMI, and ATSI Land Lease work orders. Individually, these adjustments would not be material to Rider DCR. The cumulative impact will be included in the overall findings and recommendations associated with this report.

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 from the time of the prior audit.

Table 19: Incremental Change in Gross Plant from 11/30/14 to 11/30/15[99]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	2,763,669,699	2,855,036,804	91,367,105
Ohio Edison Company	3,077,641,832	3,214,542,405	136,900,573
The Toledo Edison Company	1,110,320,138	1,122,481,433	12,161,296
Total	6,951,631,669	7,192,060,642	240,428,974

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 did not have any large construction and/or replacement programs in 2015. Each company had normal, recurring replacement programs in 2015, including Pole Replacements,

[95] FirstEnergy's response to data request BRC Set 1-INT -1, Attachment 3, 4, and 5-Confidential.
[96] FirstEnergy's response to data request BRC Set 13-INT-3-Confidential.
[97] FirstEnergy's response to data request BRC Set 1-INT-5-Confidential.
[98] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1d.
[99] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

Underground Cable Replacement, Feeder Repair/Replacement, Worst Performing Circuit/CEMI Program, and Downtown Network Upgrades.[100]

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations included in the actual and estimated schedules that support gross plant and also verified that gross plant balances rolled forward to the revenue requirement calculation correctly. We did not identify anything in the mathematical computations as unreasonable.[101]

Source Data Validation

Blue Ridge traced the values used for actual 11/30/15 and estimated 2/29/16 gross plant in service balances to source documentation. The actual and estimated balances reconciled to the supporting documents. The supporting workpapers for the 2/29/16 estimate recognize a true up of forecast to actual 11/30/15 balances and adjustments from prior audits.[102]

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.[103]

Blue Ridge found FirstEnergy's explanation to be not unreasonable. In addition, Blue Ridge compared the Change in Pension Accounting amounts from year to year and found that the amounts were the same.[104]

Additional Validation Testing from Sampled Work Orders

The Companies provided a list of work orders that support gross plant in service for December 2014 through November 2015.[105] Blue Ridge validated that the work order amounts reconciled to

[100] FirstEnergy's response to data request BRC Set 1-INT-025.
[101] WP V&V FE DCR Compliance Filing 12.31.15-Confidential.
[102] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 – Confidential.
[103] WP FE response to 2011 Audit Data Request BRC -14-1.
[104] WP FEOH 2015 Pre-Date Certain Pension Impact Analysis 2012-2015 - CONFIDENTIAL.

the Companies' DCR filing gross plant balances.[106] In addition, Blue Ridge reviewed the population of work orders for work order numbers that represent plant that is specifically excluded from Rider DCR; sorted the cost line items and grouped them by work order number to eliminate pulling duplicate sample work orders and ensuring that all cost line items for selected work orders were reviewed; scanned the population for unusual transactions and included them as judgment samples if not selected by PPS; and identified other work orders for FERC accounts not selected during the sample draw.

In addition to global evaluations of the population, Blue Ridge selected work orders for additional detail testing. Using probability-proportional-to-size (PPS) sampling techniques[107] and professional judgment, Blue Ridge selected 56 work orders representing 187 FERC cost line items for detailed transactional testing. The following table provides the number of work orders and FERC cost line items in the population and the number in Blue Ridge's sample.

Table 20: Work Orders and FERC Cost Line items in Population and Sample by Company [108]

	Population		Sample	
	Work Orders	**FERC Cost Line Items**	**Work Orders**	**FERC Cost Line Items**
Cleveland Electric	35,690	50,690	21	88
Ohio Edison	41,243	62,787	17	60
Toledo Edison	17,522	24,530	4	24
Service Company	313	464	14	15
Total	**94,768**	**138,471**	**56**	**187**

The testing of work orders 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 work order (if so, it was appropriate), timeliness of recording of asset retirements for replacement work orders, and appropriate charge of cost of removal. The results of the detailed transaction testing performed on the work order sample are included in the workpapers.[109] Specific observations and findings about the testing are listed below.

Description of Projects

The Company provided a description of the projects included in the work order 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

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[105] FirstEnergy's response to Data Request BRC Set 1-INT-002, Attachment 1 – Confidential.
[106] WP Population Recon –BRC Set-1-INT-006 Attachment 1 and FirstEnergy's response to Data Request BRC Set 1-INT-6.
[107] WP FEOH 2015 Sample Size Calculation Work Orders through 11-30-15-Confidential.xlsx.
[108] FirstEnergy's response to Data Request BRC Set 1-INT-2 and WP FEOH 2015 Sample Size Calculation Work Orders through 11-30-15-Confidential.xlsx
[109] WP FEOH 2015 Sample Work Order Testing Matrix-Confidential.

7. Transportation and power operated equipment
8. Poles, towers and fixtures
9. Services
10. Miscellaneous intangible plant (software)
11. Adjustments, transfers, plant amortization of general equipment, sales of assets, and plant unitization clean up

Project Testing

The sampled work orders were evaluated based on objective criteria identified as T1 through T10.[110] Blue Ridge's observations and findings against the criteria are 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.

During the Companies' preparation of data responses, two work orders were identified that should have been excluded from Rider DCR.

- FECO ITS-SC-M00041-1
    - Cost: FERC 303 - $2,153,998
    - Description: Merger: Consolidate Data Centers-CAP
    - The Companies stated that this work is not jurisdictional for the purpose of Rider DCR and should have been excluded. The Company stated (and Blue Ridge recommends) that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact of including the abovementioned costs.[111] [**ADJUSTMENT #5**]
- FECO IF-SC-000178-1
    - Cost: FERC 390 - $11,055.
    - Description: SvcCo Bethel Warehouse-Pave Tractor Pk,
    - The Companies stated that this work is not jurisdictional for the purpose of Rider DCR and should have been excluded. The Company stated (and Blue Ridge recommends) that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact of including the abovementioned costs.[112] [**ADJUSTMENT #6**]

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

Blue Ridge found that the work order sample did not contain any AMI or SmartGrid work orders.

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[110] WP FEOH 2015 Sample Work Order Testing Matrix-Confidential.
[111] FirstEnergy's response to data request BRC Set 4-INT-001, page 2, paragraphs 4 and 5.
[112] FirstEnergy's response to data request BRC Set 4-INT-001, page 2, paragraphs 4 and 5.

While preparing a response to requested information, the Company identified Work Order 996262, activity of $3,413 in CECO 303 – Misc. Intangible Plant that should have been excluded based on its funding project (CE-004000), which identifies it as a Smart Grid project [**ADJUSTMENT #4**]. The Company stated (and Blue Ridge recommends) that a reconciliation be included in the Rider DCR revenue requirement in the next filing that incorporates the effect on revenues had the activity been appropriately excluded in the 7/1/15, 10/2/15 and 12/31/15 Rider DCR Compliance Filings.[113]

T1b: Exclusions Rider LEX: Review descriptions for Distribution projects only (FERC account 360 - Distribution Plant –Land and Land Rights) to ensure that they do not include line extension work.

Blue Ridge found that the sample did not include any LEX work orders. In addition, Blue Ridge analyzed the population of work orders that comprise utility plant for the DCR and did not identify any LEX work orders.[114] Blue Ridge reviewed the project scope for each work order that had FERC account 360 charged to confirm that LEX work orders 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 found no work orders in the sample that were related to EDR.[115]

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

Blue Ridge found no work orders in the sample that were related to generation.[116]

T2: Work order packages contain the project approval documentation or work order was approved at the project level.

Blue Ridge found that the Company has adequate procedures in place to approve work orders. 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.[117]

T3: For specific work orders (i.e., not a blanket work order or multi-year project such as pole and meter replacements), the work order packages contain project justification.

Blue Ridge reviewed the justification for all projects in the sample, exclusive of blanket, multi-year projects, transfers, and adjustments and found all project work orders included justifications that were not unreasonable. The Company uses Accounting Work Orders for asset-related activities that are not immediately driven from a construction project that do not require project justifications.[118]

Several work orders referred to pension adjustment charged to existing assets, which were previously unitized. The adjustment posted in September 2015 was a reclassification of the

[113] FirstEnergy's response to data request BRC Set 1-INT-005, part b. WP FEOH 2015 Exclusion Report.
[114] FirstEnergy's response to data request BRC Set 1-INT-005, part d.
[115] WP FEOH 2015 Exclusion Report.
[116] WP FEOH 2015 Exclusion Report.
[117] FirstEnergy's response to Data Request BRC Set 1-INT-017 – Confidential and BRC Set 1-INT-032.
[118] FirstEnergy's response to data request BRC Set 9-INT-9-Confidential.

Pension Mark to Market assets created as unspecified assets in 2012. The reclassification eliminated the balances residing in the unspecified location and assigned them to the specific assets by the asset ID to which they pertained.[119] After further investigation, it was determined that, for the period of time in which the pension assets resided in unspecified locations, retirements were not recorded on these assets. Consequently, gross plant and reserve for the period January 2012 through August 2015 were overstated by the following amounts for each company.[120] The overstatements impact the depreciation and property tax expense for each of the Companies.[121] [**ADJUSTMENT #10**]

Table 21: Unspecified Pension Assets Not Retired-Overstated Gross Plant and Reserve

Company	Amount of Overstatement
CEI	$640,509
OE	$2,630,981
TE	$472,091
Total	$3,743,581

The Companies stated (and Blue Ridge recommends) that it intends to include a reconciliation calculation and the next rider DCR filing will reflect the cumulative revenue requirement impact (in the form of depreciation and property tax expense) that results from the inclusion of the above mentioned amounts and rider DCR.

Furthermore, the Companies have determined that there are residual pension asset balances associated with FERC account 303 residing in unspecified locations as of September 2015 for OE and CE. The Companies stated (and Blue Ridge recommends) that it intends to move these assets to specified locations. Additionally, there were no retirements associated with the vintages of these assets for the period in question. As such, there was no depreciation or property tax expense impact as a result of their placement in an unspecified location, so there was no impact on rider DCR.[122]

The Companies' justifications were not unreasonable.

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

Several storm work orders did not have a budgeted amount. This is not unreasonable as storm work is typically emergent, unplanned work.

- CECO Work Order 14057988
- CECO Work Order CE-000816-DF-MSTM
- OECO Work Order OE-002161-DO-MSTM

Blue Ridge found that many of the project costs in the sample were within +/- 15% of the approved budget. However, 15 projects of the 56 work orders in the sample were over budget by more than 15%. The Companies provided explanations for the overages.

119 FirstEnergy's response to data request BRC Set 9-INT-6-Confidential.
120 FirstEnergy's response to data request BRC Set 12-INT-4-Confidential.
121 FirstEnergy's response to data request BRC Set 12-INT-4 Supplemental-Confidential.
122 FirstEnergy's response to data request BRC Set 12-INT-4-Confidential.

- CECO Work Order 14077587 - SW New Bentley "BE" 138-13kV Mod Sub
  - Capital Project Cost: $3,448,633
  - Over budget by 49.7%: $1,144,655; Corrected by Company in Supplemental Response – Over budget by 1%: $40,406
  - Description: Planning Criteria violations at Astor and Acorn Substations in 2015 and area load growth from the new I-90 freeway exit has necessitated the construction of a new 138-13kV Mod-Sub to provide capacity to the Westlake, Avon, and Avon Lake area.
  - Reason for cost overrun: The Companies, after further review, determined that the total original budget provided inadvertently excluded the budgeted amount for 2014.[123]
- CECO Work Order 14584608 - Equip Investigate / Repair - Regulator H-8-KM-L/Investigate trouble
  - Capital Project Cost: $3,069,275
  - Over budget by 28.6%: $681,997
  - Description: Blanket WBS to capture costs associated with replacement of failed equipment and devices to correct customer outages (in some instances, correct abnormal system conditions).
  - Reason for cost overrun: This work order is associated with the Companies' Substation Blanket additions. For any work orders that are associated with Program or Blanket activity, the actual and budget amounts provided are for the total work order activity charged to that Program or Blanket over the course of the year. The Companies do not budget at the work order level for this type of work. The Companies' Annual Program and Blanket project budgets are developed based on historical spend. The labor and material expense associated with the Companies' Substation Blanket activity in 2015 (of which work order 14584608 was part) was higher than the amount included in the budget.[124]
- CECO Work Order CE-700319 - IT Customer SAP & Web Enhancements
  - Capital Project Cost: $423,910
  - Over budget by 77.3%: $184,847
  - Description: A series of software enhancements to SAP for the FE Customer Front-office, Back-office, and Revenue Operations support teams.
  - Reason for cost overrun: Project experienced more labor hours than originally anticipated. The need for enhancements to SAP's billing estimation logic was identified over the course of the project. This required more than forecasted internal labor to implement changes and correct defects.[125]
- CECO Work Order CE-710001 - IT ED Legacy Circuit Replacements (Blanket)
  - Capital Project Cost: $1,865,775
  - Over budget by 215.9%: $1,275,140
  - Description: To address the rapidly rising cost of leased analog circuits. The project will replace circuits used for Remote Terminal Unit (RTU) communication to the Energy Management System Front End Processors (FEPs). Where applicable, other

[123] FirstEnergy's response to data request BRC Set 9-INT-13a-Confidential, Supplemental Response Sent March 30, 2016.
[124] FirstEnergy's response to data request BRC Set 9-INT-13b-Confidential.
[125] FirstEnergy's response to data request BRC Set 9-INT-13e-Confidential.

voice and data circuits serving these substations will be replaced at the same time to optimize the communications infrastructure.
    - Reason for cost overrun: Implementations in the Cleveland Electric service area were budgeted over the four-year term of the project, but CE's deliverables were significantly complete in 2015. The initial budget for this project through the audit period assumed that the cost would be spread evenly over the four-year term of the projects (2015-2018). Therefore, only a portion of the total project cost were budgeted for the period covered by the audit. The majority of work on the project was done in 2015, which resulted in an actual cost being higher than the budget for the specified audit period of December 2014-November 2015. The expectation is that future cost associated with this project will be lower than the 2015 actual cost and that over the life of the project, the total project cost will be in line with expectations at the time of the original budget.[126]
- CECO Work Order 13542943
    - Capital Project Cost: Total project cost was $1,185,355
    - Over budget by $1,111,990 or 1515.7%
    - Description: The customer's load is approximately 5 MVA and requires us to supply them from the 36 kv system. On Schwartz Rd we will tap R-14-AN and R-19-AN feeders converge these feeders and run approximately 0.5 miles on Crocker Rd. We will then go into the underground for approximately 0.7 miles to the customers' new headquarters. (This is a mandatory project).
    - Reason for cost overrun: The $73,365 identified in the original budget reflected the amount budgeted only for initial engineering for feasibility purposes. The project was originally budgeted in the 2014 Emergent New Business Program and, therefore, was not included in the amount budgeted to the specific work order.[127]
- OECO Work Order 14072601 - Brunswick Laurel Rd Area Mod Sub
    - Capital Project Cost: $2,274,158
    - Over budget by 67.3%: $914,734
    - Description: Build Laurel Mod Sub in 2015 to eliminate 5.2 MVA of stranded load if the Brunswick #4 transformer fails.
    - Reason for cost overrun: This order is associated with a specific project that spanned over two years (2014 and 2015) prior to being in-serviced. In 2014, this was an emergent project and thus had no associated dollars in the budget for that year. The 2015 budget included amounts associated with this project to be spent in 2015. The actual amounts incurred in 2014, however, are still included in the total actual amount as compared to the budgeted amount. Consequently, although 2015 actuals were more closely aligned with the amounts included in the 2015 budget, the actuals incurred in 2014 (when the project was emergent) result in a large actual vs. budget variance.[128]
- OECO Work Order 14158512 - PROSECT SUB CONNECT TO RT 44
    - Capital Project Cost: $2,811,441
    - Over budget by 6,148%: 2,766,449

[126] FirstEnergy's response to data request BRC Set 12-INT-1e-Confidential.
[127] FirstEnergy's response to data request BRC Set 9-INT-7-Confidential.
[128] FirstEnergy's response to data request BRC Set 9-INT-13c-Confidential.

  - Description: Reconductor Campbellsport New Milford Circuit to accommodate load and relieve Campbellsport New Milford via a customer (new line from substation to tie to New Milford).
  - Reason for cost overrun: Project was initially budgeted on the basis that it would be a customer-specific, and therefore customer-reimbursed, project. Therefore, the original budget assumed that this project would be almost entirely reimbursed through customer contributions (CIAC). As the project progressed, however, it was determined that the original customer would not be the sole benefactor of this additional load as other customers in the area would also benefit. The decision was therefore made to change this from a customer-specific (and thus customer-reimbursable) project to a normal load growth project.
- OECO Work Order OE-700333 – IT Upgrade GIS Des to AutoCAD Map 2013
  - Capital Project Cost: $356,931
  - Over budget by 293.9%: $266,309
  - Description: This project is to enhance the GIS applications suite – AutoCAD suite, GIS Design, GIS View, CYME and MPat.
  - Reason for cost overrun: The difference in actual versus budgeted costs on this project is primarily attributable to timing differences. The budget information initially provided includes the original budget for the project from inception through the end of the audit, November 2015. At the end of 2014, it was determined that vendor services could be utilized earlier than planned and therefore were purchased on this work order. These vendor services were originally planned to be purchased in 2015 for a related project. As a result, actual costs were higher than budget through the audit period December 2014–November 2015. The 2015 budget for the related project was reduced accordingly to account for the impact of making the services purchased earlier than originally estimated.[129]
- OECO Work Order PA82997440 - PowerOn Follow Up: UG Transformer 75AM3C-43 C McSwee
  - Capital Project Cost: $10,628,842
  - Over budget by 275.5%: $7,798,071
  - Description: OE - Blanket - Forced - N-Line Follow up from PowerON
  - Reason for cost overrun: This work order is an order associated with the Distribution Line Forced Failure Blanket for non-storm activity. The budget for this blanket was developed based on historical average spend. Actual spend for this blanket came in higher than the budget amount because there was more spend on non-storm equipment failures than had been experienced historically. Please note that, while actuals for the Forced Failure Blanket for nonstop activity were higher than originally budgeted, the total spend on Forced Failure Blankets was actually under budget.[130]
- FECO Work Order IF-SC-000064-1 - SvcCo Bldg - Replace Air Handling U
  - Capital Project Cost: $495,828
  - Over budget by 158.1%: $303,693
  - Description: Scope: Replace existing Air Handler in kind due to end of useful life and increasing maintenance costs.

[129] FirstEnergy's response to data request BRC Set 12-INT-1a-Confidential.
[130] FirstEnergy's response to data request BRC Set 12-INT-1b-Confidential.

    - Reason for cost overrun: The overall actual material costs were higher than originally budgeted as a result of change orders that occurred after the original project was established.[131] The change orders include an additional, smaller HVAC unit for a secure section of the building as well as fire dampers that were found in need of replacement after ductwork was removed.[132]
- FECO Work Order ITS-SC-000223-1 - IT Service & Asset Mgt Improv 2012 - Cap
    - Capital Project Cost: $6,740,295
    - Over budget by 23.1%: $1,264,872
    - Description: Enhance IT's Service Management and Asset Management system.
    - Reason for cost overrun: Project encountered technical issues discovered in the software that required significant rework and additional labor to resolve. Greater than anticipated complexity with the discovery tool, catalog, items, and the integration of the Asset Manager and Service Manager portions of the project resulted in increased consulting and internal labor costs associated with detail design, build, and testing.[133]
- FECO Work Order ITS-SC-000345-1 - 2014 Finance Continuous Imprvmnts - Cap
    - Capital Project Cost: $242,819
    - Over budget by 92.2%: $116,488
    - Description: A series of software enhancements for the Finance and Internal Audit groups.
    - Reason for cost overrun: Project scope was expanded due to critical business requirements. The need for an environment to host legacy tax software and additional functionality to host legacy financial reporting software to stay compliant with corporate financial records retention policies results in greater than anticipated hardware costs and internal labor hours.[134]
- FECO Work Order ITS-SC-000386-1 - SAP ESP (Patching Proj) Phs II - Cap
    - Capital Project Cost: $3,060,065
    - Over budget by 26.9%: $649,491
    - Description: Maintain and enhance FirstEnergy's SAP landscape
    - Reason for cost overrun: Project encountered technical issues discovered in the software that required additional labor to resolve. Additional operating system (kernel) patches and system modifications were required to support the upgrade and increased the internal labor associated with the project. [135]
- FECO Work Order XIT-000003-1 - Total Capital (Blanket)
    - Capital Project Cost: $5,145,665
    - Over budget by 42.7%: $1,538,625
    - Description: Annual replacement of standard corporate PCs after they surpass the acceptable lifecycle for computers. It also provides new hire employees with a standard corporate laptop or desktop computer.
    - Reason for cost overrun: Work that was originally planned for 2016 was made a priority in 2015. The difference in actual versus budgeted costs on this project is primarily attributable to timing differences. The budget information included in the

[131] FirstEnergy's response to data request BRC Set 9-INT-13d-Confidential.
[132] FirstEnergy's response to data request BRC Set 9-INT-8-Confidential.
[133] FirstEnergy's response to data request BRC Set 9-INT-13f-Confidential.
[134] FirstEnergy's response to data request BRC Set 9-INT-13g-Confidential.
[135] FirstEnergy's response to data request BRC Set 9-INT-13h-Confidential.

initial response includes the original budget for the project from inception through the end of the audit period, November 2015. At the end of 2015, hardware was purchased on this work order that was originally planned to be purchased at a later date after the time period covered by this audit. As a result, actual costs were higher than budgeted through the audit period December 2014–November 2015. The budget going forward was reduced accordingly to account for the impact making the hardware purchased earlier than originally estimated.[136]

- FECO Work Order ITS-SC-000296-1 - Migration - CAP
  - Capital Project Cost: $5,678,057
  - Over budget by 16.8%: $817,461
  - Description: Migrate the Cleveland, Akron, & Toledo systems to a VoIP platform
  - Reason for cost overrun: The original budget for this project inadvertently excluded labor and AFUDC charges. These types of cost were included when the budget was updated.[137]

The Companies reasoning for the actual costs exceeding the budget for most of the projects were specific and unique to that project and not unreasonable. However, there were a number of projects that indicated a potential concern related to the planning process. Labor, contractor, and/or material costs were greater than planned or the budget did not include all categories of costs. Blue Ridge is not recommending an adjustment to these projects in regard to the Rider DCR. However, Blue Ridge recommends that the Companies review their project planning process to ensure that the methodology allows for projects to be fully scoped prior to execution. Blue Ridge recognizes that the Companies performed an internal audit review of the IT budget process and changes to the process were completed as of March 31, 2016.[138] We recommend that the non-IT budget process also be reviewed.

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

Blue Ridge determined that, except as noted below, the costs in PowerPlant support the work order charge and the categories of cost are not unreasonable. The costs for the following work orders included within the sample did not agree to the cost detail.

[136] FirstEnergy's response to data request BRC Set 12-INT-1c-Confidential.
[137] FirstEnergy's response to data request BRC Set 12-INT-1d-Confidential.
[138] FirstEnergy's response to data request BRC Set 1-INT-11 Supplemental-Confidential.

Table 22: Difference in Provided Work Order Cost

Company	Workorder	Activity Cost	Workorder List Supporting DCR	Difference
OECO	13540608	$ 58,416	$ 57,226	$ (1,190)
CECO	14057988	$ 180,636	$ 160,743	$ (19,893)
OECO	14158512	$ 719,770	$ 698,232	$ (21,538)
CECO	14401235	$ 12,160	$ 11,414	$ (746)
CECO	997229	$ 3,618,481	$ 2,197,337	$ (1,421,144)
OECO	997233	$ 8,742,107	$ 4,287,794	$ (4,454,313)
CECO	HE123	$ (65,880,256)	$ (66,279,990)	$ (399,734)
CECO	IF-CE-000017-1	$ 537,784	$ 435,911	$ (101,873)
OECO	IF-OE-000060-1	$ 135,722	$ 81,057	$ (54,665)
CECO	PA82357120	$ 15,174	$ 15,144	$ (31)
OECO	PA82997440	$ 6,642	$ 4,489	$ (2,153)
		4-INT-001 Att 3 - CONFIDENTIAL	1-INT-002 Att 1 - CONFIDENTIAL	

In previous Blue Ridge examinations, the Companies explained that those differences were related to retirements for each work order. We were able to confirm this during testing.[139]

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

Blue Ridge found that, for replacement work orders, assets were retired and cost of removal was charged. Scrap sales are not recorded on an individual work order. Scrap from multiple operating companies is charged to a separate workorder and the proceeds are allocated to the various operating companies based on their estimated contribution to the total scrap sale. When equipment is sold for other than scrap, the proceeds are charged to the accumulated reserve for depreciation.[140]

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

Blue Ridge found that two replacement work orders had assets retired greater than six months after the replacement assets were put into service.[141]

- CECO work order IF-CE-000017-1: Assets were in-service December 2014, retirements October 2015, and cost of removal charged December 2014 and January 2015 (10-month delay). The impact on depreciation reserve was $1,868.[142] [**ADJUSTMENT #7**]
- CECO work order 14057988: Assets were in-service January 2015, retirements November 2015, and cost of removal charged December 2014 (11-month delay from when assets

[139] WP Testing Step T5.
[140] FirstEnergy's response to Data Request BRC Set 13-INT-4.
[141] WP FEOH 2015 Sample Work Order Testing Matrix-Confidential.
[142] FirstEnergy's response to Data Request BRC Set 9-INT-10-Confidential.

were removed from service and 10-month delay from in-service to asset retirements). The impact on the depreciation reserve was $593.[143] [**ADJUSTMENT #8**]

While the impact on Rider DCR associated with the delay in recording retirements is immaterial, we have included the adjustments within the total impact calculations.

In addition, Blue Ridge recommends that the Companies evaluate the process used to record retirements. The recording of retirements should take place at or before the plant additions are recorded to plant in service to ensure that both the replacement asset and the retired asset are not recording depreciation at the same time.

T6b: Replacement work orders: Cost of removal has been appropriately charged.

Blue Ridge found that there were no work orders in the sample with inappropriately charged cost of removal.

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

Blue Ridge found that all work orders, except for the work orders noted in T3, were closed to the proper FERC accounts based on the description of the work being performed.[144] The types of work orders identified in T3 were pension adjustments, transfers, or accounting work orders and do not represent project work. While Blue Ridge cannot determine if the charges were made to the proper FERC account, no indication exists of any material impact to Rider DCR.

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

Blue Ridge found that all work orders, except for the following one, have in-service dates that are in line with the estimate.

- FECO Work Order ITC-SC-000296, project cost $5,678,057, was in service 121 days after the estimated date. The Company explained that the system acceptance delayed placing in service, work continued during the delay, and AFUDC continued to be appropriately accrued.[145]

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

Blue Ridge found that all project work orders were closed to EPIS within a reasonable timeframe from project completion. The work order types noted in T3 do not have an estimated in-service date and have not accrued AFUDC.

T10: For work performed in 2015, this project is a candidate for field verification to determine if it is used and useful.

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

[143] FirstEnergy's response to Data Request BRC Set 9-INT-10-Confidential.
[144] FirstEnergy's response to Data Request BRC Set 4-INT-001, Attachments 1 and 7 – Confidential.
[145] FirstEnergy's response to data request BRC Set 9-INT-12.

Field Inspections

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

The following projects were field inspected:

1) CECO Work Order 14077587: SW New Bentley "BE" 138-13kv mod sub. Planning Criteria violations at Astor and Acorn Substations in 2015 and area load growth from the new I-90 freeway exit have necessitated the construction of a new 138-13kV Mod-Sub to provide capacity to the Westlake, Avon, and Avon Lake area. The final cost of the project was $3,333,789. The in-service date was August 2015.
2) CECO Work Order 14644540: Brooklyn SW Facility upgrade. Expand existing substation locker room. Remove and replace existing cement stairs to second floor. Remove wall in crew room, and add door. Patch and paint 2nd floor office area. Remove and relocate cabinet/sink in 2nd floor offices. The final cost of the project was $142,252. The in-service date was October 2015.
3) CECO Work Order IF-CE-000017-1: CE Miles Warehouse D Roof replacement. Scope: Replace existing roof system on roof section Warehouse D at the CEI Miles Service Center due to life expectancy and recommendation by our roofing consultant after a roof assessment was performed and deemed this roof in poor condition. The final cost of the project was $435,911. The in-service date was December 2014.
4) OECO Work Order 14072601: Brunswick Laurel Road Area Mod Sub. Build Laurel Mod Sub in 2015 to eliminate 5.2 MVA of stranded load if the Brunswick #4 transformer fails. The final cost of the project was $2,316,803. The in-service date was August 2015.
5) OECO Work Order IF-OE-000060-1: OE Warren- Replace Carport Roof. Scope: Replace existing roof system on roof section for Carports at the OE Warren Service Center due to life expectancy and recommendation by our roofing consultant after a roof assessment was performed, which deemed this roof a failure. The final cost of the project was $81,057. The in-service date was January 2015.
6) FECO Work Order IF-SC-000064-1: SVcCo Bldg. Replace air Handling U. Scope: Replace existing Air Handler in kind due to end of useful life and increasing maintenance costs. The final cost of the project was $492,918. The in-service date was August 2015.

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

Work Order Backlog

Blue Ridge found that the Companies have made significant progress to reduce the unitization backlog. The backlog as of November 30, 2015, is less than the 2013 levels.

Table 23: Backlog of Work Order Unitization[146]

Description	Unitization Backlog
as of 12/31/13	1,346
as of 11/30/14	4,156
as of 11/30/15	983

The Company reduced the backlog of construction work orders greater than nine months past the in-service date by adding two temporary resources that were trained and assigned to perform the unitization close-out of new construction work orders, allowing full-time staff to work on the unitization of the older work orders. [147]

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 for the Companies form December 1, 2014, through December 31, 2015.[148]

There are currently no pending insurance recoveries that have not been recorded or accrued for TECO or the Service Company. However, an insurance claim associated with a 2012 storm event was resubmitted in 2015. The most significant part of the claim is related to a generating station in West Virginia that has sustained damage related to the storm event that would necessitate repairs in excess of $20 million.[149] The claim could potentially result in future recoveries for OE and CE. The potential estimated amounts of recovery that would be charged to capital for the two Ohio operating companies are as follows:

Ohio Edison Company	$9,000
The Cleveland Electric Illuminating Company	$11,000[150]

These potential recoveries have not yet been recorded or accrued since the claim is still under review. While the potential recovery to these two Ohio operating companies is immaterial, FirstEnergy has acknowledged that any recovery would reduce plant in service and would be recognized in a future Rider DCR.[151]

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.

[146] FirstEnergy's response to data request BRC Set-5-INT-03.
[147] FirstEnergy's response to data request BRC Set 5-INT-03.
[148] FirstEnergy's response to data request BRC Set 1-INT-26.
[149] FirstEnergy's response to data request BRC Set 5-INT-1.
[150] FirstEnergy's response to data request BRC Set 1-INT-27.
[151] FirstEnergy's response to data request BRC Set 5-INT-1.

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 from the prior audit for each company.

Table 24: Incremental Change in Reserve for Depreciation from 11/30/14 to 11/30/15[152]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	(1,149,324,026)	(1,205,294,293)	(55,970,266)
Ohio Edison Company	(1,217,382,937)	(1,259,058,319)	(41,675,381)
The Toledo Edison Company	(540,356,852)	(549,228,366)	(8,871,513)
Total	(2,907,063,816)	(3,013,580,977)	(106,517,161)

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

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.[153]

Source Data Validation

Blue Ridge traced the values used for the actual 11/30/15 and estimated 2/29/16 reserve balances to the source documentation. The actual and estimated balances reconciled to the supporting documents.

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

[152] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[153] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

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 56 sample work orders Blue Ridge obtained as part of the validation testing, 11 work orders were for replacement work. The Companies provided the cost of the new assets, 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 either in units, costs, or both.

Blue Ridge found two replacement work order retirements that were not recorded on a timely basis resulting in the over accrual of depreciation on the old assets.[154] 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. 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 from the prior audits for each company.

[154] See Work Orders CECO work order IF-CE-000017-1 and CECO work order 14057988 discussed in the Gross Plant in Service section of the report.

Table 25: Incremental Change in ADIT from 11/30/14 to 11/30/15[155]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	(438,612,962)	(457,939,051)	(19,326,089)
Ohio Edison Company	(478,234,260)	(547,713,158)	(69,478,898)
The Toledo Edison Company	(137,594,493)	(146,538,304)	(8,943,812)
Total	(1,054,441,715)	(1,152,190,514)	(97,748,799)

The incremental change is supported by the actual and estimated ADIT Schedules. The schedules include the FERC accounts 281 and 282 Property Accounts. The Company ADIT includes the allocation portion of the ADIT attributed to the Service Company.

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.[156] [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.[157]

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.[158] 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 Protecting Americans from Tax Hikes Act of 2015 further extended the 50% bonus tax depreciation for qualified property placed in service during 2015, 2016, and 2017.

The Company stated that the ADIT at 11/30/15 does not include 50% bonus tax depreciation for January through November 2015 due to bonus depreciation not being passed until December 18, 2015. The estimated 2/29/16 ADIT balances included in the December 31, 2015, Rider DCR filing included the estimated impact of 50% bonus depreciation on the actual activity for January through November 2015 as well as the estimated impact for 50% bonus depreciation on estimated

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[155] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[156] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[157] Blue Ridge's Compliance Audit of the 2011 Delivery Capital Recovery (DCR) Rider, submitted April 12, 2012, page 52.
[158] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

activity for December 2015 through February 2016.[159] The Companies explained the methodology used to determine the impact of Bonus Depreciation on the ADIT balance. "FirstEnergy utilized a financial modeling system to calculate tax depreciation on estimated plant in service amounts. two scenarios (with and without bonus depreciation) were generated to estimate property related timing differences for years 2015 and 2016. The difference between the two scenarios for each year was used to estimate the impact of bonus depreciation for the Dec 2015 thru Feb 2016 time frame including the true up of bonus depreciation on the first 11 months of 2015 that would occur in December 2015."[160] Blue Ridge found that the Companies' explanation and supporting workpaper were not unreasonable.[161]

The Companies ADIT supporting documentation included several line items with generic descriptions (e.g., Other Basis Differences, Overheads). Blue Ridge found that the Companies' explanation of why these items should be included within Rider DCR was not unreasonable.[162]

The Service Company ADIT balances included ADIT related to other jurisdictions that are related to doing business in New Jersey, Maryland, and Pennsylvania. 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 recognized the significant impact of the extension of bonus depreciation on the ADIT balances.

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 incremental depreciation expense for each company from the prior audit as shown in the following table.

Table 26: Incremental Change in Depreciation Expense from 11/30/14 to 11/30/15[163]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	88,320,541	92,035,989	3,715,448
Ohio Edison Company	91,262,492	96,378,099	5,115,607
The Toledo Edison Company	35,484,826	36,831,596	1,346,770
Total	215,067,860	225,245,684	10,177,825

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

[159] FirstEnergy's response to Data Request BRC Set 1-INT-39.
[160] FirstEnergy's response to Data Request BRC Set 7-INT-7-Confidential.
[161] WP ADIT BRC Set 1-INT-001 Attachment 7 – Confidential and FirstEnergy's response to Data Request BRC Set 7-INT-4-Confidential.
[162] FirstEnergy's response to Data Request BRC Set 7-INT-3-Confidential.
[163] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

associated with Other Plant FERC 303 accounts were performed on Schedule Intangible Depreciation Expense Calculation.

Mathematical Verification

Blue Ridge verified the mathematical accuracy of the depreciation expense calculations and found nothing that affected Rider DCR revenue requirements. However, Blue Ridge found a mathematical oversight that, while having no affect on Rider DCR, could affect future calculations. In the Estimated 2/29/2016 Intangible Depreciation Expense-CECO net plant calculation for CECO 101/6-303 2014 Software and CECO 101/6 2015 Software, the formulas were removed. These cells are used to turn off/turn on the depreciation expense calculation. If the asset is fully amortized with a zero net plant, no depreciation expense is calculated. In these particular instances, the assets were not fully amortized and depreciation expense was calculated correctly. There was no impact to the Rider DCR. Blue Ridge recommends that the formulas be inserted in the next Rider DCR filing.

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.[164]

Source Data Validation

The depreciation accrual rates used were from the approved depreciation study 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 directed the Companies to use the accrual rates proposed by the Staff.[165]

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.[166] Two items were identified and resolved: (1) the Case No. 07-551-EL-AIR Staff Report did not have a balance for CE Account 359 Roads & Trails, so no depreciation accrual rate was provided (the company used the accrual rate from Case No. 89-1001-EL-AIR), and (2) the CE accrual rate for Account 371 Installation on Customer Premises did not agree with the Staff report. Further investigation determined that 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. 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.

The depreciation accrual rates used in the Rider DCR are based upon balances as of May 31, 2007. The Companies updated the depreciation study using plant as of December 31, 2013, and filed the updated study with the Commission on June 1, 2015, fulfilling the Companies' obligation.[167]

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[164] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[165] FirstEnergy's response to Data Request BRC Set 1-INT-028.
[166] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[167] FirstEnergy's response to data request BRC Set 1-INT-12-Confidential.

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 from the prior audit.

Table 27: Incremental Change in Property Tax Expense from 11/30/14 to 11/30/15[168]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	104,023,491	101,323,045	(2,700,446)
Ohio Edison Company	92,081,650	88,498,186	(3,583,464)
The Toledo Edison Company	30,360,268	29,195,338	(1,164,929)
Total	226,465,408	219,016,569	(7,448,839)

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.

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.[169]

Source Data Validation

Blue Ridge found that the workpapers were well organized and fully sourced. Blue Ridge did find a difference between the Rider DCR filing and the property tax supporting documentation. The Rider DCR General Plant Capitalized Asset Retirement Costs shows $158,513. These costs are excluded from property tax. The Property Tax workpaper, Other Exemptions and Exclusions, shows a significantly larger amount $7,345,237. The workpaper includes an explanation: "General Plant Capitalized Asset Retirement Costs are based on current plant values. Line (6) thus reflects a reduction to plant associated with this category that is not reflected in the Annual Property Tax Return since it occurred after the return was filed." The Companies explained that of the $7,345,237 in plant associated with the Capitalized Asset Retirement Costs exemption in TE Account 39910 at the time of the annual property tax return, $7,186,724 was associated with plant that was later removed from service. Specifically, as of September 2015, plant associated with TE Plaza was moved out of service pending an anticipated sale of the facility. . . . This reduction of $7,186,724 was appropriately included in the actual and estimated property tax expense workpapers used in the December 31, 2015, Rider DCR filing. Blue Ridge found that the Companies' explanation was reasonable, and there is no impact to Rider DCR.

Conclusion

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

[168] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[169] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

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

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 28: Change in Service Company Rate Base and Expense from 11/30/14 to 11/30/15[170]

Description	CEI	OE	TE	Total
Actual 11/30/15				
Gross Plant	88,149,759	106,821,875	47,021,476	241,993,110
Reserve	38,492,298	46,645,839	20,532,837	105,670,975
ADIT	8,818,672	10,686,667	4,704,119	24,209,459
Rate Base	**40,838,788**	**49,489,369**	**21,784,519**	**112,112,676**
Depreciation Expense	4,096,383	4,964,090	2,185,122	11,245,595
Property Tax Expense	44,339	53,731	23,652	121,722
Total Expenses	**4,140,722**	**5,017,821**	**2,208,774**	**11,367,317**
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**
Incremental				
Gross Plant	6,414,453	7,773,179	3,421,643	17,609,275
Reserve	6,569,479	7,961,044	3,504,339	18,034,862
ADIT	(409,386)	(496,103)	(218,378)	(1,123,867)
Rate Base	**254,359**	**308,238**	**135,682**	**698,279**
Depreciation Expense	518,464	628,287	276,563	1,423,313
Property Tax Expense	(8,511)	(10,314)	(4,540)	(23,364)
Total Expenses	**509,953**	**617,973**	**272,023**	**1,399,949**

The Compliance Filings include actual 11/30/15 and estimated 2/29/16 schedules that accumulate Service Company general and intangible gross plant, reserve, ADIT, and incremental

[170] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

depreciation and property tax expense that are then allocated to the Companies based upon the allocation factors agreed to within the Combined Stipulation.

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[171]) 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.[172] (Emphasis added.)

The following allocation factors were used in Case No. 07-551-EL-AIR[173] and were appropriately used in accordance with the Combined Stipulation to allocate Service Company costs in Rider DCR:

Table 29: 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.[174]

Source Data Validation

Blue Ridge found that the Actual 11/30/15 and Estimated 2/29/16 gross and plant balances for the Service Company General Plant Account 390 Structures, Improvements did not agree with the supporting detail[175] as shown in the following table.

Table 30: Service Company Account 390 Structures, Improvements Not Agreeing to Support[176]

Account	As Filed Gross	Support Gross	Difference	As Filed Reserve	Support Reserve	Difference
Actual 11/30/15	$43,363,349	$43,737,349	$374,000	$20,307,428	$20,322,581	$15,153
Estimated 2/29/16	$44,435,893	$44,872,833	$436,940	$20,737,957	$20,755,497	$17,539

171 Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
172 Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
173 WP FE response to 2011 Audit Data Request BRC-10-10 and 10-11.
174 WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
175 WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
176 WP V&V FE DCR Compliance Filing 12.31.2015-Confidential and FirstEnergy's response to data request BRC Set 1-INT-001, Attachment 3-Confidential.

The Companies explained and Blue Ridge confirmed that the difference was a formula error in the supporting documentation.[177] The values used within the Rider DCR revenue requirement calculation are correct and no adjustment is required.

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 work orders 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.

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 31: Incremental Change in CAT and Income Tax Expense from 11/30/14 to 11/30/15[178]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	8,056,529	8,519,491	462,962
Ohio Edison Company	9,099,603	9,857,073	757,470
The Toledo Edison Company	1,438,854	1,276,607	(162,247)
Total	18,594,986	19,653,171	1,058,185

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

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[179]) provide the authority for the recovery of commercial activity tax within Rider DCR. Section B.2 of the Combined Stipulation specifically states the following:

[177] FirstEnergy's response to data request BRC Set 7-INT-1.
[178] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

> 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, <u>Commercial Activity Tax and associated income taxes. . . .</u>[180] (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.[181] No exceptions were noted.

Source Data Validation

FirstEnergy substantiated the CAT and income tax rates included within the Compliance Filings. The applicable CAT rate of 0.26% was applied to gross receipts. The composite tax rates include federal, Ohio, and municipalities' tax rates.[182]

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 32: Incremental Change in Return on Rate Base from 11/30/14 to 11/30/15[183]

Company	11/30/14	11/30/15	Incremental
Cleveland Electric Illuminating Company	22,733,129	24,095,993	1,362,864
Ohio Edison Company	26,129,947	28,313,336	2,183,389
The Toledo Edison Company	4,069,218	3,589,733	(479,484)
Total	52,932,294	55,999,062	3,066,768

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

179 Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11.
180 Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
181 WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
182 FirstEnergy's response to Data Request BRC Set 1-INT-038 – Confidential.
183 WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.

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. [184]

Mathematical Verification

The rate of return and the return on plant is calculated correctly in accordance with the Combined Stipulation.[185]

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 affect 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 11/30/15 and estimated 2/29/16 balances. The Annual Rider DCR Revenue is compared against the Commission-approved Revenue Cap in the Companies' filings[186]

Mathematical Verification

The various actual 11/30/15 and estimated 2/29/16 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 making the cap for the DCR 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

[184] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[185] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[186] CEI, OE, and TE Rider DCR Compliance Filings dated 12/31/15, page 57.

> 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 [emphasis added].[187]

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:

> 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 [emphasis added].[188]

The Companies appropriately 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 2015 DCR as follows:

Table 33: Companies' Calculation of Annual Cap Prior to Under (Over) Recovery Adjustment[189]

12-months 6/1/14-5/31/15	$	195,000,000		
Prorated for five months			$	81,250,000
12 months 6/1/15-11/30/15	$	210,000,000		
Prorated for seven months			$	122,500,000
Annual Cap Calculated by Companies			$	203,750,000

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.[190]

The December 31, 2015, Rider DCR Compliance Filing cover letter states, "The attached schedules demonstrate that the year-to-date revenue is below the permitted cap for 2015." Blue Ridge confirmed that the Company has not exceeded the Commission-approved DCR Revenue Cap.

The following table shows the Companies' revenue to the aggregate annual cap (adjusted for the cumulative under (over) recovery) and the allocated Companies' caps through 11/30/15.

[187] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[188] Case No. 12-12-1230-EL-SSO Opinion and Order, July 18, 2012, page 10.
[189] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[190] 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 34: 2015 Annual DCR Revenue to Aggregate and Allocated Caps[191]

Period	Aggregate Annual Cap	CEI	OE	TE
% of Aggregate Annual Cap		70%	50%	30%
2015 Annual Cap	$ 203,750,000			
Allocation of Under (Over)-2014	$ (2,207,737)			
Adjusted 2015 Annual Cap	$ 201,542,263	$ 141,079,584	$ 100,771,131	$ 60,462,679
2015 Annual Revenue	$ 189,203,624	$ 82,952,412	$ 82,992,861	$ 23,258,351
Under (Over) 2015 Revenue Cap	$ 12,338,638	$ 58,127,172	$ 17,778,270	$ 37,204,328

The comparison of the annual cap to revenue in 2015 demonstrates that the Companies are under the aggregate annual cap by $12,338,638 and are under the allocated annual cap by Company.

Conclusion

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 Annual Rider DCR Revenue through 11/30/15 is under both the aggregate annual cap and the allocated annual cap by Company.

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 2016. To develop the first quarter 2016 estimates, the Companies used estimated plant-in-service and reserve balances as of 2/29/16 from the 2015 Forecast Version 10+2 from PowerPlant.[192] The estimated 2/29/16 plant and reserve balances were then adjusted to reflect current assumptions, to incorporate recommendations from prior Rider DCR Audit Reports, and to remove the pre-2007 impact of a change in pension accounting.

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. [193]

[191] WP V&V FE DCR Compliance Filing 12.31.2015-Confidential.
[192] FirstEnergy's response to Data Request BRC Set 1-INT-001, Attachment 3 – Confidential.
[193] Case No. 12-1230-EL-SSO Stipulation and Recommendation April 13, 2012, page 22.

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 2/29/16 Schedules while performing specific tasks in each of the previous sections. Specific observations and findings are discussed in the appropriate sections.

Conclusion

Blue Ridge found that the projected amounts included within the first two months of 2016 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. Explanations of the issues are provided in the appropriate sections.

Table 35: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement[194]

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 104,174,250**	**$ 107,265,493**	**$ 28,153,742**	**$ 239,593,485**
1	Variance: FERC 390 TE Plaza Plant Understated	-	-	15,671	15,671
2	Variance: FERC 390 Reserve Leasehold Understated	-	-	(679)	(679)
3	Excluded Riders: Corrected Rider EDR Exclusion Balances	(1,424)	-	-	(1,424)
4	Excluded Riders: Rider AMI Work Order to be Excluded	(841)	-	-	(841)
5	Non Jurisdictional: FECO 303 Merger	(74,170)	(89,840)	(39,519)	(203,530)
6	Non Jurisdictional: FECO 390 Bethel Warehouse	(234)	(284)	(125)	(643)
7	Delay in Recording Retirements: CE 390 WO IF-CE-000017-1	213	-	-	213
8	Delay in Recording Retirements: CE 364 WO 14057988	67	-	-	67
9	Exclusions: ATSI Not Excluded	-	(1,042)	(16)	(1,058)
10	Unspecified Location Pension: Retirements not Recorded	(63,680)	(156,964)	(40,894)	(261,538)
	Impact of All Adjustments	**$ (140,069)**	**$ (248,130)**	**$ (65,562)**	**$ (453,761)**
	Recommended Adjusted Rider DCR Revenue Requirements	**$ 104,097,861**	**$ 107,174,327**	**$ 28,129,075**	**$ 239,401,262**

[194] 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.

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.[195] 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.[196]

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.[197]

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.[198] 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 2015 on April 2, July 1, October 2, and December 31, a statement reads as follows:

> Further, as set forth in the Stipulation, there have been no net job losses at the Companies and at FirstEnergy Service Company, specifically as to employees of the

195 Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 17.
196 Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 12.
197 Case No. 12-1230-EL-SSO Opinion and Order, July 18, 2012, page 11.
198 Case No. 10-0388-EL-SSO Opinion and Order, August 25, 2010, page 35.

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.[199]

In the 2011, 2012, 2013, and the 2014 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 11/30/2015. 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 11/30/2015 totals to those of year-end 2014. This data, provided by FirstEnergy, indicates that the total number of employees did, in fact, increase by 118 from last year's total, although at Ohio Edison and Toledo Edison, employee levels decreased.

Table 36: Headcount Comparison 11/30/14 to 11/30/15[200]

Company	11/30/14	11/30/15	Change 13 to 14
CE	815	903	88
OE	1,083	1,066	-17
TE	333	323	-10
FESC	1,588	1,645	57
TOTAL	**3,819**	**3,937**	**118**

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 up or down, if these changes 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 118 headcount increase was calculated as follows:[201]

Voluntary Attrition	(178)
Non-merger-related involuntary attrition	(28)
New hires	241
Net non-merger-related transfers in/out of Ohio	8
Net non-merger-related transfers within Ohio	75
Total Change	118

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

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

[199] 2015 Rider DCR Tariff Compliance Filings for The Cleveland Electric Illuminating Company, Ohio Edison Company, and The Toledo Edison Company for the referenced dates.
[200] FirstEnergy's response to Data Request BRC Set 1-INT-003, Attachment 1 – Confidential.
[201] FirstEnergy's response to Data Request BRC Set 1-INT-042, Attachment 1 – Confidential.

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. 0oint 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.

<u>Combined Stipulation</u>

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(8), (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.

Note: Due to size, some requests have been abridged. The full request is available in the electronic workpapers.

FE-1.01	**CONFIDENTIAL RESPONSE**: For each company, please provide the workpapers and documents that support the information included within the December 31, 2015, Rider DCR Compliance Filing. Please provide the source data in its original electronic format.
FE-1.02	**CONFIDENTIAL RESPONSE**: For each company and the Service Company, please provide in a Microsoft Excel spreadsheet a list of work orders by FERC account for 12/1/14 through 11/30/15. Include the description, dollar amount, completion date, whether the work was an addition or replacement.
FE-1.03	**CONFIDENTIAL RESPONSE**: For each company and the Service Company, please provide a current organizational chart.
FE-1.04	Please confirm that the following individuals were in the same positions for 2015. Please identify any changes. # 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 Sandra Hemberger Manager, Corporate Services & Energy Efficiency 6 Thomas McDonnell Manager, Insurance Risk and Insurance Risk Analyst 7 Eileen Mikkelsen Director Rates & Regulatory Affairs 8 Peter Blazunas OH State Regulatory Analyst II 9 John Nauer Director, Utilities Sourcing 10 Albert Pompeo FEU Business Services Policy and Control Lead 11 Nicholas Fernandez Director, Business Planning & Performance 12 Steve Vucenovic Manager, General Accounting
FE-1.05	**CONFIDENTIAL RESPONSE**: Please provide a list of work orders by FERC account used for the following types of work in December 2014 and January through November 2015: 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
FE-1.06	**CONFIDENTIAL RESPONSE**: Please provide a reconciliation of the list of workorders provided in Data Request 1.2 to the amounts included in the December 31, 2015, DCR filing.

FE-1.07	**CONFIDENTIAL RESPONSE**: Please provide a reconciliation of the Rider DCR balances to the balances in the 2015 FERC Form 1
FE-1.08	**CONFIDENTIAL RESPONSE**: Please provide the 2015 budget supporting the 2015 Compliance Filings. Also, please include the assumptions supporting the budget/projected data.
FE-1.09	**CONFIDENTIAL RESPONSE**: 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 2015.
FE-1.10	**CONFIDENTIAL RESPONSE**: Please provide a narrative on how the companies have addressed the recommendations agreed to in the Joint Stipulation and Recommendation dated May 18, 2015 from Blue Ridge's Compliance Audit of the 2014 DCR Riders dated March 30, 2015. a. On Page 13 of the Report, Blue Ridge recommended that the ATSI Work Order HE123 reversal transferred from CEI back to ATSI in January 2015 be removed from the Rider DCR calculation for 2014 and the effect of that carried forward into 2015. b. On Page 15 of the Report, Blue Ridge recommended that the Companies should review their IT project planning to ensure that the methodology allows for projects to be fully scoped prior to execution. On Page 30 of the Report, Blue Ridge also recommended that the Companies continue documenting any increase in efficiency and savings within its IT project justifications that are justified on that basis. The Companies and the Staff agree that the Companies will conduct an internal audit of their IT project planning and implementation. The Companies shall coordinate with Staff to determine the scope of the internal audit, and the results shall be reviewed in the next Rider DCR compliance audit. The audit shall be completed by December 31, 2015. c. On Page 22 of the Report, Blue Ridge recommended that the Companies correct certain errors identified as part of its work order transactional testing and review of the Rider DCR filings and adjust Rider DCR accordingly. The Companies agree to reflect the adjustments in the Rider DCR filing expected to be filed on or about June 30, 2015. d. On Page 22 of the Report, Blue Ridge recommended that the Companies continue to work towards a reduction in the unitization backlog of work orders. The Companies commit to decreasing the unitization backlog in 2015 with a goal of returning to 2013 levels. e. On Page 27 of the Report, Blue Ridge recommended that future audits include testing steps to confirm that AFUDC is correctly applied. f. On Page 27 of the Report, Blue Ridge recommended 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 29 of the Report, Blue Ridge reiterated its recommendation from the 2013 Rider DCR audit report (Case No. 13-2100-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. The Companies shall submit this study to Staff no later than June 1, 2015. h. On Pages 83 through 87 of the Report, Blue Ridge recommended a decrease to the 2015 aggregate annual cap by an amount equal to $2,207,737. Rider DCR effective June 1, 2015 incorporates this recommendation.

FE-1.11	**CONFIDENTIAL RESPONSE**: Please provide a copy of the IT Budget Process Audit that was to be completed by December 31. 2015.
FE-1.12	**CONFIDENTIAL RESPONSE**: Please provide a copy of the Companies updated depreciation study that was to be submitted to Staff no later than June 1, 2015.
FE-1.13	Please provide the work papers that support the amounts recorded as Audit Recommendations.
FE-1.14	What is the status of the Companies' plan to make a programming change to PowerPlant to eliminate the manual process used to move CIACs?
FE-1.15	Please provide a narrative of any changes made to the development process of the 2015 Rider DCR schedules from the 2014 schedules.
FE-1.16	Please provide any changes to how the Rider DCR Compliance Filings are developed based on the narrative of its 2014 development as reflected in last year's audit report titled "Compliance Audit of the 2014 Delivery Capital Recovery Riders of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company," dated 3/30/2015 in Docket # 14-1929-EL-RDR.
FE-1.17	**CONFIDENTIAL RESPONSE**: For each company and the Service Company, please provide any changes for 2015 to the policies and procedures for the following activities. a. Plant Accounting i. Capitalization, including additions to retirement units of property. 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
FE-1.18	Please specifically explain any changes that have been made in capitalization polices that would transfer costs from operating expenses to capital.
FE-1.19	**CONFIDENTIAL RESPONSE**: Please provide the percentages by class that Rider DCR comprises of the total average winter bills for each operating company.
FE-1.20	**CONFIDENTIAL RESPONSE**: For each company and the Service Company, please provide a list of Internal Audits performed for 2015. List the name of the audit, scope, objective, and when the work was performed.

FE-1.21	**<u>CONFIDENTIAL RESPONSE</u>**: For each company and the Service Company, please provide a list of SOX compliance work performed during 2015. List the name of the audit, scope, objective, and when the work was performed.
FE-1.22	**<u>CONFIDENTIAL RESPONSE</u>**: For each company, please provide in a Microsoft Excel spreadsheet in FERC Form 1 format the beginning and ending period balance by primary plant (300 account and sub account), additions, retirements, transfers, and adjustments for 12/1/14 through 11/30/15.
FE-1.23	For each company, please provide in a Microsoft Excel spreadsheet the beginning and ending period balance for jurisdictional accumulated reserve for depreciation balances by FERC 300 account for 12/1/14 through 11/30/15.
FE-1.24	For each company and the Service Company, please provide in a Microsoft Excel spreadsheet beginning and ending period balance of Construction Work in Progress (CWIP) for 12/1/14 through 11/30/15. If the CWIP balances for any of the Companies or the Service Company has increased from 12/1/14 to 11/30/15, please provide a narrative and any support documentation explaining the increase.
FE-1.25	Did the companies have any large construction and/or replacement programs in 2015 such as pole replacement, meters, underground line, etc? If so, please identify the program, company, and work orders associated with the program.
FE-1.26	For each company and the Service Company, please provide a list of any insurance recoveries charged to capital from 12/1/14 through 12/31/15.
FE-1.27	For each company and the Service Company, please provide a list and explanation of any 2015 pending insurance recoveries not recorded or accrued that would be charged to capital. Indicate the type of recovery, estimated amount, and when receipt is expected.
FE-1.28	**<u>CONFIDENTIAL RESPONSE</u>**: For each company and the Service Company, please provide the approved depreciation accrual rates by FERC 300 account from 12/1/14 through 11/30/15. Note any changes in rates during the year. Please provide the Commission order that approved the rates for each company and the Service Company.
FE-1.29	**<u>CONFIDENTIAL RESPONSE</u>**: 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 2015: a. FERC 300 account, sub account and company b. Depreciation accrual rate used c. Analysis supporting the use of the accrual rate d. Effective date of the rate e. Any filings with the commission for approval
FE-1.30	**<u>CONFIDENTIAL RESPONSE</u>**: In regard to Staff's recommendations regarding FirstEnergy's Depreciation Study submitted to Staff on June 1, 2015, have the Companies' implemented Staff's recommended revised accrual rates? If not, when do the Companies plan to make the change in accrual rates?
FE-1.31	**<u>CONFIDENTIAL RESPONSE</u>**: Please provide the supporting documents and calculation for the tax rates used to calculate the actual 11/30/15 and estimated 2/29/16 Rider DCR Revenue Requirement.
FE-1.32	**<u>CONFIDENTIAL RESPONSE</u>**: Please provide the level of signature authority (LOSA) document that supports the approval of capital projects put in service from 12/1/14 through 11/30/15.

FE-1.33	**CONFIDENTIAL RESPONSE**: Please provide the supporting documentation for the amounts associated with the ATSI Land Lease for actual 11/30/15 and estimated 2/29/16 on pages 19 and 44 of the DCR filing.
FE-1.34	**CONFIDENTIAL RESPONSE**: Please provide the supporting documentation for the amounts excluded from CEI for Rider AMI for actual 11/30/15 and estimate 2/29/16 (page 19 and 44 of DCR filing).
FE-1.35	**CONFIDENTIAL RESPONSE**: Please provide the supporting documentation for the amounts excluded for EDR(g) included on pages 19 and 44 of the DCR filing.
FE-1.36	Please provide by company information regarding the backlog in the unitization of workorders for 2015. Please provide the number of workorders and the length of time in months by functional area (i.e., Distribution, Transmission, General, and Other).
FE-1.37	**CONFIDENTIAL RESPONSE**: Please provide the dollar value of the workorder backlog, by operating company and by workorder classification (distribution, transmission and general/other).
FE-1.38	**CONFIDENTIAL RESPONSE**: Please provide the supporting documentation and calculations for the tax rate used for Actual 11/30/15 and Estimated 2/29/16.
FE-1.39	The Tax Increase Prevention Act of 2014 extended the 50% bonus tax depreciation for qualified property placed into service before January 1, 2015. The Protecting Americans from Tax Hikes Act of?2015, further extended the 50% bonus tax depreciation for qualified property placed in service during 2015, 2016, and 2017. Please provide an explanation on how these tax provisions that extended 50% bonus tax depreciation for qualified property placed into service were recognized in the determination of ADIT in the Companies' Rider DCR filing.
FE-1.40	a. Has the Company requested and received Commission approval for any other riders than those in the following list? b. Please confirm that no cost recovered through the following riders has capital additions included within the Rider DCR.
FE-1.41	Please provide the number of employees for each operating company and the Service Company as of 11/30/15.
FE-1.42	**CONFIDENTIAL RESPONSE**: Please provide the number of merger-related changes in employees from 12/1/14 to 11/30/15. Include an explanation of any changes, and if changes occurred but were not merger related, provide an explanation for concluding that the changes were not merger related. Include in the explanation 2015 totals for voluntary attrition, non-merger-related involuntary attrition, new hires, net transfers in and out of Ohio, net transfers within Ohio, and any other categories which contribute toward any change in headcount.
FE-2.01	**CONFIDENTIAL RESPONSE**: For each company, please provide in the original electronic format, the workpapers and documents that support the information included within the following filings: a. October 2, 2015, Rider DCR Compliance Filing b. July 1, 2015, Rider DCR Compliance Filing c. April 2, 2015, Rider DCR Compliance Filing
FE-2.02	**CONFIDENTIAL RESPONSE**: Please respond to the following items: a. Please provide the current meter repair/replacement policy and procedures for each operating company.

	b. Please provide a timeline over the past five years regarding major changes to each operating company's policies and procedures affecting meter repair and replacement. c. If not specifically addressed in the policy and procedures provided, please explain the Companies' process by meter type on the decision whether a mechanical meter should be replaced with a new meter or a repaired meter. d. If not specifically addressed in the policy and procedures provided, please explain the Companies' process to decide whether a mechanical meter should be replaced with another mechanical meter or with an electronic meter. e. If not specifically addressed in the policy and procedure provided, please explain what happens to meters that are replaced by meter type.
FE-2.03	**CONFIDENTIAL RESPONSE**: a. Are meter repairs performed by company personnel or by others? b. What types of meters are repaired vs. replaced? c. If meters are repaired and returned to service, do the Companies change the serial numbers and therefore, consider them new assets? If not, why not? d. By operating company, by class (i.e., residential, commercial, and industrial), and then by meter type, please provide the number of meters that were repaired and returned to inventory in 2015
FE-2.04	**CONFIDENTIAL RESPONSE**: What functions are performed at the FE meter lab?
FE-2.05	**CONFIDENTIAL RESPONSE**: What types of meters are tested in the field vs. at the meter lab?
FE-2.06	**CONFIDENTIAL RESPONSE**: For calendar years 2013-2015, please provide by operating company and customer type (residential, commercial, and industrial), the number of meters in stock and their total dollar value (purchased and not set in the field) as of the end of 2013, 2014, and 2015.
FE-2.07	**CONFIDENTIAL RESPONSE**: Please respond to the following items: a. Please provide the number of meters that were purchased and added to inventory 12/1/14 through 11/30/15. b. Please provide workorders and/or POs and amounts by operating company for meter purchases for the period 12/1/14 through 11/30/15. c. Please provide the amount of dollars spent by PO and/or workorder number and the date the meters were purchased. d. How are meters purchased (PO or workorder) and where does this show up in the population of workorders included in the DCR for the period 12/1/14 through 11/30/15? e. Please provide the accounting for the purchase of meters. Does FE agree that meters are capitalized upon purchase?
FE-2.08	**CONFIDENTIAL RESPONSE**: Please provide the number of meters installed on customer premises for calendar years 2013-2015 by operating company by customer type.
FE-2.09	**CONFIDENTIAL RESPONSE**: Please provide the meter capital budget and actual by year, by operating company, and by customer type for 2013-2015.
FE-2.10	**CONFIDENTIAL RESPONSE**: What is the average cost for each type of meter currently being used? Identify if meter is residential or commercial and exclude Generation metering.
FE-2.11	a. Please indicate what, if any, dollars of inventory meters are allowed in ratebase. b. Are any meters in inventory in the DCR? If so, what is the dollar value?

FE-2.12	<u>**CONFIDENTIAL RESPONSE**</u>: a. Does the Company have a plan to replace certain types of meters, such as residential mechanical meters or more specifically mechanical vs. electronic or AMR meters? b. If so, please explain the plan, including how long the plan has been in existence and how many meters have been replaced by year by operating company. c. How are the Companies recovering (or planning to recover) the costs associated with the replacement program?
FE-2.13	<u>**CONFIDENTIAL RESPONSE**</u>: a. Are smart meters or AMR meters employed at any of the three Operating Companies? b. If so, what type of meters did they replace? (e.g., AMR meter replaced a mechanical meter). c. How are the Companies recovering (or planning to recover) the costs associated with the replacement of meters with Smart Meters?
FE-3.01	Please provide a reconciliation of the beginning (11/30/14) Rider DCR balances to the balances in the 2014 FERC Form 1.
FE-3.02	<u>**CONFIDENTIAL RESPONSE**</u>: Please provide detailed narratives (along with supporting documentation) explaining and justifying the reasons for the variances between the following quarterly and/or yearly actual balances in the DCR filing for each account and period identified: a. Plant-in-Service i. CEI: Account 356 (Overhead Conductors & Devices) 11/30/14 balance = $56,281,126; 11/30/15 balance = $53,623,287; decrease of $2,657,839 (4.7%) ii. CEI: Account 370 (Meters) 11/30/14 balance = $96,715,496; 11/30/15 balance = $100,171,091; increase of $3,455,595 (3.6%) iii. CEI: Account 397 (Communication Equipment) 11/30/14 balance = $19,368,469; 11/30/15 balance = $21,919,671; increase of $2,551,202 (13.2%) iv. OE: Account 370 (Meters) 11/30/14 balance = $136,104,615; 11/30/15 balance = $144,219,355; increase of $8,114,740 (6%) v. OE: Account 397 (Communication Equipment) 11/30/14 balance = $21,262,673; 11/30/15 balance = $24,423,615; increase of $3,160,942 (14.9%) vi. OE: Account 303 (Intangible Software) 11/30/14 balance = $60,216,076; 11/30/15 balance = $68,862,709; increase of $8,646,633 (14.4%) vii. TE: Account 355 (Poles & Fixtures) 11/30/14 balance $4,016,817; 11/30/15 balance = $3,408,842; decrease of $607,975 (15.1%) viii. TE: Account 370 (Meters) 11/30/14 balance = $39,387,894; 11/30/15 balance = $43,080,762; increase of $3,692,868 (9.4%) ix. TE: Account 389 (Land & Land Rights) 11/30/14 balance = $1,826,097; 11/30/15 balance = $723,725; decrease of $1,102,372 (60.4%) x. TE: Account 390 (Structures & Improvements) 11/30/14 balance = $56,212,421; 11/30/15 balance = $34,517,337; decrease of $21,695,084 (38.6%) xi. TE: Account 397 (Communication Equipment) 11/30/14 balance = $9,555,188; 11/30/15 balance = $12,015,118; increase of $2,459,930 (25.7%) xii. TE: Account 399.1 (ARO) 11/30/14 balance = $7,345,237; 11/30/15 balance = $158,513; decrease of $7,186,724 (97.8%) xiii. TE: Account 303 (Intangible Software) 11/30/14 balance = $22,213,630; 11/30/15 balance = $25,206,116; increase of $2,992,486 (13.5%)

	b. Reserve i. CEI: Account 354 (Towers & Fixtures) 11/30/14 balance = $1,577,023; 11/30/15 balance = $1,577,023; no change – why no reserve change for account with plant-in-service dollars? ii. CEI: Account 370 (Meters) 11/30/14 balance = $23,238,990; 11/30/15 balance = $21,665,288; decrease of $1,573,702 (6.8%) iii. OE: Account 370 (Meters) 11/30/14 balance = $46,200,569; 11/30/15 balance = $38,274,146; decrease of $7,926,423 (17.2%) iv. OE: Account 373 (Street Lighting) 11/30/14 balance = $39,645,423; 11/30/15 balance = $38,062,045; decrease of $1,583,378 (4%) v. OE: Account 391.2 (Data Processing Equipment) 11/30/14 balance = $1,404,404; 11/30/15 balance = $1,916,136; increase of $511,732 (36.4%) (Balances for this account in the first three quarters of 2015 rose 28.7%, 24.4%, and 20.2%, respectively, before falling 29.1% in the fourth quarter.) vi. OE: Account 392 (Transportation Equipment) 11/30/14 balance = $45,588; 11/30/15 balance = $128,002; increase of $82,414 (180.8%) (Balances for this account in the first, third, and fourth quarters of 2015 rose 81.2%, 71.4%, and 43.4%, respectively, although falling 37% in the second quarter.) vii. TE: Account 353 (Station Equipment) 11/30/14 balance = $4,646,326; 11/30/15 balance = $4,449,748; decrease of $196,578 (4.2%) viii. TE: Account 390 (Structures) 11/30/14 balance = $19,072,098; 11/30/15 balance = $9,125,740; decrease of $9,946,358 (52.2%) ix. Service Company: 11/30/14 balance = $31,922,819; 11/30/15 balance = $38,492,298; increase of $6,569,479 (20.6%)
FE-4.01	**CONFIDENTIAL RESPONSE**: For the attached work order list (BRC Set 4-2015 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 for all FERC accounts within the workorder) 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.
FE-5.01	Follow up to Data Request response BRC Set 1-INT-27. a. If the storm event took place in 2012, why did the Company wait to file an insurance claim until 2015? b. Is the claim entirely for capital work? c. How will potential future recoveries impact the DCR?
FE-5.02	Follow up to Data Request response BRC Set 1-INT-33, attachment 1 CECO. a. Please explain and provide the accounting entry for the transfer amount of $805,674 for Transmission plant, FERC 350 - Land and Land rights.
FE-5.03	Follow up to Data Request response BRC Set 1-INT-036. Reference Blue Ridge 2014 DCR report, page 71. Table 21: 2014 Unitization of Workorders Backlog as of 11/30/14. as of 11/30/15 as of 11/30/14 as of 12/31/13 Unitization Backlog 983 4156 1346 Please explain the process used to significantly decease the backlog from 11/30/14 to 11/2015.
FE-5.04	Follow up to Data Request response BRC Set 1-INT-37 a. Please explain what created a negative backlog for TE, Transmission of ($51,330).
FE-5.05	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC Set 1-INT-20. a. For the following audits please provide the executive summary of findings and recommendations: i. Project 25533 ii. Project 25779 iii. Project 25367 b. For the following audits please provide a summary of any significant control deficiencies, along with how those deficiencies were corrected and/or mitigated: i. Project 25482 ii. Project 25489 iii. Project 25493 iv. Project 25501
FE-06.01	Follow-up to Data Request 1-INT-7—The response to this DR misinterprets our request. The response provided does answer a subsequent DR (3-INT-1). However, the intent of this DR is to receive a reconciliation of the ending (11/30/15) Rider DCR balances to the balances in the 2015 FERC Form 1. While the 2015 FERC Form 1 may not be submitted yet to FERC, please use the data based on 12/31/15 balances that will be provided to FERC in submission of the 2015 FF1.
FE-06.02	Follow-up to Data Request 1-INT-23—Please provide detailed narratives (along with supporting documentation) explaining and justifying the reasons for the variances between the following yearly actual balances for each account identified: a. Reserve CECO: Account 370SG (Meters SG): Account balance increased by 72.3% from 11/30/14 balance of $2,196,472 to 11/30/15 balance of $3,784,635

	b. Reserve FECO: Account 303 (Intangible): Account balance increased by 26.9% from 11/30 /14 balance of $137,824,038 to 11/30/15 balance of $171,055,862
FE-06.03	**<u>CONFIDENTIAL RESPONSE</u>**: Follow-up to Data Request 1-INT-24: a. Regarding the explanation for the increase in CWIP at CECO, please provide the accounting entry for the AMI CIAC specifying the accounts and the amounts involved. b. Regarding the significant decrease in CWIP at OECO in November 2015, please provide a narrative and any supporting documentation explaining this drop.
FE-07.01	Reference: BRC Set 1-INT-001 Attachment 3 Confidential and December 31, 2015 Rider DCR Filing. Please explain the difference in 390 Structures, Improvements between the Rider DCR filing and the supporting provided in the referenced response. Account As Filed Gross Support Gross Difference As Filed Reserve Support Reserve Difference Actual 11/30/15 FESC 390 Structures, Improvements $43,363,349 $43,737,349 $374,000 $20,307,428 $20,322,581 $15,153 Estimated 2/29/16 FESC 390 Structures, Improvements $44,435,893 $44,872,833 $436,940 $20,737,957 $20,755,497 $17,539
FE-07.02	**<u>CONFIDENTIAL RESPONSE</u>**: Reference BRC Set 1-INT-001 Attachment 6 Confidential. The Rider DCR General Plant Line 6 Capitalized Asset Retirement Costs shows $158,513. The Property Tax workpapers, 2015 Annual Report (page C13) Other Exemptions and Exclusions shows a significantly larger amount $7,345,237. The workpaper (page C2) includes an explanation "General Plant Capitalized Asset Retirement Costs are based on current plant values. Line (6) thus reflects a reduction to plant associated with this category that is not reflected in the Annual Property Tax Return since it occurred after the return was filed." Please explain what reduction was made and when the reduction was made.
FE-07.03	**<u>CONFIDENTIAL RESPONSE</u>**: Reference BRC Set 1-INT-001 Attachment 7 – Confidential. Please explain the nature of the following items included within ADIT and why they should be included within the Rider DCR. a. CECO Other Basis Differences-Fed-Norm – 1 line item $65,019,086 b. CECO Other Basis Differences-OH Local-Norm – 7 line items totaling $2,180,891 c. CECO PAA – 8 line items totaling $609,507 d. OECO G Overheads – 15 lines items totaling ($58,546,878) e. OECO Other Basis Differences – 15 line items totaling $10,579,586 f. TECO PAA – 15 line items totaling $1,354,958 g. TECO Other Basis Differences – 15 line items ($3,175,239) h. SC G Overheads – 1 line item totaling ($6,442,974) i. SC Property 2013 Ptax-Accural – 9 line items totaling $16,266,103
FE-07.04	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to BRC Set 1-INT-39 and BRC Set 1-INT-001, Attachment 7. The Companies stated that the estimated 2/29/16 ADIT balances included in the December 31, 2015 Rider DCR filing included the estimated impact of 50% bonus depreciation on the actual activity for Jan-Nov 2015, as well as the estimated impact of 50% bonus depreciation on estimated activity for Dec 2015 – Feb 2016. A review for the

	ADIT supporting documentation (see attached WP ADIT BRC Set 1-INT-001, Attachment 7) shows the following increase in Accelerated Depreciation for each Company. a. Please indicate where in the ADIT supporting documentation (BRC Set 1-INT-001, Attachment 7) that estimated impact is included. b. Please provide the workpapers used to calculate the 50% bonus depreciation for Jan-Nov 2015 that was included in the estimated 2/29/2016 ADIT balances for each Company.
FE-08.01	**<u>CONFIDENTIAL RESPONSE</u>**: Follow-up to Data Request 3-INT-2, sub-point a.x 3rd bullet—On page 4 of 5 of the response, the Company states that total exclusions in account 390 related to leasehold improvements was recorded as $88,266 when it should have equaled $(18,304), an overstatement of $106,751. Please provide additional detail explaining this overstatement (e.g., how was the $88,266 first calculated? What was not included or should not have been included that changed the amount from the correct amount of $(18,304)? What was the reason the amount was misstated? etc.)
FE-08.02	Follow-up to Data Request 1-INT-22—Please provide detailed narratives (along with supporting documentation) explaining and justifying the reasons for the changes in the following accounts: a. CEI Account 352 Transmission Structures and Improvements, negative Additions of $32,047 b. CEI Account 353 Transmission Station Equipment, negative Transfer/Adj of $112,191 c. CEI Account 355 Transmission Poles and Fixtures, negative Transfer/Adj of $385,837 d. CEI Account 357 Transmission Underground Conduit, positive Retirement of $12,433 e. CEI Account 362 Distribution Station Equipment, negative Transfer/Adj of $452,213 f. OE Account 353 Transmission Station Equipment, positive Transfer/Adj of $642,047 g. OE Account 362 Distribution Station Equipment, positive Transfer/Adj of $1,460,137 h. TE Account 354 Transmission Towers and Fixtures, negative Additions of $484,240 i. TE Account 391 General Plant Office Furniture, Equipment, negative Transfer/Adj $117,499 j. TE Account 392 General Plant Transportation Equipment, negative Additions of $44,928
FE-09.01	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC Set 2-INT-3, part d. and BRC Set 2-INT-4. a. When electronic meters are reclaimed by the meter departments, are they retired when taken out of service, and then placed back into inventory for re-use once they are reclaimed? If not, please explain what takes place for accounting purposes and how that impacts the DCR. b. How is the time spent by the Ohio Meter shop accounted for (capital/O&M), and is it charged to the DCR?
FE-09.02	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC Set-2-INT-6, 2014 and 2015 CEI: The total meters in stock at the end of 2015 was 5,363 (about 50%) less than at the end of 2014. Please explain why and how the change impacts the DCR.
FE-09.03	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC SET 2-INT-7, part e.
	a. Please confirm that the company does not capitalize meters upon purchase. b. Please confirm that the company has the option under FERC accounting to capitalize the meters upon purchase.

FE-09.04	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC Set-2-INT-9, attachment 1 (Confidential). Please explain in detail why the 2014 and 2015 actual OE capital expenditures were so much greater than the respective budgets
FE-09.05	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC-Set-4-INT-1, attachment 2, workorder CE-M70023. The workorder description indicates that this workorder is "ITS - Merger: Trans EMS Standardization". Please explain why a Merger workorder is included in the DCR.
FE-09.06	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC-SET-4-INT-1, attachment 2. The workorders listed below had project descriptions as follows. "The transactions in 2015 represent pension adjustment charged to existing assets which were previously unitized from this work order. Since the adjustments were accounting in nature the information requested in parts (a), (b), and (c) is not available for this work order" a. Please explain in detail the nature of the Pension adjustments. b. Since Pensions are not units of property, how were they unitized? c. What did the Company do to ensure that the Pensions were not already charged to the workorders in CWIP?
FE-09.07	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC-SET-4-INT-1, attachment 1, project CECO 13542943: This project was budgeted for $73,365 and actual was $1,185,355. The Company explained that this was an "Emergent project not fully anticipated in original budget version." What was not anticipated in the original budget version that cost over $1 million more than planned?
FE-09.08	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC-SET-4-INT-1, attachment 1 and 3, project FECO IF-SC-000064-1, replace air handling in SVCO Building. The project was budgeted for $192,135 and actual was $495,828 or 158% over budget. The explanation was "material costs higher than anticipated." It appears, based on cost data, that the work was done by contractors. a. If the work was done by contractors, what caused the material costs to go up? b. Was the material costs included in the contractor bid? c. What was not included in the contractor bid that caused the project cost to increase?
FE-09.09	Follow up to Data Request response BRC-SET-4-INT-1, attachment 1, attachment 3, project HE123, CECO prop assets pwr plt trasnfs and adj. ($66,279,990). The description for this project is "This is an accounting work order that represents transfers between CEI and other companies resulting, in part, from the unitization process and SOX related activities. Therefore the information requested in parts (a), (b), and (c) is not available for this order." a. What SOX related activities created this adjustment? b. What other Companies were part of this adjustment? c. What in the unitization process caused this adjustment? d. Were all the dollars included in this adjustment originally CECO capital workorders? e. Does this adjustment represent unretired assets? f. Do these transfers impact Depreciation expense? If so, please quantify. If not, explain why. g. Please explain the difference in the total in attachment 3 and the total in attachment 1 of $399,734. (Attachment 1 = $66,279,990, Attachment 3 = $65,880,256).

FE-09.10	**CONFIDENTIAL RESPONSE**: Follow up to Data Request response BRC-SET-4-INT-1, attachments 3 (cost data), 4 (Retirements) and 5 (Cost of removal). Please explain the impact on depreciation expense for the following delays in retiring assets after the replacement assets had gone into service. a. CECO workorder PA82357120. Assets in-service May 2015, retirements Sept. 2015. Four-month delay in retiring assets. b. OCEO workorder 13540608: Assets in-service December 2014, retirements February 2015. Two-month delay in retiring assets. c. OECO workorder IF-OE-000060-1: Assets were in-service January 2015, retirements April 2015. Three-month delay in retiring assets. d. OECO workorder PA82997440: Assets were in-service July 2015, retirements completed September 2015, Two-month delay in retiring assets. e. CECO workorder IF-CE-000017-1: Assets were in-service December 2014, retirements October 2015 and Cost of removal charged December 2014 and January 2015. Ten-month delay in when assets were removed from service and retired. f. CECO workorder 14057988: Assets were in-service January 2015, retirements November 2015 and Cost of removal charged December 2014. Eleven-month delay in when assets were removed from service and ten-month delay from in-service to asset retirements. g. OECO workorder 14158512. Assets were in-service December 2014, retirements completed March 2015. Three-month delay in retiring assets.
FE-09.11	**CONFIDENTIAL RESPONSE**: Follow up to Data Request response BRC-SET-4-INT-1, attachment 3. The following workorders had overheads charged without any direct costs. Please explain why. a. Workorder CECO 1404454 - $669 b. Workorder CECO 14255750 - $104
FE-09.12	**CONFIDENTIAL RESPONSE**: Follow up to Data Request response BRC-SET-4-INT-1, attachments 2: Please explain the impact on AFUDC for the following workorder where the actual in-service date was greater than the estimated in-service date. FECO workorder ITC-SC-000296-1: Estimated completion date was March 2015 and actual completion date was July 2015. Delay was 121 days. AFUDC accrued was $261,831.
FE-09.13	**CONFIDENTIAL RESPONSE**: Follow up to Data Request response BRC-SET-4-INT-1, attachments 1 and 2: The following workorders/projects were over budget and the explanations were vague. Please provide a more detailed explanation. a. CECO Project 14077587 was over budget by 49.7%. Company indicates that reasons were labor, contract and materials greater than planned b. CECO Project 14584608 was over budget by 28.5%. Labor and material expense greater than planned. c. OECO Project 14072601 was over budget by 67.3%. Labor, material and overheads greater than planned. d. FECO Project IF-SC-000064-1 was over budget by 158.1%. Explanation was significantly higher material costs e. CECO Project CE-700319 was over budget by 77.3%. Explanation was more labor hours than anticipated. f. FECO Project ITS-SC-000223-1 was over budget by 23.1%. Explanation was technical issues required rework and more labor

	g. FECO Project ITS-SC-000345-1 was over budget 92.2%. Explanation was that the scope was expanded because of critical business requirements h. FECO Project ITS-SC-000386-1 was over budget 26.9%. Explanation was issues with software required additional labor.
FE-10.1	**<u>CONFIDENTIAL RESPONSE</u>**: 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 verification 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) Cleveland Electric: 1) Work Order: 14077587: SW New Bentley "BE" 138-13kv mod sub In-Service: August 2015 RPA: NOH-08-06124-155234 Cost: $3,333,789 2) Work Order: 14644540; Brooklyn SW Facility upgrade In-Service October 2015 RPH: CE-15-150619-111913 Cost: $142,252 3) Workorder IF-CE-000017-1: CE Miles Warehouse D Roof replacement In-service December 2014 Cost: $435,911 Ohio Edison: 4) Work Order: 14072601: Brunswick Laurel Road Area Mod Sub In-Service: August 2015 RPH: CPH-06-060217-151246 Cost: $2,316,803 5) Work Order: IF-OE-000060-1: OE Warren- Replace Carport Roof In-Service: January 2015 Cost: $81,057 First Energy Service Corp: 6) Work Order: IF-SC-000064-1: SVcCo Bldg. Replace air Handling U In-Service: August 2015 Cost: $492,918
FE-11.01	**<u>CONFIDENTIAL RESPONSE</u>**: Please refer to attached spreadsheet "BRCS WP FE DCR CF Variance 2015.xlsx." The intent of this spreadsheet is to determine, by company, whether any difference exists between the DCR filing's reported Adjusted Plant for 2015 (11/30/14 through 11/30/15) and the Work Order Population we received as response to data request BRC 1-INT-05. The following questions relate to these differences:

	a. In column labeled "(h)" (spreadsheet column K), the items highlighted in green are those CEI accounts whose 2015 WO Population differs from the DCR Adjusted Plant for 2015. Please provide a reconciliation for each account, explaining this difference: i. Account 361: difference of $4,079 ii. Account 362: difference of $40,156 iii. Account 364: difference of $367,094 iv. Account 365: difference of $(1,975,054) v. Account 366: difference of $49,038 vi. Account 367: difference of $(145,403) vii. Account 368: difference of $8,331 viii. Account 369: difference of $(101) ix. Account 370: difference of $(532,021) x. Account 391: difference of $148,614 xi. Account 397: difference of $312,641 xii. Account 303: difference of $(49,714) b. In column labeled "(m)" (spreadsheet column Q), the items highlighted in green are those OE accounts whose 2015 WO Population differs from the DCR Adjusted Plant for 2015. Please provide a reconciliation for each account, explaining this difference: i. Account 353: difference of $13,041 ii. Account 391: difference of $275,986 iii. Account 392: difference of $20,655 iv. Account 303: difference of $241,916 c. In column labeled "(r)" (spreadsheet column V), the items highlighted in green are those TE accounts whose 2015 WO Population differs from the DCR Adjusted Plant for 2015. Please provide a reconciliation for each account, explaining this difference: i. Account 390: difference of $2,340,524
FE-12.01	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request response BRC-SET-4-INT-1, attachments 1 and 2: The following workorders/projects were over budget and the explanations were vague. Please provide a more detailed explanation. a. OECO Project 700333 was over budget by 293.9%. Company indicates that reasons were Additional vendor services were purchased outside the scope of the original project. b. OECO Project PA82997440 was over budget by 275.5. Company indicates that reasons were labor, materials, and overhead expense greater than planned. c. FECO Project XIT-000003-1 was over budget by 42.7%. Company indicates that reasons were work that was originally planned for 2016 was made a priority in 2015. d. FECO Project ITS-SC-000296-1 was over budget by 16.8%. Company indicates that reasons were the budget for this item represents only Other Than Labor costs. Labor and AFUDC were not included in the original budget. e. CECO Project CE-710001 was over budget by 215.9%. Company indicates that reasons were implementations in the Cleveland Electric service area were budgeted over the 4 year term of the project, but CE's deliverables were significantly complete in 2015. f. OECO Project 14258512 was over budget by 6148.8%. Company indicates that reasons were that the project was initially budgeted on the basis that it would be a customer specific, and therefore customer reimbursed, project. Therefore, the original budget assumed that this project would be almost entirely reimbursed through customer contributions (CIAC). As the project progressed, however, it was determined that the original customer would not be the sole benefactor of this additional load as other

	customers in the area would also benefit. The decision was therefore made to change this from a customer specific (and thus customer reimbursable project) to a normal load growth project.
FE-12.02	Follow up to Data Request response BRC-SET-4-INT-1, attachment 3. The following workorder had overheads charged without any direct costs. Please explain why. a. Workorder OECO 13892064 - $38,290
FE-12.03	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request BRC –Set 1-INT-27: Please confirm the potential estimated amounts for recovery OE01 - $9,000.00 and CE01 - $11,000.00.
FE-12.04	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request BRC – SET 9-INT-6 (Confidential). Part a. a. Were the amounts created as unspecified assets in 2012 included in UPIS at that time? If not where did they reside? b. What created the mark to market assets? c. Why did the mark to market assets remain in an unspecified location until 2015? d. Were the assets assigned by FERC account? If not how were they depreciated? e. Were the assets assigned to specific workorders or specific FERC accounts only? f. Were the Pension assets Ohio only? If not why not? g. Were the Pension assets allocated to each utility? If so please provide the allocation percentages. h. How did the assignment of assets impact retirements that took place on the affected workorders between 2012 and 2015? i. What other assets reside in unspecified locations and included in the DCR? j. Were those assets included or excluded in the DCR workorder populations for 2012, 2013 and 2014?
FE-13.01	**<u>CONFIDENTIAL RESPONSE</u>**: Reference Response to BRC Set 1-INT-10 Confidential. The Company stated that the full amount ($4,627,413) for this ATSI work order was excluded from Rider DCR as shown in BRC Set 1-INT-001 Attachment 5-Confidential. Blue Ridge understands that the full amount was since revised and only $4,192,080 should be excluded. However, it appears that the carry forward of this adjustment (see BRC Set 1-INT-001 Attachment 5-Confidential Tab Ongoing, Cell AD70 BRC Set 1-INT-001 Attachment 5-Confidential) was reset to zero and nothing was excluded. This is also apparent on BRS Set 1-INT-001 Attachment 3, Tab W.O. Adj.-2014, Cell C3. Please explain.
FE-13.02	**<u>CONFIDENTIAL RESPONSE</u>**: Reference BRC Set 1-INT-001 Attachment 3, 4, and 5-Confidential. Prior work order adjustments should be carried forward as ongoing adjustments in the Rider DCR. The following table traces the work order adjustments for Gross Plant from the 2013 and 2014 audit through the plant balances for 11/30/15 and 2/29/16. a. The 2013 audit identified $(5,988,478) in gross plant adjustments. The Company's Ongoing Adjustment workpaper (Attachment 4) for column 11/30/15 recognized $(7,104,710) in adjustments and column 2/29/16 recognized $(3,649,666). Please explain the differences. b. The 2014 audit identified $(10,008,543) in gross plant adjustments. The Company's Ongoing workpaper (Attachment 5) for column 11/30/15 recognizes $(5,202,524) and column 2/29/16 recognized $(5,267,349) in adjustments. Please explain the differences. c. The 2014 audit adjustments flowed through to the plant balances. Please explain why

	the adjustments in the plant balances workpaper (Attachment 3) do not match the balances in the Ongoing Adjustment workpapers (Attachment 4 and 5).
FE-13.03	**<u>CONFIDENTIAL RESPONSE</u>**: Reference BRC Set 1-INT-001 Attachment 3 and 4-Confidential. In 2013, Generation work orders were identified and excluded from the Rider DCR. The Company stated that Generation work orders must be manually excluded from gross plant and the reserve. It appears that the Tab Ongoing in Attachment 4 is adding Generation workorders in the audit adjustments for 11/30/15 and 2/29/16 as shown in the following table. Please explain.
FE-13.04	Please confirm that the Companies scrap process has not changed and can be summarized as follows: 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.
FE-13.05	**<u>CONFIDENTIAL RESPONSE</u>**: Follow up to Data Request BRC-SET-9-INT-5, work order CE-M70023: ITS Merger Trans EMS Standardization. Was any ITS Merger Trans EMS Standardization associated project costs charged to FECO, TECO or OECO? If so please list the workorder numbers, amounts, and associated in-service dates.
FE-14.01	Follow up to BRC Set 11-INT-01. Please point specifically to where (which tab/cells within the BRC Set 1-INT-001 Attachment 1.xlsx) we can fund the differences based on EDR(g) exclusions to the following FERC Accounts: (a) CEI Account 364 Distribution Plant Poles Towers (b) CEI Account 365 Distribution Plant Overhead Conductor (c) ECI Account 366 Distribution Plant Underground Conduit (d) CEI Account 367 Distribution Plant Underground Conduit
FE-14.02	**<u>CONFIDENTIAL RESPONSE</u>** Follow-up to BRC Set 11-INT-01. Please point specifically to where (which tab/cells within the BRC Set 1-INT-001 Attachment 4.xlsx) the difference of $2,340,524 in TE Account 390 was obtained.

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.

- BRCS WP FE DCR CF Variance 2015 Qtrly - Confidential.xlsx
- WP ADIT BRC Set 1-INT-001 Attachment 7 - Confidential.xlsx
- WP FEOH 2015 Adjustments to Plant and Reserve-Confidential
- WP FEOH 2015 Pre-Date Certain Pension Impact Analysis 2012-2015 - CONFIDENTIAL.xlsx
- WP Impact of Findings BRC Set 1-INT-001 Attachment 1 - FE DCR Compliance Filing 12.31.2015 - Confidential.xlsx
- WP OAC - 5703-25-05 Definitions..pdf
- WP ORC - 5727.111 Assessing at percentages of true value..pdf
- WP V&V FE DCR Compliance Filing 12.31.2015 - Confidential.xlsx
- WP BRC Set 1-INT-002 Attachment 1 - Confidential (COMPANIES SPLIT)
- WP BRC Set 1-INT-002 Attachment 1 - Confidential (Summary of Pulled by FERC)
- WP CECO BRC Set 1-INT-002 Attachment 1 - Confidential (PULLING)
- WP FECO BRC Set 1-INT-002 Attachment 1 - Confidential (PULLING)
- WP FEOH 2014 Sensitivity Analysis Summary.docx
- WP FEOH 2015 Exclusion Report

- WP FEOH 2015 Sample Size Calculation Work Orders through 11-30-15-Confidential
- WP FEOH 2015 Workorder Testing Matrix 160412.xlsx
- WP Isolating 370 accounts (BRC Set 1-INT-002 Attachment 1 - Confidential) R1
- WP OECO BRC Set 1-INT-002 Attachment 1 - Confidential (PULLING)
- WP Population Recon - BRC Set-1-INT-006 Attachment 1 - Confidential.xlsx
- WP Population Recon –BRC Set-1-INT-006 Attachment 1
- WP TECO BRC Set 1-INT-002 Attachment 1 - Confidential (PULLING)
- WP Testing step T5.xlsx
- Directory with the work done regarding field observations.

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

- WP FE Response to 2011 Audit Data Request BRC-10-10 and 10-11.pdf
- WP FE Response to 2011 Audit Data Request BRC-14-1 2.pdf
- WP FE response to 2011 Audit Data Request BRC-14-1.pdf
- WP FE Response to 2011 BRC 1-3a - Attachment 1 - Capitalization Policy - Confidential.pdf
- WP FE Response to 2011 BRC 1-3b - Attachment 1 - Work Management Process - Confidential.pdf
- WP FE Response to 2011 BRC 1-3b - Attachment 2 - CREWS Work Request Narratives - Confidential.pdf
- WP FE Response to 2011 BRC 1-3c - Attachment 1 - Creating Multi-Year Enterprise Capital Portfolio - Confidential.pdf
- WP FE Response to 2011 BRC 1-3c – Attachment 2 – FE Capital Portfolio Development and Capital Management Procedure - Confidential.pdf
- WP FE Response to 2011 BRC 1-3c-Attachment 3 - Energy Delivery Capital Allocation Process - Confidential.pdf
- WP FE Response to 2011 BRC 1-3d - Attachment 1 - Accounting For Capitalized Financing Costs During Construction - Confidential.pdf
- WP FE Response to 2011 BRC 1-3e - Attachment 1 - Invoicing Process Flow Chart - Confidential.pdf
- WP FE Response to 2011 BRC 1-3h – Attachment 1 – Procedure for Enterprise Sourcing of Materials and Services - Confidential.pdf
- WP FE Response to 2011 BRC 1-3m – Attachment 1 – Income Tax Policy and Procedure. - Confidential.pdf
- WP FE Response to 2011 BRC 1-3n – Attachment 1 – Ohio Property Tax Returns - Confidential.pdf
- WP FE Response to 2011 Data Request BRC 11-1.pdf
- WP FE Response to 2011 Data Request BRC 11-2.pdf
- WP FE Response to 2011 Data Request BRC 11-3.pdf
- WP FE Response to 2011 Data Request BRCS-11-2.pdf
- WP FE Response to 2012 BRC-1-19 Depreciation Accrual Rates from Staff's Reports.pdf
- WP FE Response to 2012 Data Request BRC-1-19 Depreciation Accrual Rates from Staff's Reports.pdf
- WP FE Response to 2013 BRC Set-1-INT-032 Supplemental - Confidential.docx
- WP FE Response to 2014 BRC Set 1-INT-015 - Confidential.pdf

- WP FE Response to 2014 Data Request BRC-1-5.pdf

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*	Manager, OH Revenue Requirements
5	Joseph Loboda[202]* Michele Jones*[203] Sandra Hemberger[204]	Manager, Corporate Services Sourcing Manager, Corporate Services Sourcing Manager, Corporate Sourcing
6	Thomas McDonnell*	Manager, Insurance and Operational Risk Management
7	Eileen Mikkelsen[205]*	Director Rates & Regulatory Affairs
8	Erica Millen* Peter Blazunas[206]	OH State Regulatory Analyst III[207]
9	John Nauer*	Director, Utilities Sourcing
10	Albert Pompeo*	FEU Business Services Policy and Control Lead
11	William Richards* Tom Pesich[208] Nicholas Fernandez[209]	Manager, Business Unit Financial Performance Manager, Financial Modeling Executive Director, Strategy and LT Planning[210]
12	Steve Vucenovic*	Manager, General Accounting

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

[202] Joseph Loboda was in the position from 1/1/2012 through 2/12/2012.
[203] 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.
[204] 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.
[205] Eileen Mikkelsen participated in the interview with Erica Millen and Santino Fanelli. No separate interview notes were developed.
[206] Peter Blazunas replaced Erica Millen. He updated the interview notes from the prior year's audit.
[207] Peter Blazunas is an Ohio State Regulatory Analyst III as of 6/14/2015. There was no change to Mr. Blazunas' role related to Rider DCR in 2015.
[208] 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.
[209] 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.
[210] Nicholas Fernandez is an Executive Director, Strategy and LT Planning as of May 2015. There was no change to Mr. Fernandez's role related to Rider DCR in 2015.

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