Case No. 22-0892-EL-RDR

Compliance Audit of the 2022 Delivery Capital Recovery (DCR) Rider of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company

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ORGANIZATION OF BLUE RIDGE'S REPORT

Blue Ridge Consulting Services, Inc. ("Blue Ridge"), the auditor selected for the review of the 2022 Delivery Capital Recovery (DCR) riders of The Cleveland Electric Illuminating Company (CE, CEI, or CECO), Ohio Edison Company (OE or OECO), and The Toledo Edison Company (TE or TECO), collectively referred to as "FirstEnergy" or "the Companies," organized this report of its audit activity and conclusions according to the following major sections:

- *Executive Summary*: This section provides a summary of Blue Ridge's observations, findings, conclusions, and recommendations, which are presented in more detail in the body of the report.
- *Overview of Investigation*: This section explains the following elements used in Blue Ridge's analysis: 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 performed by Blue Ridge.
- *Status of Recommendations of Prior Compliance Audits*: This section presents the current status of the Companies' implementation of recommendations from prior DCR Rider audits.
- *Analysis, 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 in this report obtained from prior DCR year audits. We labeled such information to identify the source and provided the data within the workpapers supporting this report.
- *Appendices*: The appendices include information reviewed and workpapers that support recommended adjustments.

Blue Ridge prefaced each scope area with the objective of the tasks planned to accomplish that area's review. The scope of the audit includes an overview of the processes and controls policies and procedures that affect the categories that feed into the Rider DCR calculations. A set of variance analyses reviews significant changes in net plant and reserve by individual FERC account.

The scope also includes review of each component of Rider DCR. We address the Rider-DCR-specific exclusions in the subsection labeled Riders LEX, EDR, AMI, and General Exclusions. Following the exclusions subsection are subsections for 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, the effect of the Tax Cuts and Jobs Act, and the return component. The report concludes with a review of the calculation of revenue requirements, followed by a review of the projections for the first quarter 2023.

EXECUTIVE SUMMARY

BACKGROUND

The Public Utilities Commission of Ohio (PUCO or "Commission") issued a Request for Proposal (RFP) seeking offers to audit and attest to the accuracy and reasonableness of FirstEnergy's[1] compliance with its Commission-approved Rider DCR, covering the period from December 1, 2021, through November 30, 2022.

The RFP revealed the Commission's intent for the audit to address the following project scope:

> Determine if FirstEnergy has implemented its Commission-approved DCR Rider and is in compliance with the Combined Stipulation agreement set forth in *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan,* Case No. 14-1297-EL-SSO, et al., Opinion and Order (Case No. 14-1297).

The RFP defines the project's purpose:

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

The Commission selected Blue Ridge Consulting Services, Inc. ("Blue Ridge"), on the basis of its proposal, to perform the DCR year 2022 compliance audit.

AUDIT APPROACH

For this audit, Blue Ridge's focus is on the accounting accuracy; used and useful nature; and the necessity, prudence, and reasonableness of the capital expenditures. Blue Ridge used the following standards during the audit when assessing those focus areas:

<u>Accounting Accuracy</u>: The stated value is supported by accurate and complete plant accounting property records. The company has properly recorded transactions as capital expenditures in the appropriate FERC account(s).

<u>Used and Useful</u>: The assets are used in providing services and are useful to the ratepayer.

<u>Necessity, Reasonableness, and Prudence</u>: The decision to make the investment was reasonable at the time the decision was made and based on information then available. The decision is one that a reasonable person could have made in good faith, given the information and decision tools available at the time of the decision.

[1] The Cleveland Electric Illuminating Company (CE, CEI, or CECO), Ohio Edison Company (OE or OECO), and The Toledo Edison Company (TE or TECO), are collectively referred to as "FirstEnergy" or "the Companies."

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

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. The flow-through of these adjustments impacts the DCR as shown in the following table. While some of the adjustments have de minimis effect, we have, nevertheless, included all adjustments to provide record of the total impact.

Table 1: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement[2]

Description	CEI	OE	TE	Total
Incremental DCR Revenue Requirement—As Filed	**$ 166,976,528**	**$ 180,368,751**	**$ 40,505,898**	**$ 387,851,176**
Blue Ridge Recommended Adjustments	(8,241,521)	(8,646,448)	(3,724,531)	(20,612,500)
Incremental DCR Revenue Requirement—As Adjusted	**$ 158,735,007**	**$ 171,722,303**	**$ 36,781,366**	**$ 367,238,676**

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.

Based on information reviewed, including policies and procedures, development of Rider DCR compliance filings, internal and SOX compliance audits, and cost containment strategies and practices, Blue Ridge concludes that the Companies' controls were adequate and not unreasonable.

However, an audit conducted by FERC's Office of Enforcement on the FirstEnergy Service Company (FESC) evaluated FirstEnergy's compliance with certain accounting and reporting requirements under various FERC regulations. The audit report included a finding and related recommendation on FESC's methodology for allocation of certain corporate support costs to regulatory capital accounts under certain FERC regulations and reporting. In response, effective in the first quarter of 2022, FirstEnergy implemented a new methodology for the allocation of these corporate support costs to regulatory capital accounts for its regulated distribution and transmission companies on a prospective basis. During 2022, FirstEnergy determined necessary the reclassification of approximately $108 million of certain distribution capital assets to Account 186, Miscellaneous Deferred Debits, for the audit period in 2022.

VARIANCE ANALYSIS

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. Despite one instance of an incorrect retirement amount resulting in overstatement of the DCR (resulting in an adjustment), our variance analysis showed the change in total plant balances for each of the Companies to be not unreasonable.

[2] See the final subsection to the Executive Summary for a summary of Blue Ridge's recommendations.

Rider LEX, EDR, AMI, and General Exclusions

Blue Ridge reviewed the Companies' exclusion for capital additions recovered through Commission-approved Riders LEX, EDR, and AMI. We also reviewed other subsequent riders authorized by the Commission that recover delivery-related capital additions to ensure they have been excluded from the DCR. These other riders included Experimental Company-Owned LED Light Program, the Government Directive Recovery Rider (Rider GDR), the Automated Meter Opt Out Rider (Rider AMO), and the Solar Generation Fund (Rider SGF). We also reviewed other general exclusions, such as land leased to ATSI and Generation, to ensure they were properly excluded. We also reviewed exclusions regarding Vegetation Management and Service Company Plant in Service. Blue Ridge found that the Companies' exclusions were not unreasonable.

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 2: Incremental Change in Gross Plant from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 3,448,131,349	$ 3,490,647,504	$ 42,516,155
Ohio Edison Company	3,929,566,719	4,026,937,351	97,370,633
The Toledo Edison Company	1,320,224,489	1,330,957,423	10,732,934
Total	**$ 8,697,922,556**	**$ 8,848,542,278**	**$ 150,619,721**

The Companies provided a list of work orders that support gross plant in service for December 2021 through November 2022. Blue Ridge selected a statistically valid sample of work orders (with additional work orders included using professional judgment) for detailed transactional testing.

For the most part, Blue Ridge found that our observations and findings from the testing steps were met with justifications that proved to be not unreasonable.

Blue Ridge found that plant in service was appropriately associated with distribution, subtransmission, and general and intangible plant.

While Blue Ridge is recommending several adjustments to the plant-in-service balances, based on the descriptions of the work performed and the Companies' explanations, we found that the majority of the work orders in the sample were closed to the proper FERC accounts.

Blue Ridge reviewed the justifications for all work orders in the sample, exclusive of blanket, multi-year projects, transfers, and adjustments, and found the justifications for all project work orders not unreasonable. In addition, the explanations for transfers and adjustments were not unreasonable.

Blue Ridge found no anomalies in our review of proper approval level for work orders / projects.

Blue Ridge makes some recommendations based on the Companies' explanations for cost overrun. However, for the most part, the Company provided explanations that were not unreasonable.

During work order testing, Blue Ridge found some adjustments necessary for revenue requirements. Additionally, field verification was performed for 14 selected projects. All 14 projects selected were confirmed to be installed and used and useful.

Blue Ridge found that the Companies increased the number of backlogged work orders over 15 months old by 16% and increased the associated backlog dollars over 15 months old by 21%. Blue Ridge recommends that the Companies make a concerted effort to continue to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level.

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 from December 1, 2021, through November 30, 2022.

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 3: Incremental Change in Reserve for Depreciation from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ (1,605,276,827)	$ (1,635,803,248)	$ (30,526,421)
Ohio Edison Company	(1,682,152,579)	(1,726,281,082)	(44,128,503)
The Toledo Edison Company	(728,974,628)	(737,127,121)	(8,152,493)
Total	**$ (4,016,404,035)**	**$ (4,099,211,452)**	**$ (82,807,417)**

As discussed above, Blue Ridge found adjustments to gross plant that also required adjustments to the reserve balances to ensure that net plant is appropriately reflected in the DCR. The specific adjustments are discussed in Gross Plant in Service subsections of the report. The impacts of these findings are shown in this report's subsection Overall Impact of Findings on Rider DCR Revenue Requirements.

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 4: Incremental Change in ADIT from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ (447,695,281)	$ (442,794,107)	$ 4,901,175
Ohio Edison Company	(534,272,702)	(535,383,214)	(1,110,512)
The Toledo Edison Company	(137,439,941)	(139,225,996)	(1,786,055)
Total	**$ (1,119,407,925)**	**$ (1,117,403,317)**	**$ 2,004,608**

Since Case No. 19-1887-EL-RDR, Blue Ridge has questioned whether the total ADIT offset in rate base appropriately reflected the EDIT balances resulting from the Tax Cuts and Jobs Act of 2017 (TCJA), as ordered in Case No. 18-1604-EL-UNC. The Companies disagreed with the finding and the PUCO has yet to decide the issue. The Tax Cuts and Jobs Act Effects subsection of this report discusses the issue in further detail.

Apart from the unresolved EDIT balances, Blue Ridge found the standard ADIT items, resulting from typical book tax differences, consistent with prior filings, related to plant in service, and not unreasonable.[3]

[3] FirstEnergy's response to audit scope 2021 Data Request BRC Set 24-DR-001.

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 5: Incremental Change in Depreciation Expense from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 110,809,899	$ 112,678,312	$ 1,868,413
Ohio Edison Company	116,145,650	119,775,011	3,629,361
The Toledo Edison Company	42,461,760	42,977,002	515,242
Total	**$ 269,417,308**	**$ 275,430,325**	**$ 6,013,017**

Blue Ridge found that the calculation of depreciation expense was consistent with the methodology used in the last distribution rate case. Blue Ridge verified the mathematical accuracy of the depreciation expense calculations and found them not unreasonable.

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 provided the updated study to the Commission Staff on June 1, 2015. Since the last depreciation study was based on balances from eight years ago, Blue Ridge had recommended in the DCR year 2018 audit that the Companies perform a depreciation study. As stipulated in Case No. 16-381-EL-UNC, FirstEnergy has agreed to perform a Depreciation Study by June 30, 2023. The Commission has approved the Stipulation in that case.

PROPERTY TAX EXPENSE

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

Table 6: Incremental Change in Property Tax Expense from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 125,581,907	$ 126,736,887	$ 1,154,980
Ohio Edison Company	103,970,727	108,444,430	4,473,703
The Toledo Edison Company	34,736,286	34,714,120	(22,167)
Total	**$ 264,288,921**	**$ 269,895,437**	**$ 5,606,517**

Blue Ridge found the calculation of property tax 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 the appropriate amount of property tax is included within the DCR.

SERVICE COMPANY

The Rider DCR Compliance Filings exclude Service Company assets associated with work order activity that is "not used in support of the provision of distribution service by the Companies."[4] Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable.

[4] FirstEnergy's response to audit scope 2021 Data Request BRC Set 09-DR-004.

COMMERCIAL ACTIVITY TAX AND INCOME TAXES

The Rider DCR Compliance Filings include the following incremental commercial activity tax (CAT) for each company. The CAT is calculated based on the statutory 0.26 percent.

Table 7: Incremental Change in CAT from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 417,293	$ 429,572	$ 12,279
Ohio Edison Company	428,462	463,119	34,657
The Toledo Edison Company	102,931	104,432	1,501
Total	**$ 948,686**	**$ 997,123**	**$ 48,437**

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

Table 8: Incremental Change in Income Tax from 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 7,311,916	$ 7,566,488	$ 254,571
Ohio Edison Company	9,409,178	10,180,151	770,973
The Toledo Edison Company	1,022,478	1,037,755	15,276
Total	**$ 17,743,573**	**$ 18,784,393**	**$ 1,040,820**

Blue Ridge found that the commercial activity tax and income tax expense were calculated consistently with prior filings and are not unreasonable. Any adjustments discussed in other subsections of this report will impact the final commercial activity tax and income tax included within the Rider DCR.

TAX CUTS AND JOBS ACT EFFECT

In Case No. 17-2009-EL-RDR, Blue Ridge expressed concerns regarding the Companies' treatment of excess deferred income taxes (EDIT) arising from the Tax Cuts and Jobs Acts (TCJA) of 2017. Blue Ridge recommended that (1) the amount by which the ADIT balance is revalued or reduced in rate base is also the amount by which the Companies' must set up regulatory liabilities to flow the excess balances back to ratepayers who funded the future tax obligations, which decreased by 40% under the new law; and (2) the Companies should apply the average rate assumption method (ARAM) consistently with IRS normalization rules in determining the period over which to amortize the regulatory liabilities.

On November 9, 2018, the Companies filed a Stipulation and Recommendation in Case No. 18-1604-EL-UNC ("Stipulation"), which resolved the question about the treatment of the EDIT balances that was raised by Blue Ridge in the above recommendation. The Companies implemented the Stipulation beginning with the October 1, 2019, Rider DCR Compliance Filing pursuant to an Opinion and Order dated July 17, 2019.

Under the Stipulation, Rider DCR rate base will reflect the gross *normalized* property EDIT balance as of December 31, 2017, and the net *non-normalized* property EDIT balance as of the measurement period.

1) Normalized Property: Amortization of the normalized property EDIT balance in accordance with ARAM and the related cumulative reserve will be accounted for in a new credit mechanism. The cumulative reserve in the credit mechanism will accrue a return in the same

manner as Rider DCR to make the Companies whole for the gross normalized property EDIT in Rider DCR rate base.

2) Non-Normalized Property: Amortization of the non-normalized property EDIT balance over 10 years will flow back to customers via the new credit mechanism, while both the gross balance and cumulative reserve will be accounted for in Rider DCR.

The actual amount of the EDIT flowing back to customers will reflect the "final, audited balances" as of December 31, 2017. The treatment of the EDIT balances will commence effective January 1, 2018, and will continue until the balances have been fully amortized.

During the investigation of the 2019 DCR Compliance Filing, Blue Ridge compared the property-related EDIT values to the balances in the Stipulation agreed to by the Parties and approved by the Commission. They did not tie out as expected. In response to data requests, the Companies presented various adjustments, some of which, on net, reduce the total liability owed to customers. The Companies' revisions also reflected reclasses between EDIT categories that should have a net-zero impact on the total liability subject to refund, albeit they do impact the period over which the amortizing credits flow back to customers through the new credit mechanism.

The Company responded when asked if the revised balances were reflected in the TCJA case record and, if not, how the Companies obtained authorization to update the balances:

> The Stipulation and Recommendation filed in Case No. 18-1656-EL-ATA et al. states that the actual amount of EDIT flowing back to customers will reflect the final, audited balances, including a federal and state tax gross up, as of December 31, 2017. The Companies filed compliance tariffs on July 26, 2019, in Case No. 18-1656-EL-ATA reflecting updated balances.

Blue Ridge found the Companies' response to lack clarity, casting doubt on the actual meaning of "final, audited balances." PricewaterhouseCoopers performed the external audit of the December 31, 2017, financial statements, and they issued an unqualified opinion on February 20, 2018—months prior to the Stipulation, filed on November 9, 2018, as well as the Supplemental Stipulation, filed on January 25, 2019. Since no specific true-up provisions exist in the Stipulation to adjust to the 2017 filed tax returns and other later known variables, Blue Ridge had recommended, in the 2021 audit, restoring the EDIT balances to reflect those agreed to within the settlement and allowing parties to consider the Companies' changes, such as the assertion that there is no EDIT associated with AFUDC equity, within the next Rider TSA annual filing. With respect to the reclass adjustments, Blue Ridge was neutral on their adoption since they have no impact on the total agreed upon liability to be refunded to customers. The EDIT categories with varying amortization periods are judgmental to some extent and an audit opinion would not render such definitional determinations official or correct.

In the 2021 DCR audit, Blue Ridge recommended reversing all EDIT adjustments, except for reclasses between normalized and non-normalized property, so that the Total Property EDIT reflected in Rider DCR matches the Total Property EDIT as of December 31, 2017, in the Stipulation. The scope of Blue Ridge's investigation was limited to the property-related EDIT balances in Rider DCR. Blue Ridge, therefore, had not and could not validate that the reclass from property to non-property was appropriately reflected in the new credit mechanism.

The treatment of EDIT in Rider DCR from the prior investigations has been resolved per the Stipulation agreed to by the Parties and approved by the Commission in Case No. 18-1604-EL-UNC. The property-related EDIT balances, normalized and non-normalized, are accounted for between the

Rider DCR and new credit mechanism. Blue Ridge recommends the normalized and non-normalized property EDIT balances under total ADIT be restated. The appropriate adjustments to revenue requirements have been identified.

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 11/30/21 to 11/30/22

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 41,341,377	$ 42,773,793	$ 1,432,417
Ohio Edison Company	54,209,976	58,630,946	4,420,970
The Toledo Edison Company	5,887,511	5,954,878	67,367
Total	**$ 101,438,864**	**$ 107,359,617**	**$ 5,920,753**

Although the adjustments discussed in other subsections 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 November 30, 2022, and estimated February 28, 2023, balances. The Annual Rider DCR Revenue is compared to the Commission-approved Revenue Cap in the Companies' filings.

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

The Annual Rider DCR Revenue, through November 30, 2022, 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 2023. To develop the first quarter 2023 estimates, the Companies used estimated plant-in-service and reserve balances as of February 28, 2023, the most recent (December 2022) forecast from PowerPlan. The estimated February 28, 2023, plant and reserve balances were then adjusted to reflect current assumptions (including project additions and delays), 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 through February 2023 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.

SUMMARY OF BLUE RIDGE RECOMMENDATIONS

Table 10: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 166,976,528**	**$ 180,368,751**	**$ 40,505,898**	**$ 387,851,176**
1	Charged to TECO instead of ATSI - COR - WO #16898512	-	-	(11,983)	(11,983)
2	Charged to TECO instead of ATSI - Gross Plant - WO #17079576	-	-	(117,231)	(117,231)
3	FERC Account Switched - CECO - WO #PA213627410	(184)	-	-	(184)
4	AFUDC Over Accrued - CECO - WO #14857555	(6,336)	-	-	(6,336)
5	AFUDC Over Accrued - CECO - WO #16527415	(8,196)	-	-	(8,196)
6	AFUDC Over Accrued - CECO - WO #17031647	(3,149)	-	-	(3,149)
7	AFUDC Over Accrued - OECO - WO #14864962	-	(7,956)	-	(7,956)
8	AFUDC Over Accrued - OECO - WO #16995176	-	(5,231)	-	(5,231)
9	LTIP - Stock	(433,866)	(431,632)	(154,848)	(1,020,346)
10	Delayed Retirement - CECO - WO #14791367	(55,040)	-	-	(55,040)
11	Delayed Retirement & COR - OECO - WO #OE-003923-DF-MSTM	-	35,156	-	35,156
12	Overstated Retirement - TECO - WO #17331167	-	-	273,519	273,519
13	Capitalized Corporate Support Cost (2015-2021)	(6,808,092)	(6,444,769)	(3,498,947)	(16,751,808)
14	Regulatory Liability - TCJA	(926,656)	(1,792,017)	(215,040)	(2,933,713)
	Impact of All Adjustments	**(8,241,521)**	**(8,646,448)**	**(3,724,531)**	**(20,612,500)**
	Recommended Rider DCR Revenue Requirements	**$ 158,735,007**	**$ 171,722,303**	**$ 36,781,366**	**$ 367,238,676**

For the DCR year 2022, Blue Ridge proposes the following adjustments and associated recommendations:

Adjustment #1: Charged to TECO instead of ATSI—WO 16898512. Based on findings in testing step T1E, Blue Ridge recommends that the $120,019.61 of COR recorded to TE be reversed and charged to ATSI. Blue Ridge estimates the effect on TE DCR revenue requirements to be $(11,983).

Adjustment #2: Charged to TECO instead of ATSI—WO 17079576. Based on findings in testing step T2A, Blue Ridge recommends that the $658,264 be removed from TECO gross plant and charged to ATSI. Blue Ridge estimates the effect on TE DCR revenue requirements to be $(117,231).

Adjustment #3: FERC Account Switched—WO PA213627410. Based on findings in testing step T2A, charges in FERC 367 should have been transferred to FERC 358. A depreciation adjustment is necessary because the depreciation rates for each account are different. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(184).

Adjustment #4: AFUDC Over Accrued—WO 14857555. Based on findings in testing step T5B, Blue Ridge recommends that AFUDC should be reduced by $37,099.32. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(6,336).

Adjustment #5: AFUDC Over Accrued—WO 16527415. Based on findings in testing step T5B, Blue Ridge recommends that AFUDC be reduced by $46,663.43. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(8,196).

Adjustment #6: AFUDC Over Accrued—WO 17031647. Based on findings in testing step T5B, Blue Ridge recommends that AFUDC be reduced by $17,763.93. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(3,149).

Adjustment #7: AFUDC Over Accrued—WO 14864962. Based on findings in testing step T5B, Blue Ridge recommends that AFUDC be reduced by $50,775.98. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(7,956).

Adjustment #8: AFUDC Over Accrued—WO 16995176. Based on findings in testing step T5B, Blue Ridge recommends that AFUDC be reduced by $34,052.17. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(5,231).

Adjustment #9: LTIP—Stock. Based on findings in testing step T7B, Blue Ridge recommends that all costs of the LTIP (other than Incentive Compensation) be removed from Rider DCR. Blue Ridge estimates the effect to CE DCR revenue requirements to be $(433,866), to OE DCR revenue requirements to be $(431,632), and to TE DCR revenue requirements to be $(154,848).

Adjustment #10: Delayed Retirement—WO 14791367. Based on findings in testing step T5B, Blue Ridge estimates the effect on the CE DCR revenue requirements of the delay in retiring assets until unitization for this work order to be $(55,040).

Adjustment #11: Delayed Retirement and Cost of Removal—WO OE-003923-DF-MSTM. Based on analysis regarding the status of last year's audit recommendation #9, retirements of $222,245 and Cost of Removal of $486,636 were not recorded and, therefore, require adjustment. Blue Ridge estimates the effect on OE DCR revenue requirements to be $35,156.

Adjustment #12: Overstated Retirement—WO 17331167. Based on findings in variance analysis, Blue Ridge recommends that the Companies correct the cumulative revenue requirement impact due to an overstatement of retirement of $3,609,428 in the DCR scope period. Blue Ridge estimates the effect on TE DCR revenue requirements to be $273,519.

Adjustment #13: Reclassification of approximately $108 million of assets to Account 186. Blue Ridge estimates the effect to CE DCR revenue requirements to be $(6,808,092), to OE DCR revenue requirements to be $(6,444,769), and to TE DCR revenue requirements to be $(3,498,947), for a total DCR revenue requirements impact of $(16,751,808).

Adjustment #14: Regulatory Liability for TCJA. Blue Ridge estimates the effect to CE DCR revenue requirements to be $(926,656), to OE DCR revenue requirements to be $(1,792,017), and to TE DCR revenue requirements to be $(215,040) for a total DCR revenue requirement impact of $(2,933,713).

Beyond the above adjustments and their associated accounting recommendations, for the DCR year 2022 assessment, Blue Ridge summarizes additional recommendations:

Recommendation #1: On March 8, 2023, the Commission approved Blue Ridge's recommendations included in the audits for DCR years 2018 and 2019 (Case Nos. 18-1542-EL-RDR and 19-1887-EL-RDR). Blue Ridge recommends that the auditor selected for next year's DCR audit confirm that the approved recommendations were put in place.

Recommendation #2: Blue Ridge found that the Companies record retirements and adjust Cost of Removal estimates for manually unitized work orders at the time they are unitized rather than when the work orders are closed to FERC 106. The process depends on the timely unitization of the work orders. Blue Ridge recommends that the Companies carefully monitor the work order backlog to ensure that manual work orders are unitized on a timely basis and that the next audit confirm that the actual retirements and cost of removal amounts were appropriately recorded and reflected in the DCR revenue requirements.

Recommendation #3: In testing step T4D, based on costs for WO 16596140 exceeding budget, Blue Ridge recommends that the Companies make a concerted effort to more diligently scope out the work on the front end, which should make the budget more accurate and possibly in some instances mitigate cost overruns.

Recommendation #4: Blue Ridge recommends that the Companies continue to make a concerted effort to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level and concentrate that effort on the larger replacement work orders that require manual unitization.

Recommendation #5: In field testing, Blue Ridge found that, regarding WO 16995176, the Companies filed a claim with the contractor for $419,874.61 on January 12, 2023. Blue Ridge recommends that the claim be reviewed in the next DCR audit.

Recommendation #6: In testing step T5A, Blue Ridge continues to find project in-service delays that are greater than 90 days after the estimated in-service date that could possibly have been avoided. Blue Ridge continues to recommend that the Companies expend the effort needed to limit in-service delays.

Recommendation #7: In testing step T8C, Blue Ridge notes that the recording of retirements and cost of removal are timing issues, and for that reason, Blue Ridge is not recommending adjustments regarding them. However, Blue Ridge recommends that the Companies record estimated retirements for those work orders that will be manually unitized when they are placed in service. The estimated retirement can be trued up to actual when the work order is manually unitized.

Recommendation #8: Blue Ridge found two work orders (TECO Work Order 16898512—Equip Investigate/Repair—Transformer O and TECO Work Order 17079576—DIXIE - JEEP 69KV/DIXIE-LOCUST 69KV) that had ATSI charges that were not excluded from the DCR. Blue Ridge recommends that the Company review its process used to identify ATSI-related work to ensure exclusion of ATSI in the DCR.

OVERVIEW OF INVESTIGATION

The FirstEnergy Service Company, on behalf of FirstEnergy's three Ohio-regulated operating companies—CECO, OECO, and TECO—prepared and submitted Compliance Filings regarding the DCR Rider, approved by the Commission, for actual plant in service through November 30, 2022, and estimated plant in service through February 28, 2023. 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) or an electric security plan (ESP). The ESP was originally established in Case No. 08-935-EL-SSO (ESP I). Subsequently, in Case No. 10-388- EL-SSO (ESP II), an original stipulation and two supplemental stipulations (collectively, the Combined Stipulation) were entered into by a majority of the parties, and, after a hearing, the Commission issued an Opinion and Order approving the Combined Stipulation in its entirety with several modifications.

As part of its Opinion and Order approving the Combined Stipulation in ESP II, the Commission approved the establishment of the Delivery Capital Recovery (DCR) Rider, effective January 1, 2012, to be updated and reconciled quarterly. The Opinion and Order allowed the Companies the opportunity to recover property taxes, Commercial Activity Tax, and associated income taxes and to earn a return on and of plant in service associated with distribution, subtransmission, 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 concluded rate case).

In Case No. 12-1230-EL-SSO (ESP III), the Commission approved the extension of the Combined Stipulation through May 31, 2016. Most recently, in Case No. 14-1297-EL-SSO (ESP IV), the Commission approved the ESP through May 31, 2024. In that case, the Companies agreed to continue the DCR Rider under the same terms and conditions as before (including the annual audit), with modifications related to the continuation of the process through May 31, 2024, and to increase annual revenue caps. Annual revenue cap increases are stipulated as $30 million for the period of June 1, 2016, through May 31, 2019; $20 million for the period of June 1, 2019, through May 31, 2022; and $15 million for the period of June 1, 2022, through May 31, 2024.

The Commission ordered an annual audit review of its Rider DCR for the purpose of determining whether the amounts for which recovery is sought are not unreasonable in light of the facts and circumstances known to the Companies at the time such expenditures were committed. 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 2021 compliance audit.

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 project includes the following purposes:

- Determine if FirstEnergy has implemented its Commission-approved DCR Rider and is in compliance with the Combined Stipulation agreement set forth in Case No. 14-1297-EL-SSO.
- 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, and any other subsequent rider authorized by the Commission to recover delivery-related capital additions to ensure they are excluded from Rider DCR.
- Identify, quantify, and explain any significant net plant increase within individual accounts.

PROJECT SCOPE

The RFP's overall scope divides into the following individual elements:

- Review Cases 10-388-EL-SSO, 12-1230-EL-SSO, and 14-1297-EL-SSO and related stipulation agreements.
- Review Cases 21-1038-EL-RDR, 20-1629-EL-RDR, 19-1887-EL-RDR, 18-1542-EL-RDR, 17-2009-EL-RDR, 16-2041-EL-RDR, 15- 1739-EL-RDR, 14-1929-EL-RDR, 13-2100-EL-RDR, 12-2885-EL-RDR, and 11-5428-EL-RDR regarding compliance audits of the DCR Rider.
- Read all applicable testimony and workpapers
- Obtain and review all additions, retirements, transfers, and adjustments to current date value of plant in service that have occurred for the actual year ended November 30, 2022, to be included in the December 31, 2022, quarterly filing; effort will be made to include within the review plant balances as of December 31, 2022
- Verification with FERC Form 1 for year 2022
- Obtain and review all appropriate documentation relating to the Companies' compliance with the Commission-approved DCR Rider
- Review the Companies' 2021 and 2022 internal audits concerning controls which would affect Rider DCR
- Review all changes in capitalization policy and assess impact on the DCR, previously authorized recovery as part of base rates, and impact on O&M expenses
- Assess the Companies' utilization of tax changes and provisions and verification of their appropriate treatment within the DCR; estimate foregone tax reduction opportunities and evaluate impact on the DCR
- Obtain and review all appropriate documentation relating to compliance with Findings in the Commission's Finding and Order in Case Nos. 14-1929-EL-RDR, 15-1739-EL-RDR, 16-2041-EL-RDR, and 17-2009-EL-RDR; review all appropriate documentation relating to the issues identified in the Auditor's Reports in Case Nos. 16-2041-EL-RDR, 17-2009-EL-RDR, 18-1542-EL-RDR, 19-1887-EL-RDR, 20-1629-EL-RDR, and 21-1038-EL-RDR to determine if the issues raised have been addressed pursuant to the Auditor's recommendations, and if not, the impact of the Companies not addressing the identified concerns

From the scope requirements for this audit, Blue Ridge separated those elements performed in preparation for the review as a whole from those specifically intended for audit tasks. Blue Ridge developed a list of objectives to ensure we fulfilled all scope requirements for the audit. The following list provides the Blue-Ridge-developed objectives along with their review areas. The report presents conclusions to these objectives in the locations associated with their discussion.

Objective: Review the Companies' compliance and status of Commission findings and orders (including DCR Audit report recommendations) in prior cases.
Report Section: Status of Recommendations of Prior Compliance Audits

Objective: 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.
Report Subsection: Processes and Controls

Objective: Review the Companies' internal audits and SOX compliance which would affect Rider DCR.
Report Subsection: Processes and Controls

Objective: Perform a variance analysis to determine the reasonableness of any changes in plant in service balances, including additions, retirements, transfers, and adjustments.
Report Subsection: Variance Analysis

Objective: Determine whether capital additions recovered through Riders LEX, EDR, and AMI have been identified and excluded from Rider DCR. Determine whether capital additions recovered through any other subsequent rider authorized by the Commission to recover delivery-related capital additions have been identified and excluded from Rider DCR.
Report Subsection: LEX, EDR, AMI, and General Exclusions

Objective: Determine whether the Companies' recovery of the incremental change in Gross Plant is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Gross Plant in Service

Objective: Determine whether the Companies' recovery of the incremental change in Accumulated Reserve for Depreciation is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Accumulated Reserve for Depreciation

Objective: Determine whether the Companies' recovery of the incremental accumulated deferred income taxes (ADIT) is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Accumulated Deferred Income Taxes

Objective: Determine whether the Companies' recovery of the incremental depreciation expense is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Depreciation Expense

Objective: Determine whether the Companies' recovery of incremental property taxes is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Property Tax Expense

Objective: Determine whether the Companies' recovery of allocated Service Company plant in service, accumulated reserve, ADIT, depreciation expense, and property tax expense is not

unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Service Company

Objective: Determine whether the Companies' recovery of Commercial Activity Tax (CAT) associated with the revenue requirement is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Commercial Activity Tax and Income Taxes

Objective: Determine whether the Companies' recovery of associated income taxes associated with the revenue requirement is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Commercial Activity Tax and Income Taxes

Objective: Determine whether the Companies' implementation of the Tax Cuts and Jobs Act of 2017 is consistent with what was approved by the Commission on July 17, 2019, in Case No. 18-1656-EL-ATA.
Report Subsection: Tax Cuts and Jobs Act Effect

Objective: Determine whether the Companies return on and of plant in service associated with distribution, subtransmission, general, and intangible plant, including allocated general plant from FirstEnergy Service Company, is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Return

Objective: Determine whether the Companies' revenue requirement calculation for Rider DCR is not unreasonable based upon the facts and circumstances known to the Companies at the time such expenditures were committed.
Report Subsection: Rider DCR Calculation

Objective: Develop an understanding of the projection methodology used by the Companies for plant in service, property taxes, Commercial Activity Tax, and Income Tax.
Report Subsection: Projections

Objective: Determine the impact of all findings to Rider DCR revenue requirements.
Report Subsection: Overall Impact of Findings on Rider DCR Revenue Requirements

AUDIT STANDARD

For this audit, Blue Ridge's focus is on the accounting accuracy; used and useful nature; and the necessity, prudence, and reasonableness of the capital expenditures. Blue Ridge used the following standards during the audit when assessing those focus areas:

Accounting Accuracy: The stated value is supported by accurate and complete plant accounting property records. Transactions are properly recorded as capital expenditures in the appropriate FERC account(s).

Used and Useful: The assets are used in providing services and are useful to the ratepayer.

Necessity, Reasonableness, and Prudence: The decision to make the investment was reasonable at the time the decision was made and based on information then available. The decision is one that a reasonable person could have made in good faith, given the information and decision tools available at the time of the decision.

INFORMATION REVIEWED

Blue Ridge reviewed the following information:

- The current DIR filings under review in Case Nos. 22-0921-EL-RDR, 22-0922-EL-RDR, and 22-0923-EL-RDR
- Case Nos. 10-388-EL-SSO, 12-1230-EL-SSO, and 14-1297-EL-SSO and related stipulation agreements
- Case Nos. 11-5428-EL-RDR, 12-2855-EL-RDR, 13-2100-EL-RDR, 14-1929-EL-RDR, 15-1739-EL-RDR, 16-2041-EL-RDR, 17-2009-EL-RDR, 18-1542-EL-RDR, 19-1887-EL-RDR, 20-1629-EL-RDR, and 21-1038-EL-RDR Compliance Audits of the DCR Rider
- Applicable testimony and workpapers
- All appropriate documentation relating to compliance with Findings in the Commission's Finding and Order in Case Nos. and contained in the Stipulation in Case Nos. 14-1929-EL-RDR, 15-1739-EL-RDR, 16-2041-EL-RDR, and 17-2009-EL-RDR and relating to the issues identified in the Auditor's Reports in Case Nos. 18-1542-EL-RDR, 19-1887-EL-RDR, 20-1629-EL-RDR, and 21-1038-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 were provided to Staff.

RIDER DCR COMPLIANCE FILINGS REVIEWED

On January 9, 2023, the Companies filed 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. These schedules included actual amounts through November 30, 2022, and projected balances for the three months ended February 28, 2023.

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

Table 11: Rider DCR Revenue Requirements Actual 11/30/22 and Projected 2/28/23[5]

Operating Company	Revenue Requirements		
	Actual 11/30/22	Projected 2/28/23	Total
The Cleveland Electric Illuminating Company	$ 165,220,052	$ 1,756,476	$ 166,976,528
Ohio Edison Company	178,122,657	2,246,093	180,368,751
The Toledo Edison Company	40,166,186	339,711	40,505,898
Total	**$ 383,508,896**	**$ 4,342,280**	**$ 387,851,176**

[5] WP V&V FE DCR Compliance Filing 1.9.2023—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 Companies were asked to explain any significant changes. The results of the analyses are included under the subsection labeled Variance Analysis.

In addition, Blue Ridge selected a sample from the population of work orders that support the gross plant in service for detailed transactional testing. We selected the sample using a statistically valid sampling technique. Blue Ridge selected additional work orders based on professional judgment. The subsection labeled Gross Plant in Service includes the results of the transactional testing. Blue Ridge also selected several projects for field verification to determine whether the assets have been installed according to the work order scope and description and whether they are used and useful in rendering service to the customer.

Blue Ridge also performed various analyses, including mathematical verifications and source data validation, of the schedules that support the Rider DCR Compliance Filings. The report addresses each component of the Rider DCR, and the subsection of each component includes the results of the pertinent analyses.

Appendix D includes a list of Blue Ridge's workpapers. Blue Ridge provided electronic copies to the Commission Staff and the Companies.

STATUS OF RECOMMENDATIONS OF PRIOR COMPLIANCE AUDITS

- Review the Companies' compliance and status of Commission findings and orders (including DCR Audit report recommendations) in prior cases.

On March 8, 2023, the Commission approved Blue Ridge's recommendations included in the audits for DCR years 2018 and 2019 (Case Nos. 18-1542-EL-RDR and 19-1887-EL-RDR). Blue Ridge recommends that the auditor selected for next year's DCR audit confirm that the approved recommendations were put in place. The Commission has not yet ruled concerning the audits in DCR years 2020 (Case No. 20-1629-EL-RDR) and 2021 (Case No. 21-1038-EL-RDR).

Blue Ridge requested the status on the audit recommendations of the most recent audit (covering scope year 2021) in Case No. 21-1038-EL-RDR and the 32 recommended adjustments. Adjustments #1–13, 21, 24–26, and 30–32 were incorporated in the July 7, 2022, Rider DCR filing. Adjustments 14–20, 22–23, and 27 were incorporated in the January 9, 2023, Rider DCR filing.[6]

The recommendations for audit scope year 2021 are listed below. Each recommendation includes FirstEnergy's response regarding the recommendation's status[7] and Blue Ridge's associated comments based upon observations from this compliance audit.

STATUS OF RECOMMENDATIONS

1. Recommendation 1: In regard to a not-yet-unitized work order (associated with 2020 audit year recommendation #4), Blue Ridge recommends that the Companies demonstrate in the next audit how the retirements and COR for WO 16477291 were individually adjusted for the DCR revenue requirement.

   FirstEnergy Response: WO 16477291 was unitized in January 2022. The Companies made an adjustment to the DCR revenue requirement calculation in the January 9, 2023, Rider DCR filing.

   Blue Ridge Comments: The Companies adjusted the retirement of $426.13, showing a $(25) revenue requirement impact in the January 9, 2023, DCR filing. Blue Ridge is satisfied with the Companies' action. No further work is required.

2. Recommendation 2: In regard to testing step T1B, Blue Ridge recommends that the auditor for the 2022 audit ensure that work orders IF-SC-000336-1 and IF-SC-000337-1 are excluded from the DCR in future DCR filings.

   FirstEnergy Response: The Companies have excluded work orders IF-SC-000336-1 and IF-SC-000337-1 from the DCR filings.

   Blue Ridge Comments: The Companies have excluded $557,755.54 for work order IF-SC-000336-1 and $2,203,787.91 for work order IF-SC-000337-1 from FERC 390. Blue Ridge is satisfied with the Companies' action. No further work is required.

3. Recommendation 3: In regard to FESC work order ITS-SC-000645-1 cost overrun (associated with testing step T4D), actual cost significantly exceeded budget due to repeated failure of a

[6] FirstEnergy response to audit scope 2023 data request 01-DR-009.
[7] All FirstEnergy status remarks, except for Recommendation 6, are derived from FirstEnergy's responses to audit scope 2022 Data Request 01-DR-009. FirstEnergy status remarks for Recommendation 6 are derived from FirstEnergy's response to audit scope 2022 Data Request 03-DR-001.

contractor to meet project milestone dates. Blue Ridge believes that proper management of the contractor could have resulted in a more timely and less costly outcome. Blue Ridge recommends that IT projects be better monitored by the Companies, particularly when involving outside contractors.

FirstEnergy Response: IT has financial controls in place to monitor overall other-than-labor spend via bi-weekly project management office process as well as monthly financial reporting. Directors are involved to ensure contracted services are complete on time and on budget. A project charter process is reviewed by steering committees for these projects and regular status calls are held to review contractor performance.

Blue Ridge Comments: Blue Ridge is satisfied with the Companies' action. Testing in the current audit revealed that the controls are working satisfactorily.

4. Recommendation 4: In regard to testing step T4D, Blue Ridge recommends the Companies review their planning processes and procedures to minimize budget overruns in the future.

   FirstEnergy Response: The Ohio Capital Distribution Portfolio team and Ohio Engineering team continue to partner to review projects and monitor changes. When emergent work occurs or project scope changes the portfolio team reviews the remaining spend/projects to balance financial commitments along with regulatory requirements, failures, emergent projects, new business, etc. These changes are approved by management, but as previously noted, they can occur after the completion of a budget. The Capital Portfolio is reviewed with leadership on a monthly basis and approved changes are incorporated into future forecasts.

   Blue Ridge Comments: Blue Ridge is satisfied for the most part with the Companies' action. However, while we understand that not all possibilities can be considered in the planning process, the continuing cost overruns (found in testing step T4D of this year's audit) prompt Blue Ridge to continue to recommend the Companies perform a more thorough job of planning up front to potentially avoid cost overruns.

5. Recommendation 5: In regard to OECO work order 16096382 cost overrun (associated with testing step T4D), Blue Ridge recommends that when issues that impact the project estimates become known prior to project approval by management, the estimated project cost be amended so management can approve the correct estimate.

   FirstEnergy Response: The Ohio Capital Distribution Portfolio team and Ohio Engineering team continue to partner to review projects and monitor changes. When emergent work occurs or project scope changes the portfolio team reviews the remaining spend/projects to balance financial commitments along with regulatory requirements, failures, emergent projects, new business, etc. These changes are approved by management, but as previously noted, they can occur after the completion of a budget. The Capital Portfolio is reviewed with leadership on a monthly basis and approved changes are incorporated into future forecasts.

   Blue Ridge Comments: Blue Ridge is satisfied with the Companies' action. No further work is required.

6. Recommendation #6: In regard to several cost overruns (associated with testing step T4D), Blue Ridge recommends that the project managers make a more concerted effort to monitor total project costs to ensure the project costs remain in line with the total project cost estimate.

FirstEnergy Response: The Ohio Capital Distribution Portfolio team and Ohio Engineering team continue to partner to review projects and monitor changes. When emergent work occurs or project scope changes, the portfolio team reviews the remaining spend/projects to balance financial commitments along with regulatory requirements, failures, emergent projects, new business, etc. These changes are approved by management, but as previously noted, they can occur after the completion of a budget. The Capital Portfolio is reviewed with leadership on a monthly basis and approved changes are incorporated into future forecasts.

Blue Ridge Comments: Blue Ridge is satisfied with the Companies' action. No further work is required.

7. Recommendation 7: In regard to TECO work order TW-001820-F, whose in-service dates were over 90 days delayed from the estimates (associated with testing step T5A), Blue Ridge recommends that the Companies make a more concerted effort to understand the code requirements in the geographic areas in which the work will be done.

   FirstEnergy Response: The Ohio Capital Distribution Portfolio team and Ohio Engineering team continue to partner to review projects and monitor changes. When emergent work occurs or project scope changes the portfolio team reviews the remaining spend/projects to balance financial commitments along with regulatory requirements, failures, emergent projects, new business, etc. These changes are approved by management, but as previously noted, they can occur after the completion of a budget. The Capital Portfolio is reviewed with leadership on a monthly basis and approved changes are incorporated into future forecasts.

   Blue Ridge Comments: Blue Ridge is satisfied for the most part with the Companies' action. However, we continue to find project in-service delays that are greater than 90 days after the estimated in-service date that could possibly have been avoided. Blue Ridge recommends the Companies continue to expend the effort needed to limit in-service delays.

8. Recommendation 8: In regard to FESC work order ITF-SC-000045-SW20-1 (associated with testing step T7A), Blue Ridge recommends that the Companies' internal auditors perform an independent review of all software project fees where those fees are split between capital and expense.

   FirstEnergy Response: Internal Audit (IA) performed an Accounting for Capital & Maintenance Costs Audit which was issued on December 9, 2022. As part of that audit, in response to a recommendation from the annual Compliance Audit of the 2021 Delivery Capital Recovery (DCR) Rider, IA selected a sample of IT projects and reviewed to ensure software project fees split between capital and expense were appropriate.

   Blue Ridge Comments: Blue Ridge reviewed the audit results and is satisfied with the Companies' action.[8] No further work is required.

9. Recommendation 9: In regard to OECO work order OE-003923-DF-MSTM (associated with testing step T8C), Blue Ridge recommends that, when the actual retirements and cost of removal are known for this work order, they be recorded and that the next audit confirm the DCR revenue requirements was adjusted.

   FirstEnergy Response: OE-003923-DF-MSTM is a WBS for forestry charges for storm that are minor added over the assets from the restoration work order, OE-003923-DO-MSTM. The

[8] FirstEnergy response to audit scope 2023 data request 03-DR-004, part r.

COR and Retirements are recorded on that WBS/Work Order. COR of $484,635.814 recorded between August 21-September 22 and Retirements of $(222,244.86) recorded September 2022. The Companies made an adjustment to the DCR revenue requirement calculation in the January 9, 2023, Rider DCR filing. See BRC Set 1-INT- 009 Attachment 2 for support. However, upon further review, the Companies admitted that they inadvertently did not include the adjustment for OE-003923-DF-MSTM in their January 9, 2023, Rider DCR filing or in their status response for BRC Set 1-INT-009 Attachment 2. The Companies will make an adjustment in a future Rider DCR quarterly update.[9]

Blue Ridge Comments: The Company inadvertently did not include the adjustment. Blue Ridge recommends again, and the Companies agree, that retirements of $222,245 retirements and cost of removal of $486,636 should be adjusted in the DCR filing. Blue Ridge estimates the effect on OE DCR revenue requirements to be $35,156. **[ADJUSTMENT #11]**

10. Recommendation 10: In regard to FESC work order RE-000001-1 (associated with testing step T8C), Blue Ridge recommends that, when the actual retirements and cost of removal are known for this work order, they be recorded and that the next audit confirm the DCR revenue requirements was adjusted.

    FirstEnergy Response: RE-000001-1 was unitized 11/15/22. As this is a leasehold improvement, there is no COR recorded since these improvements were made for the first time to a leased asset.

    Blue Ridge Comments: Blue Ridge is satisfied with the Companies' action. No further work is required.

11. Recommendation 11: In regard to work order backlog, Blue Ridge recommends that the Companies continue to make a concerted effort to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level.

    FirstEnergy Response: The Companies in 2022 focused on working on a PowerPlan upgrade project that was applied in November 2022. This will allow the Companies to auto unitize workorders going forward. Although the unitization backlog increased from 2021, as shown in the responses to BRC Set 1 DR-034 and BRC Set 1 DR-035, the Companies expect that the upgrade to PowerPlan will assist in the reduction of the backlog going forward.

    Blue Ridge Comments: Blue Ridge expects the Companies' PowerPlan upgrade will be successful. However, due to the end-of-scope-year implementation, subsequent audits will be required to reveal whether work order backlog is, in fact, reduced as a result of the PowerPlan upgrade. Therefore, Blue Ridge reiterates its prior recommendation that the Companies continue to make the concerted effort necessary to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level.

12. Recommendation 12: In regard to Depreciation Expense, Blue Ridge recommends that when amortizing accounts reach zero net book value, the Companies should cease to accrue expense because, unlike depreciating accounts, certain general assets and intangibles are assumed to have a finite life.

    FirstEnergy Response: When general and intangible asset accounts reach zero net book value, the Companies will cease to accrue depreciation expense.

[9] FirstEnergy response to audit scope 2023 data requests 12-DR-001 and 17-DR-003.

Blue Ridge Comments: Blue Ridge is satisfied with the Companies' action. No further work is required.

STATUS OF RECOMMENDED ADJUSTMENTS TO 2021 RIDER DCR REVENUE REQUIREMENTS

Blue Ridge's audit from last year included 32 recommended adjustments to the Rider DCR revenue requirements. The Companies provided the following status on those recommended adjustments.[10]

- Adjustment #s 1–13, 21, 24–26, and 30–32 were incorporated in the July 7, 2022, Rider DCR filing.
- Adjustment #s 14–20, 22–23, and 27 were incorporated in the January 9, 2023, Rider DCR filing.
- Adjustment #s 28 and 29 regard Blue Ridge's finding in Case No. 19-1887-EL-RDR that the total ADIT offset in rate base did not appropriately reflect the EDIT balances resulting from the Tax Cuts and Jobs Act of 2017 (TCJA), as ordered in Case No. 18-1604-EL-UNC. The Companies' disagreed with the finding and the PUCO has yet to decide the issue. Thus, these adjustments remain open.
    - Adjustment #28: In regard to ADIT, Blue Ridge recommends adjusted ending balances, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2021, and February 28, 2022. The effects in correcting the Normalized EDIT balances are to reduce CE DCR revenue requirements by $(516,934), reduce OE DCR revenue requirements by $(320,461), and reduce TE DCR revenue requirements by $(42,776).
    - Adjustment #29: In regard to ADIT, Blue Ridge recommends adjusted ending balances, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2021, and February 28, 2022. The effects in correcting the Non-normalized EDIT balances are to reduced CE DCR revenue requirements by $(409,699), reduce OE DCR revenue requirements by $(1,471,461), and reduce TE DCR revenue requirements by $(172,154).

Blue Ridge Comments: Subsequent to the Companies' response updating the status of the recommended adjustments in the 2021 Audit (Case No. 21—1039-ED-RDR), the Commission issued its Finding and Order (March 8, 2023) in Case No. 19-1887-EDL-RDR accepting Blue Ridge's recommendation regarding the EDIT balances.

> {¶ 26} In July 2019, the Commission approved the TCJA Stipulation. In re Ohio Edison Co., The Cleveland Elec. Illum. Co., and The Toledo Edison Co., Case No. 16-481-EL-UNC, et al., Opinion and Order (July 17, 2019) (TCJA Resolution Order). By the terms of the stipulation, the Companies agreed to refund all tax savings associated with the TCJA including riders, tax savings not reflected in riders, and the return over time of all of the normalized and non-normalized excess ADIT from January 1, 2018. TCJA Resolution Order at ¶¶ 25-27, 66-67. Furthermore, the approval of the stipulation was consistent with the Commission's earlier determination that customers should receive the savings derived from the TCJA. See In re the Commission's Investigation of the Financial Impact of the TCJA on Regulated Ohio Utility Companies, Case No. 18-47-AU-COI (TCJA Investigation), Finding and Order (Oct. 24, 2018) at ¶ 30.

[10] WP Status of Recommendations and Adjustments.

> While the Companies assert that they filed compliance tariffs for the Tax Savings Adjustment Rider (Rider TSA) on July 26, 2019, in Case No. 18-1656-EL-ATA, alleging those tariffs reflect the "final, audited balances," the objections presented in the comments submitted in this proceeding raise questions as to whether those compliance tariffs conform to the directives in the TCJA Resolution Order or the Commission's findings in the TCJA Investigation. Importantly, Staff seems to suggest that the Companies are making adjustments that fundamentally change what amounts should be included in the excess ADIT balances. **With these considerations in mind, the Commission finds it appropriate for the Companies to restore the excess ADIT balances to reflect the stipulated amounts** and allow the Commission to consider the parties' arguments and the Companies' adjustments, particularly the claim that there is no excess ADIT attributable to AFUDC equity, within the next Rider TSA annual filing. **Thus, we find that Blue Ridge's recommendations as to this issue should be adopted in their entirety.** Similarly, we also agree with Blue Ridge that the reclass adjustments may remain in place, as they have no impact on the total liability to be refunded to customers and would not interfere with our directives in the TCJA Investigation. (Emphasis added.)

Blue Ridge adjusted the Normalized and Non-normalized EDIT balances, as filed by the Companies, to reflect the value of the liabilities stated in the TCJA Stipulation in **ADJUSTMENT #14**.

ANALYSIS, FINDINGS, AND RECOMMENDATIONS

- 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. 14-1297-EL-SSO et al.

The purpose of the audit is to determine 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. 14-1297-EL-SSO. This section begins with 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. The section also includes various variance analyses and provides the reviews of any significant changes in net plant by individual FERC account. In addition, the subsection labeled "Gross Plant in Service" contains the results of the transactional testing and field verification.

Each component of Rider DCR is investigated separately. We address the specific exclusions in Riders LEX, EDR, AMI, and General Exclusions and our analysis follows regarding 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, the Tax Cuts and Jobs Act effect, and the return component. The report concludes with a review of the DCR calculation followed by a review of the projections for the first quarter 2023.

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 (as modified and reaffirmed in Case Nos. 12-1230-EL-SSO and 14-1297-EL-SSO[11]) provide the authority for what should be included within Rider DCR. The Combined Stipulation includes this direction in Section B.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 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").[12]
>
> 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.[13]

[11] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11, and Case No. 14-1297-SSO Commission Opinion and Order, March 31, 2016.
[12] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
[13] 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.[14]

PROCESSES AND CONTROLS

- 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.
- Review the Companies' 2021 internal audits and SOX compliance concerning controls which would affect Rider DCR.

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 2021 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 have processes in place to evaluate whether cost controls were adequate and that no significant internal control deficiencies noted in the internal audits resulted in a diminished view of the Companies preparation or costs included in the DCR. However, an audit conducted by FERC's Office of Enforcement on the FirstEnergy Service Company (FESC) evaluated FirstEnergy's compliance with certain accounting and reporting requirements under various FERC regulations. The audit report included a finding and related recommendation on FESC's methodology for allocation of certain corporate support costs to regulatory capital accounts under certain FERC regulations and reporting. In response, effective in the first quarter of 2022, FirstEnergy implemented a new methodology for the allocation of these corporate support costs to regulatory capital accounts for its regulated distribution and transmission companies on a prospective basis. During 2022, FirstEnergy determined necessary the

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

reclassification of approximately $108 million of certain distribution capital assets to Account 186, Miscellaneous Deferred Debits, for the audit period in 2022.

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 requested post-2021 modifications to those policies, procedures, and/or process flow diagrams to determine whether any concerns were present in connection to the effect of those changes on the Rider DCR calculations. Other than items noted as changes below, the Companies stated that no significant changes to procedures or policies were incorporated in 2022.[15]

The policies, procedures, and process flow diagrams reviewed related to the following areas:

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. Capital Spares
    g. Unitization process based on the retirement unit catalog
    h. Application of depreciation
    i. Contributions in Aid of Construction (CIAC)
    j. Recording of Storm Costs—Capital vs. O&M
    k. Vegetation Management—Capital vs. O&M
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, Recording Closing, Unitization, and Depreciation, and Storms (1.c, 1.e, 1.g, 1.h, 1.j); Accounting Entries, including Accounts Payable and Payroll (3, 4, 5)[16]

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

[15] FirstEnergy's response to audit scope 2022 Data Request 01-DR-011.
[16] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, a, Attachment 1, Capitalization Policy—Confidential.

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."[17]

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 Companies track it using the Continuing Property Records (CPR). This CPR is a PowerPlan[18] 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 original cost to its plant account. The Retirement Unit Catalog is a listing within PowerPlan of all retirement units. Based on a specific set of criteria, these units are identified as retirement units to differentiate between replacements or additions chargeable to plant accounts (capital) and those chargeable to maintenance accounts (expense).

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

A new depreciation policy was issued in 2022. The changes involve updating company-specific methods. There were no changes to how depreciation was calculated or applied for the Companies. FirstEnergy provided a copy of the new policy,[19] which Blue Ridge found to be not unreasonable.

No significant policy or procedural changes were made to the recording of storm costs.

Accounts Payable updated two policies in 2022: the Employee Travel & Expense—Practice 7.5 and the Practice on Delegation of Authority—Practice 3.7.[20]

In 2022, the Companies revised their Administrative and General Overhead Capitalization Procedure. Blue Ridge reviewed the procedure and found it to be not unreasonable.

No changes were made in 2022 to capitalization policies that would transfer costs from operating expenses to capital.[21]

Preparation and Approval of Work Orders[22]

The Companies' Work Management Process flow diagram as well as the CREWS (Customer Request Work Scheduling System) Work Request Type Narratives show how elements, such as project size and contractor involvement, affect the process for managing the work. According to the Customer Request (the CR in the CREWS name), the system would seemingly include only work

[17] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, a, Attachment 1, Capitalization Policy (Confidential).
[18] "PowerPlan" is a commercially available computer software application used in plant accounting.
[19] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, a, viii, Attachment 3.
[20] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, c, Attachments 1 and 2.
[21] FirstEnergy's response to audit scope 2022 Data Request 01-DR-012.
[22] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, b, Attachments 1 and 2 (Confidential).

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.

Application of AFUDC[23]

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

The AFUDC policy was updated in 2022, which included the FERC requirement to perform an analysis to determine whether rates should be updated due to short-term debt and CWIP varying significantly from estimates. The Companies provided a copy of the updated policy.[24] Blue Ridge reviewed the policy and found it to be not unreasonable.

Capital Spares

Blue Ridge had previously reviewed the Companies' capital spares policy and found that it was comprehensive and complete and that it contains all the essential requirements and approval processes we expected to see.[25] The Companies made no updates to the policy in 2022.[26] The use of spares, among other things, mitigates disruption of service. The Companies move compatible spare transformers between FirstEnergy entities within and outside Ohio when the need arises.[27]

Contributions in Aid of Construction (CIAC)[28]

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

Vegetation Management (Tree Trimming and Clearing and Grading of Land)

Policies regarding vegetation management (tree trimming and clearing and grading of land) are important in the DCR discussion because of their capital and expense accounting determination.

Blue Ridge reviewed the updated accounting policy ("The Clearing of Corridors & Other Vegetation Management," effective October 1, 2021), which states that "clearing costs associated with the initial clearing of a corridor for transmission or distribution facilities are eligible for capitalization under FERC and GAAP accounting principles" and that "all subsequent clearing costs are expensed

[23] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, d, Attachment 1, Accounting For Capitalized Financing Costs During Construction (Confidential).
[24] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, a, iv, Attachment 2.
[25] FirstEnergy's response to audit scope 2019 Data Request 02-INT-10.
[26] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, a, vi.
[27] FirstEnergy's response to audit scope 2019 Data Request 15-INT-4, -5, -6, -7.
[28] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, e, Attachment 1, Invoicing Process Flow Chart (Confidential).

under FERC and GAAP."[29] Based on the policy's purpose, scope, definitions, guidance, and procedure reviewed, Blue Ridge believes the policy to be not unreasonable.

Purchasing/Procurement[30]

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.

The Companies updated the Enterprise Sourcing of Materials and Services Rev 10.2 (copy provided)[31] related to the termination of use of PowerAdvocate for bid events. In addition, there were updates to Covered Third Parties and Conflicts of Interest as provided in Business Practice 602 Policy as related to vendors. To describe the Covered Third Parties and Conflicts of Interest instances for supply chain personnel, a guideline document (provided copy SCIG-SRC001-G16)[32] was also developed.

FE has also updated Business Practice 6.3—Procurement (provided).[33] The Procurement Business Practice's purpose is to establish uniform effective, efficient, and ethical activities to procure equipment, commodities, materials, supplies, and services. The changes include following standardized terminology and additional terminology, defined roles within the "Authority and Responsibility" section, documented approved exceptions in a separate section to increase clarity, updated reference to the recently updated FirstEnergy Corporate Practice 3.7 Practice on Delegation of Authority, and removed FENOC/Nuclear references and related items.

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

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

Insurance Recovery[35]

According to the Companies, 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.

[29] FirstEnergy's response to audit scope 2021 Data Request 01-DR-012, Attachment 1.
[30] FirstEnergy's response to audit scope 2016 Data Request 01-INT-013, b, including Attachment 3 (Confidential).
[31] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, b, Attachment 1.
[32] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, b, Attachment 2.
[33] FirstEnergy's response to audit scope 2022 Data Request 01-DR-11, b, Attachment 3.
[34] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, m, Attachment 1 (Confidential).
[35] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, a (Confidential).

Property Taxes[36]

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

Service Company Allocations[37]

According to the Stipulation in Case 10-388-EL-SSO and continued in Case No. 12-1230-EL-SSO and Case No. 14-1297-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."[38] The most recent base distribution rate case is Case No. 07-0551-EL-AIR.

Budgeting/Projections[39]

The Rider DCR Compliance Filings include three months of projected data through the end of February 2022. The estimate is based on the 2021 forecast from PowerPlan adjusted to reflect current assumptions, to incorporate recommendations from prior audits, to remove all balances associated with Grid Mod 1 as approved by the Commission, and to remove the cumulative pre-2007 impact of a change in pension accounting.[40] Blue Ridge reviewed the Companies' capital budget process to understand whether that process was sound and results in reasonable projections of expected capital expenditures that would be included in the Rider DCR. Blue Ridge sought to understand the Companies' processes and practices for justifying and approving the capital funds that would be expended on FirstEnergy's transmission, distribution, general, and intangible gross plant. The policies, procedures, and process flow diagrams, showing key controls related to, among other things, capital budgeting and projections, was reviewed. Blue Ridge also reviewed whether the cost controls were adequate and reasonable.

Based on past cost overruns of 15% and greater, in the 2019 DCR Rider Audit, Blue Ridge recommended that the Companies further enhance and refine their project-estimating process. In 2020, CEI put a Portfolio Control Process in place to enhance controls on spending and lend additional visibility prior to the jobs being released to the field. The process brings financial discipline and enhanced business planning by requiring a Change Management Approval Form to be created and approved by leadership when a project that is >$20K has these criteria:

- Budget Variances > 10%
- Schedule Deferral
- Labor Source Changes
- Scope Changes

OE has had a Control Process similar to CEI's in place prior to 2020. In 2020, OE created a process to work with the Companies' Economic Development group to identify new business to include in the

[36] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, n, Attachment 1 (Confidential).
[37] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, i (Confidential).
[38] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 15.
[39] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, c, Attachments 1, 2, and 3 (Confidential).
[40] DCR Filings: CE DCR eff 3-1-22.pdf, OE DCR eff 3-1-22.pdf, and TE DCR eff 3-1-22.pdf.

forecast. If there is a high probability that these jobs will occur, there will be a specific RPA added to the forecast.

In 2020, TE continued to monitor its process for approving scope changes on projects. If a project in TE is changed in scope and dollars, approval is required from the engineering manager and additional approval may be required from the director.[41]

The budgeting activity of the Companies, regarding 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."[42] Individual business unit programs drive the approval of the capital budgets at the business unit level.[43] In addition, the procedure for creating and acquiring approval for the capital portfolio states, "Business Units will utilize internal review and approval processes to analyze and create a prioritized Capital Portfolio."[44]

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).[45]

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, performs the calculations, and relies on the

[41] FirstEnergy's response to audit scope 2020 Data Request 01-INT-009.
[42] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, c, Attachment 1 (Confidential).
[43] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, c, Attachment 2 (Confidential).
[44] FirstEnergy's response to audit scope 2011 Data Request 01-INT-003, c, Attachment 1 (Confidential).
[45] FirstEnergy's response to audit scope 2013 Data Request 01-INT-032 (Confidential).

provider of the information for accuracy. The Rider DCR Compliance filings are comprised of several schedules and information sources:[46]

- Revenue Requirements Summary – calculated by the Rates Department
- DCR Revenue Requirement Calculation – gross plant, reserve, ADIT, depreciation, and property tax expense roll up from detailed schedules; commercial activity tax (CAT) and income tax rates are provided by the Tax Department; and revenue requirements are calculated by the Rates Department
- Plant in Service – Plant Accounting
- Reserve for Depreciation – Plant Accounting
- Accumulated Deferred Income Taxes (ADIT) Balances – Tax Department
- Depreciation Accrual Rates – Plant Accounting provides the gross plant balances; accrual rates are based upon the rates established in Case No. 07-551-EL-AIR, et al.
- Property Tax Calculations – Tax Department
- Summary of Exclusions – primarily from Plant Accounting
- Service Company Allocation Summary – gross plant, reserve, ADIT, depreciation and property tax expense roll up from detailed schedules; allocations are based upon last distribution rate case, Case No. 07-551-EL-AIR, et al.
- Service Company Depreciation Accrual Rates – rates are based upon the weighted average of the approved depreciation rates for the three Ohio Operating Companies
- Service Company Property Tax Rate – rates are based upon the weighted average of the property tax rates for the three Ohio Operating Companies; True Value Percentages & Capitalized Interest Workpaper – Tax Department
- Intangible Depreciation Expense – intangible plant balances provided by Plant Accounting; accrual rates are based on the last distribution rate case, Case No. 07-551-EL-AIR, et al.
- Rider DCR/Rate Design – the Case No. 10-388-EL-SSO Combined Stipulation provides the rate design for Rider DCR
- 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 two-tiered review process. A peer Analyst completes the initial review. The Director of OH Rates and Regulatory Affairs (who is also trained to prepare the Rider DCR filings) completes the second review prior to submission to the Commission. The Vice President of Rates and Regulatory Affairs reviews the filing as needed.

The only change to the development process in 2022 was to incorporate the impact on the Rider DCR revenue requirements of the specific recommendations that came out of the audit of the 2021 Rider DCR in Case No. 21-1038-EL-RDR.[47]

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[46] FirstEnergy's response to audit scope 2011 Data Request 01-INT-006, Attachments 1 and 2; Audit scope 2011 Interview Notes for Erica Millen 1/9/12.
[47] FirstEnergy's response to audit scope 2022 Data Request 01-DR-010.

Internal, FERC, and SOX Compliance Audits

Blue Ridge reviewed the list of 71 audits completed or in progress in the scope year regarding controls that would affect Rider DCR.[48] Of those, we specifically reviewed findings of 26 of the audits—those which had examination elements that could affect the DCR reporting information or process. For the majority of these, Blue Ridge found the conclusions and the Companies' responses not unreasonable and controls to be satisfactory in the preparation of costs included in the DCR.[49]

However, one audit, conducted by FERC's Office of Enforcement on FESC (begun in February 2019), evaluated FirstEnergy's compliance with certain accounting and reporting requirements under various FERC regulations. The audit report included a finding and related recommendation on FirstEnergy's methodology for allocation of certain corporate support costs to regulatory capital accounts under certain FERC regulations and reporting. Effective in the first quarter of 2022 and in response to the finding, FirstEnergy implemented a new methodology for the allocation of these corporate support costs to regulatory capital accounts for its regulated distribution and transmission companies on a prospective basis. With the assistance of an independent outside firm, FirstEnergy completed its analysis in 2022 of these costs for the audit period of 2015 through 2021. As a result of this analysis, FirstEnergy reclassified approximately $108 million of certain distribution capital assets to Account 186, Miscellaneous Deferred Debits, for the audit period in 2022. The reclassified amounts for each Company are summarized below.[50]

Table 12:Reclassified Distribution Assets to Account 186

	Plant	Reserve	Net Plant
OE	$54,270,377	$6,966,755	$47,303,622
CEI	$45,591,073	$6,422,927	$39,168,146
TE	$25,577,269	$3,684,464	$21,892,806
Total	$125,438,720	$17,074,145	$108,364,575

However, the Companies' Rider DCR revenue requirements effective in 2022 still included the net plant associated with these 2015–2021 costs. Removing this net plant results in the following impacts to the DCR:

- Reduced CE DCR revenue requirements $(6,808,092)
- Reduced OE DCR revenue requirements $(6,444,769)
- Reduced TE DCR revenue requirements $(3,498,947)

Total impact to FirstEnergy DCR revenue requirements $(16,751,808). **[ADJUSTMENT #13]**

Blue Ridge also reviewed the list of Sarbanes-Oxley compliance work completed or in progress during the scope period, from which we chose 13 audits for further review. One of these audits revealed a significant deficiency existed for which the Companies performed remedial activity.[51] The deficiency did not have significant impact on the DCR.[52]

[48] FirstEnergy's response to audit scope 2021 Data Request 01-DR-015, Attachment 1 (Confidential).
[49] FirstEnergy's responses to audit scope 2022 Data Requests 03-DR-004, Attachment 1 (Confidential), 05-DR-002, and 05-DR-0023, a.
[50] FirstEnergy's response to audit scope 2022 Data Request 05-DR-003.
[51] FirstEnergy's response to audit scope 2022 Data Request 03-DR-003.
[52] FirstEnergy's response to audit scope 2022 Data Request 05-DR-002.

Cost Containment

Blue Ridge requested information regarding the Companies' cost containment strategies and practices in relation to the use of contractors. The Companies' process begins with project managers submitting contractor requests to management for approval. Once the contractor work is approved, Utilities Supply Chain follows their strategic sourcing procedure. A sourcing strategy is devised to best leverage the buying power of FirstEnergy to maximize benefit to the operating company. RFPs are sent to pre-qualified contractors. The Supply Chain Sourcing Specialist uses a total evaluated bid methodology to assess RFP responses. The Sourcing Specialist works with the sourcing team to select a successful supplier, award the contract, and issue purchase orders governed by FirstEnergy Service Company terms and conditions. The Sourcing Specialist may also measure vendor performance on critical services and equipment by utilizing the FirstEnergy Supplier Performance Management Tool. By this process, the Companies hope to ensure utilization of cost effective, efficient, safe, ethical, and diverse vendors. After the contractor work is complete, the invoice is sent electronically to the internal coordinator of the project. The invoice is reviewed and approved as to whether the work was performed correctly and to specification. Contractor costs are contained by review of actual, budget, forecast information with management and the Business Services team to ensure alignment in actual performance, current expectations, and future performance expectations related to contractor costs.[53] Based on the process reviewed, Blue Ridge believes the practice to be not unreasonable.

Blue Ridge also reviewed the Companies' process by which they determine whether to use internal labor or outside contractors.[54] The Companies stated that they utilize an annual work planning process, workload analysis, and budgeting processes to evaluate the resources required to complete work. The processes are based on historical workload data (e.g., three-year averages for blanket work), planned program work (e.g., expected ESSS inspection findings, pole replacements, emerging work), approved specific projects, and rider project work. Resource capability is determined using actual headcount and projected headcount based on attrition information and historical non-productive time. The Companies use the work-plan to evaluate the timing and commitments to balance the workload and resource capacity. This process includes members from engineering, operations, work management, and business services. The data is used in Collaborative conversations with the Companies' leadership teams and union leadership concerning the data lead to finalizing the work assignment (internal, shared, contracted) and mechanisms (ST, OT, defer) to accomplish the plan.

The Companies' least cost approach is based on the following priorities:

1. Work all core work with internal resources as capacity allows
2. Reduce or defer other work to reduce workload if possible
3. Utilize shared resources on ST-adjacent or reasonably close internal resources
4. Utilize internal resources on OT–local crews
5. Utilize shared resources on OT–adjacent or reasonably close internal resources
6. Identify portions of work or entire projects for competitive bidding or assignment to preferred contractor—managed by engineering, supply chain, EtF, etc.

These steps are part of the development of the annual work plan, monthly resource planning meetings, and weekly scheduling discussions.

[53] FirstEnergy's response to audit scope 2022 Data Request 01-DR-013.
[54] FirstEnergy's response to audit scope 2022 Data Request 01-DR-014.

Blue Ridge found the Cost Containment strategy and labor determination not unreasonable.

Conclusion—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. Based on information reviewed and considering the adjustment made regarding the conclusions to the FERC audit discussed above, Blue Ridge concludes that the Companies' controls were adequate and not unreasonable.

Variance Analysis

- 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 supports the determination of the trustworthiness of the DCR development. In the current audit of DCR scope year 2022, Blue Ridge evaluated several changes and variances in account balances:

- 2022 Plant Additions, Retirements, Transfers, and Adjustments
- Year-to-Year DCR Filing Plant-in-Service Balances
- Year-to-Year DCR Filing Reserve Balances
- Year-to-Year DCR Filing Service Company Balances
- End-of-Year 2022 DCR Filing to 2022 FERC Form 1 Plant-in-Service Balances
- 2022 Work Order Population Totals to 2022 DCR Filing Year-to-Year Plant-in-Service Activity

2022 Plant Additions, Retirements, Transfers, and Adjustments

Blue Ridge began its account variance analyses by examining the plant additions, retirements, transfers, and adjustments to understand changes to the unadjusted plant balances. In its investigation, Blue Ridge asked a multi-part data request regarding certain account changes of concern.

FirstEnergy responded with the requested account detail.[55] From the review of the detail, including understanding responses from follow-up requests,[56] Blue Ridge noted one instance of an incorrect retirement amount, which results in the DCR being overstated. An incorrect recording of $3,609,428 in retirement was made to TECO account 368, regarding work order 17331167. In February 2023, after discovering the error, FirstEnergy reversed the retirement transactions and then recorded the correct retirement of $242.64. Blue Ridge recommends, and the Companies plan, to make an adjustment in a future Rider DCR filing to correct the cumulative revenue requirement impact. Blue Ridge calculated the impact to the TE DCR to be an increase of $273,519.[57] **[ADJUSTMENT #12]**

Year-to-Year 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 November 30, 2021, with the year-end November 30, 2022, filing.

[55] FirstEnergy's responses to audit scope 2022 Data Request 03-DR-002.
[56] FirstEnergy's responses to audit scope 2022 Data Requests 05-DR-004 through 05-DR-007.
[57] FirstEnergy's response to audit scope 2022 Data Request 11-DR-001.

The following table summarizes 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 $42.5 million, $97.4 million, and $8.4 million for CE, OE, and TE, respectively. These increases represent year-over-year percentage increases of 1.2%, 2.5%, and 0.6% for CE, OE, and TE, respectively.

Table 13: Adjusted Plant Change from 11/30/2021 to 11/30/2022[58]

	(a)	(b)	(c)	(d)	(e)
Line No.	Account Title	Adjusted Balance 11/30/21	Adjusted Balance 11/30/22	Difference (c)-(b)	% (d)/(b)
1	**The Cleveland Electric Illuminating Company**				
2	Transmission	$ 452,963,984	$ 463,610,730	$ 10,646,746	2.4%
3	Distribution	2,616,006,493	2,630,766,121	14,759,628	0.6%
4	General	172,554,045	173,591,646	1,037,601	0.6%
5	Other	77,239,448	88,901,782	11,662,334	15.1%
6	Service Company Allocated	129,367,378	133,777,224	4,409,846	3.4%
7	**Total Cleveland Electric Illuminating Company**	**$ 3,448,131,348**	**$ 3,490,647,503**	**$ 42,516,155**	**1.2%**
8	**Ohio Edison Company**				
9	Transmission	$ 215,766,476	$ 216,351,705	$ 585,229	0.3%
10	Distribution	3,230,846,435	3,301,851,833	71,005,398	2.2%
11	General	215,349,351	217,719,719	2,370,368	1.1%
12	Other	110,834,136	128,899,823	18,065,687	16.3%
13	Service Company Allocated	156,770,320	162,114,272	5,343,952	3.4%
14	**Total Ohio Edison Company**	**$ 3,929,566,718**	**$ 4,026,937,352**	**$ 97,370,634**	**2.5%**
15	**The Toledo Edison Company**				
16	Transmission	$ 25,197,702	$ 25,985,700	$ 787,998	3.1%
17	Distribution	1,112,433,321	1,113,854,608	1,421,287	0.1%
18	General	77,864,690	78,168,033	303,343	0.4%
19	Other	35,720,704	41,588,677	5,867,973	16.4%
20	Service Company Allocated	69,008,074	69,008,074	-	0.0%
21	**Total Toledo Edison Company**	**$ 1,320,224,491**	**$ 1,328,605,092**	**$ 8,380,601**	**0.6%**
22	**FirstEnergy Ohio Operating Companies**	**$ 8,697,922,557**	**$ 8,846,189,947**	**$ 148,267,390**	**1.7%**

Blue Ridge found two significant individual FERC account increases from the prior year. The Companies provided the journal entries detailing those increases.[59] Blue Ridge reviewed the detail and was satisfied that the work orders and their recording included normal utility activity. Furthermore, the individual account increases did not significantly affect overall Plant in Service.

Year-to-Year DCR Filing Reserve Balances

Reserve accounts typically increase primarily because of the accrual for depreciation. However, for each of the three Companies, about a handful of accounts decreased rather than increased (CE: 353, 369, 370, 395; OE: 370, 371, 391, 393, 395, 398; TE: 368, 370, 373, 395, 398). Additionally, while CE account 354 increased and TE account 396 did not change, accrued depreciation would normally

[58] WP BRCS FE DCR CF Variance 2023—Confidential.xlsx, tab—PIS Summary.
[59] FirstEnergy's response to audit scope 2022 Data Request 04-DR-007.

yield greater increases than what had occurred. Blue Ridge sought clarification for these anomalies. The Companies cited two conditions: (1) enhancements had been made to the fixed asset system to separate depreciation between the Life Rate and Cost of Removal Rate (typically Group Method Depreciation), and although no change was made to the total rate, it allowed the Cost of Removal Reserve to accumulate, and (2) the 396 depreciation group was fully depreciated. Blue Ridge was satisfied with the explanations from the Companies.[60] No other anomalies presented regarding the reserve balances.[61]

<u>Year-to-Year DCR Filing Service Company Balances</u>

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

<u>End-of-Year 2022 DCR Filing to 2022 FERC Form 1 Plant-in-Service Balances</u>

Blue Ridge requested and received from FirstEnergy a reconciliation between the 2022 plant-in-service account balances in the Companies' DCR Compliance Filings and their 2022 FERC Forms 1. Blue Ridge requested this reconciliation to ensure the DCR balances, with the appropriate adjustments, correctly correlated to what was reported on the FERC Forms 1. The provided spreadsheet showed the balance comparisons and offered explanations for the differences. After examination, Blue Ridge found the explanations not unreasonable and, incorporating the explained differences, found that the balances from the 2021 end-of-year DCR filings matched the balances of the 2021 FERC Forms 1, giving additional confidence that the end year DCR balances were reliable.[62]

Blue Ridge had also requested this comparison in last year's audit which verified the beginning balance for this year.[63]

<u>Work Order Population Totals to DCR Filing Year-to-Year Plant-in-Service Activity</u>

Blue Ridge requested a reconciliation comparing the population of work orders in the scope period with the DCR balances. The reconciliations were provided for all three operating companies and the service company.[64] Blue Ridge requested six follow-up DRs for more explanation.[65] After examination, revised gross plant activity listing, and clarifying calculations and narrative regarding adjustments and exclusions, Blue Ridge found that the work order totals aligned with the DCR filing balances.

<u>Conclusion—Variance Analysis</u>

Aside from the one adjustment for an incorrect retirement amount, FirstEnergy's responses regarding the variances in plant account balances largely resulted from normal work order activity and are not uncommon among utilities. The changes in plant balances for the Companies were not unreasonable.

[60] FirstEnergy's response to audit scope 2022 Data Requests 11-DR-003 and -004.
[61] FirstEnergy's response to audit scope 2022 Data Request 01-DR-019.
[62] FirstEnergy's response to audit scope 2022 Data Request 01-DR-006, Attachment 1.
[63] FirstEnergy's response to audit scope 2021 Data Request 01-INT-006, Attachment 1 (Confidential).
[64] FirstEnergy's response to audit scope 2022 Data Request 01-DR-005, Attachment 1.
[65] FirstEnergy's response to audit scope 2022 Data Request 04-DR-001 through 04-DR-006.

RIDERS LEX, EDR, AMI, AND GENERAL EXCLUSIONS

- Determine if capital additions recovered through Riders LEX, EDR, and AMI have been identified and excluded from Rider DCR. Determine whether capital additions recovered through any other subsequent rider authorized by the Commission to recover delivery-related capital additions have been identified and excluded from Rider DCR.

The Combined Stipulation (reaffirmed in Case Nos. 12-1230-EL-SSO[66] and 14-1297-EL-SSO[67]) 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, be identified and excluded from Rider DCR and the annual cap allowance.[68]

The Schedule within the Rider DCR Compliance Filings labeled "Summary of Exclusions per Case No. 14-1297-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 summary also includes exclusions related to the Experimental Company-Owned LED Program, Vegetation Management, and Service Company Plant in Service. 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.[69]

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."[70]

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 Rider LEX. Blue Ridge found that the sample did not include any LEX work orders.[71]

Economic Development Rider (Rider EDR(g))

Rider EDR(g) 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.[72] 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 Nos. 12-1230-EL-SSO and 14-1297-EL-SSO.

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[66] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11.
[67] Case No. 14-1297-EL-SSO Commission Opinion and Order, March 31, 2016, page 119.
[68] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[69] Case No. 08-0935-EL-SSO Stipulation and Recommendation, Section B.3, page 16.
[70] CEI, OE, and TE Rider DCR Compliance Filings dated 1/9/23, pages 19 and 44.
[71] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1b.
[72] 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.[73] The Rider EDR(g) gross plant and reserve balances are shown separately in the Companies' workpapers to demonstrate that they are appropriately excluded from the balances that are recovered under Rider DCR. The following table shows the incremental change from 2021 to 2022 in the amount of Rider EDR(g) excluded from Rider DCR.

Table 14: Incremental Change in Rider EDR(g) Exclusions from 2021 to 2022

Company	Actual 11/30/2021		Actual 11/30/2022		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 207,171	$ 16,472	$ 195,011	$ 19,591	$ (12,159)	$ 3,119

The Companies are projecting no changes in gross plant in the forecasted period ending February 28, 2023, as shown in the following table.[74]

Table 15: Incremental Change in Rider EDR(g) Exclusions from 11/30/2022 to 2/28/2023

Company	Actual 11/30/2022		Estimated 2/28/23		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 195,011	$ 19,591	$ 195,011	$ 20,371	$ -	$ 780

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include work for the Cleveland Clinic Foundation. Blue Ridge did not identify any work for the Cleveland Clinic Foundation within the sample or population.[75]

Advanced Metering Infrastructure Rider (Rider AMI)

Rider AMI includes FirstEnergy's Smart Grid Modernization Initiative. With the approval of the stipulation in Case No. 16-481-EL-UNC et al., Rider AMI now includes recovery of investments associated with both the CEI Smart Grid Pilot and Grid Mod 1.

AMI–CEI Pilot

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 PowerPlan and WBS CE-004000 determine exclusions related to Rider AMI.[76] The Companies show Rider AMI gross plant and reserve balances separately in the workpapers to demonstrate that they are appropriately excluded from the balances that are recovered under Rider DCR.

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

[73] CEI, OE, and TE Rider DCR Compliance Filings dated 1/9/2023, pages 19 and 44.
[74] CEI, OE, and TE Rider DCR Compliance Filings dated 1/9/2023, pages 19 and 44.
[75] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1c.
[76] WP FC DCR Compliance Filing 1-9-23.

Table 16: Rider AMI—CEI Pilot Gross Plant and Reserve Reported as Excluded from Rider DCR as of 11/30/2022

FERC Account	CEI	
	Gross	Reserve
303-SGMI	$ 1,024,391	$ (326,161)
362-SGMI	5,179,280	4,141,785
364-SGMI	163,082	127,145
365-SGMI	1,794,274	1,774,250
367-SGMI	2,230	(1,567)
368-SGMI	171,766	163,074
370-SGMI	15,781,778	14,079,614
397-SGMI	3,199,856	3,051,217
Grand Total	**$ 27,316,657**	**$ 23,009,357**

The table above identifies a portion of the AMI that is excluded from the DCR.[77] Additional excluded amounts are within the documentation that support the DCR gross plant and reserve balances and reflect charges to various AMI work orders that were identified during the 2013 Rider DCR Audit. Costs have continued to be recorded to these work orders since 2013. As part of the 2019 Audit, Blue Ridge recommended that the Companies modify the Summary of Exclusions to reflect the total amount of AMI plant that they actually exclude. The Companies added another table to include the AMI work orders identified in the 2013 DCR Audit. These additional amounts, presented in the table below, reflect balances that are included in WBS CE-00400 and Non-SGMI depreciation groups.[78]

Table 17: Rider AMI—WBS CE-00400 as Excluded from Rider DCR as of 11/30/2022

FERC Account	CEI	
	Gross	Reserve
303	$ 590,732	$ 739,676
352	$ 105,640	$ 22,110
353	$ -	$ -
355	$ (814)	$ (164)
356	$ (447)	$ (93)
358	$ -	$ -
361	$ 475,600	$ 105,767
362	$ (551,849)	$ (81,624)
364	$ 67,073	$ 41,010
365	$ 1,019,185	$ 257,096
367	$ 12,551	$ 776
368	$ (410,260)	$ (137,788)
369	$ 734	$ 137
370	$ (276,504)	$ (106,534)
373	$ 13,036	$ 4,864
390	$ -	$ 0
391	$ 4,196,089	$ 3,704,466
397	$ 2,217,259	$ 1,311,776
Grand Total	$ 7,458,026	$ 5,861,476

AMI/Smart Grid–Grid Mod 1

[77] FirstEnergy's response to audit scope 2022 Data Request 01-DR-001, Attachment 1.
[78] FirstEnergy's response to audit scope 2022 Data Request 01-DR-001, Attachment 1.

The Companies filed a Distribution Platform Modernization (DPM) Plan in Case No. 17-2436-EL-UNC on December 4, 2017. On July 17, 2019, the Commission approved a Stipulation and Recommendation authorizing recovery of the costs associated with the DPM. The Companies' first phase of a grid modernization plan ("Grid Mod I") includes attributes from both the grid modernization business plan and the DPM Plan. The Stipulation states that recovery of capital costs of the Grid Mod I assets will be through the Rider AMI.[79]

The Companies have incurred costs for Grid Mod I with charges recorded to FERC accounts 303, 353, 355, 356, 361, 362, 364, 365, 366, 367, 368, 369, 370, 371, 373, 391.2, 394, and 397.[80] FirstEnergy may recover the costs associated with these FERC accounts through the DCR. During Blue Ridge's 2018 audit of the DCR, the Companies explained the control/process mechanism they would use to identify Grid Mod I capital projects versus those recovered through the DCR:

> Similar to the current process for exclusions related to Riders AMI and EDR(g), Grid Mod I will have its own funding project and work orders that will be tracked separately from the work in Rider DCR and clearly identifiable to be excluded from the Rider DCR calculations.
>
> Prior to each Rider DCR filing, the Companies review actual and forecasted work order detail and will be able to locate and exclude activity related to Grid Mod I, based on the funding project and work orders assigned.[81]

The Summary of Exclusions schedule explains how the Companies exclude Grid Mod 1 activity:

> All plant in-service activity associated Grid Mod I is recorded in distinct funding projects that are separate from the plant in-service activity included in Rider DCR. As explained on Schedules B2.1 and B3, the starting balances used for Rider DCR already exclude all Grid Mod I activity, consistent with Case No. 16-481-EL-UNC, et. al.[82]

The following is a breakdown of Grid Mod I costs included in the AMI and removed from Rider DCR Actual 11/30/2022 Plant Balances before Adjustments and Exclusion are applied to the Plant Balances for exclusion.

Table 18: Grid Mod 11/30/2022 Balances[83]

Company	Source	Actual 11/30/21		Actual 11/30/22		Change	
		Plant	Reserve	Plant	Reserve	Plant	Reserve
CEI	DR 1.38 Att 2	$ 125,075,504	$ 13,304,946	$ 211,189,464	$ 24,967,305	$ 86,113,960	$ 11,662,359
OE		$ 151,189,730	$ 13,767,964	$ 283,538,148	$ 26,361,902	$ 132,348,418	$ 12,593,938
TE		$ 49,460,878	$ 5,990,022	$ 77,822,144	$ 10,812,322	$ 28,361,266	$ 4,822,300
Grand Total		$ 325,726,113	$ 33,062,933	$ 572,549,756	$ 62,141,529	$ 246,823,643	$ 29,078,596
Remove Grid Mod I	DR 1.1 Att 3	$ 325,693,270	$ 33,019,696	$ 571,952,080	$ 61,946,584	$ 246,258,810	$ 28,926,888
Difference		$ 32,843	$ 43,237	$ 597,676	$ 194,945	$ 564,833	$ 151,708

The table above presents a "Difference" between Grid Mod total and Grid Mod removed from the DCR. The Companies explained the difference by stating that plant and reserve resides in depreciation group 303 Grid Mod. These differences are due to changes to the depreciation for FERC account 303 in Grid Mod. The Companies updated the amounts in 303 Grid Mod account after the

[79] Case No. 16-481-EL-UNC et. al., Stipulation dated November 9, 2018, pages 10–11.
[80] WP BRC Set 1-DR-38 Attachment 2—Confidential.
[81] FirstEnergy's response to audit scope 2018 Data Request 02-INT-003, d.
[82] Rider DCR Compliance Filings dated 1/9/2023, pages 19 and 44.
[83] FirstEnergy's response to 2022 Audit Data Request 01-DR-001 Attachment 3 and 01-DR-038 Attachment 2.

Rider DCR quarterly update was submitted. The account 303 Grid Mod depreciation group is removed from the 303 account included in the DCR. Therefore, the difference does not impact the Rider DCR revenue requirement calculation.[84]

Table 19: Demonstration of Differences in the 11/30/22 Starting Balances[85]

Company	Source	303 Grid Mod Difference		373 LED Difference		370 SmartGrid Difference		Total Difference	
		Plant	Reserve	Plant	Reserve	Plant	Reserve	Plant	Reserve
CEI	DR 8.43	$ (212,039.22)	$ (53,083.49)	$ (60,288.00)	$ (1,599.00)	$ (9.00)	$ (59,785.00)	$ (272,336.22)	$ (114,467.49)
OE		$ (201,050.88)	$ (50,368.32)	$ -	$ -	$ -	$ -	$ (201,050.88)	$ (50,368.32)
TE		$ (118,559.92)	$ (29,699.44)	$ (5,729.00)	$ (409.00)	$ -	$ -	$ (124,288.92)	$ (30,108.44)
Total		$ (531,650.02)	$ (133,151.25)	$ (66,017.00)	$ (2,008.00)	$ (9.00)	$ (59,785.00)	$ (597,676.02)	$ (194,944.25)

The remaining difference is attributed to Grid Mod 1 plant and reserve residing in 373 LED and 370 SmartGrid depreciation groups. Since these accounts are already excluded from the DCR revenue requirement calculation, they were not included in the workpapers and documents that support the information included in the Companies' January 9, 2023, DCR Filing[86] amounts.[87] Blue Ridge found that this would appear to be a timing difference and therefore, the difference does not impact the Rider DCR revenue requirement calculation.

As part of work order sample testing, Blue Ridge reviewed project descriptions. Blue Ridge found that the sample did not include AMI-related work orders.[88]

Other Riders

In addition to Riders LEX, EDR, and AMI, the Combined Stipulation (reaffirmed in Case Nos. 12-1230-EL-SSO[89] and 14-1297-EL-SSO[90]) requires that the Companies identify capital additions recovered through any other subsequent rider authorized by the Commission to recover delivery-related capital additions and exclude them from Rider DCR and the annual cap allowance.[91] In addition to the Riders DCR, LEX, EDR, and AMI, the Companies' tariffs include the following riders:

[84] FirstEnergy's response to 2022 Audit Data Request 8-DR-043.
[85] WP BRC Set 1-DR-038-Attachment 2 and DR 8.43.
[86] FirstEnergy's response to 2022 Audit Data Request 1-DR-001 Attachment 3.
[87] FirstEnergy's response to 2022 Audit Data Request 8-DR-043.
[88] Additional Validation Testing from Sampled Work Orders, Testing Criteria T1c.
[89] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11.
[90] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11, and Case No. 14-1297-SSO Commission Opinion and Order, March 31, 2016.
[91] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.

1	Residential Distribution Credit	25	Experimental Company Owned LED Lighting Program
2	Transmission and Ancillary Service Rider	26	Generation Service
3	Alternative Energy Resource	27	Demand Side Management and Energy Efficiency
4	School Distribution Credit	28	Economic Development
5	Business Distribution Credit	29	Deferred Generation Cost Recovery
6	Hospital Net Energy Metering	30	Deferred Fuel Cost Recovery
7	Peak Time Rebate Program – CE	31	Non-Market-Based Services
8	Universal Service	32	Residential Deferred Distribution Cost Recovery
9	State kWh Tax	33	Non-Residential Deferred Distribution Cost Recovery
10	Net Energy Metering	34	Residential Electric Heating Recovery
11	Grandfathered Contract – CE	35	Residential Generation Credit
12	Delta Revenue Recovery	36	Phase-In Recovery
13	Demand Side Management	37	Advanced Metering Infrastructure/Modern Grid
14	Reasonable Arrangement	38	Government Directives Recovery Rider
15	Distribution Uncollectible	39	Automated Meter Opt Out
16	Economic Load Response Program	40	Ohio Renewable Resources Rider
17	Generation Cost Reconciliation	41	Commercial High Load Factor Experimental TOU Rider
18	Fuel	42	Residential Critical Peak Pricing Rider
19	Delivery Service Improvement	43	Tax Savings Adjustment Rider
20	PIPP Uncollectible	44	Legacy Generation Resource Rider
21	Non-Distribution Uncollectible	45	Conservation Support Rider
22	Experimental Real Time Pricing	46	County Fairs and Agricultural Societies Rider
23	Experimental Critical Peak Pricing	47	Solar Generation Fund
24	CEI Delta Revenue Recovery – CE	48	Consumer Rate Credit

Blue Ridge compared the list of approved riders to prior years and found (and the Company stated) that the Commission has not approved implementation of any new riders for the period under review.[92] However, prior approved riders (other than Riders DCR, LEX, EDR, and AMI) do or could potentially include capital additions and are discussed later. These riders include Experimental Company-Owned LED Light Program, Government Directive Recovery Rider (Rider GDR), Automated Meter Opt Out Rider (Rider AMO), and Solar Generation Fund Rider (Rider SGF).[93]

Experimental Company-Owned LED Light Program

The Experimental Company-Owned LED Lighting Program costs are recovered through the Tariff program, originally approved in Case No. 14-1027-EL-ATA on November 20, 2014, continued by Commission Order in Case 16-470-EL-ATA on October 12, 2016,[94] and continued again by Commission Order in Case 19-1108-EL-ATA on December 18, 2019. The Companies provided a list of the work orders and the FERC accounts that are used to record Experimental Company Owned LED Lights. The list included 261 work orders with charges recorded to FERC accounts 364, 365, 367, 368, 369, 371, and 373.[95] The Companies have excluded these costs from Rider DCR as shown in the following table.

[92] FirstEnergy's response to audit scope 2022 Data Request 01-DR-033.
[93] FirstEnergy's response to audit scope 2021 Data Request 01-DR-031, -032, -033, and -034.
[94] FirstEnergy's response to audit scope 2017 Data Request 11-INT-004.
[95] FirstEnergy's response to audit scope 2022 Data Request 01-DR-027 Attachment 10.

Table 20: Exclusions Related to the Experimental Company-Owned LED Program as of 11/30/2022[96]

FERC Account	CEI		OE		TE	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
356	$ 151	$ 6	$ -	$ -	$ -	$ -
364	$ 490,500	$ 25,270	$ 17,851	$ 535	$ 256,415	$ 18,305
365	$ 86,298	$ 4,420	$ 2,461	$ 191	$ 70,215	$ 1,542
367	$ 18,323	$ 701	$ -	$ -	$ 62,964	$ 1,390
368	$ 25,217	$ 756	$ -	$ -	$ 18,328	$ 1,029
369	$ (388)	$ (17)	$ -	$ -	$ 140	$ 2
371	$ 5,749	$ 181	$ -	$ -	$ 490	$ 32
373	$ 194,092	$ 12,338	$ 106,369	$ 9,261	$ 1,288,775	$ 94,498
373.3	$ 4,880,087	$ 201,732	$ 487,623	$ 58,955	$ 4,951,039	$ 370,556
Grand Total	$ 5,700,028	$ 245,387	$ 614,304	$ 68,943	$ 6,648,366	$ 487,353

The Companies are projecting no changes in gross plant in the forecasted period ending February 28, 2023, as shown in the following table.[97]

Table 21: LED Excluded from DCR

Company	Actual 11/30/2022		Estimated 2/28/23		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 5,700,028	$ 245,387	$ 5,700,028	$ 299,206	$ -	$ 53,819
OE	614,304	68,943	614,304	75,327	-	6,384
TE	6,648,366	487,353	6,648,366	552,213	-	64,860
Grand Total	**$ 12,962,698**	**$ 801,684**	**$ 12,962,698**	**$ 926,747**	**$ -**	**$ 125,063**

Costs associated with these FERC accounts are also recoverable through the DCR. Blue Ridge identified the Experimental Company-Owned LED Light Program work orders in the population of work orders included in the DCR. The Companies excluded more through the DCR than was included in the 12/1/21 through 11/30/22 work order population as summarized in the following table.[98]

Table 22: Comparison of Incremental Excluded Amounts vs WO Population—Experimental Company-Owned LED Program[99]

FERC Account	11/30/22 Activity							
	CEI		OE		TE		All Companies	
	Gross - Exclusion	Population	Gross - Exclusion	Population	Gross - Exclusion	Population	Gross - Exclusion	Population
356	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
364	$ 175,605	$ 86,192	$ 10,216	$ 20,432	$ 24,826	$ 49,168	$ 210,647	$ 155,791
365	$ 32,138	$ 38,124	$ -	$ -	$ 37,934	$ 29,099	$ 70,072	$ 67,223
367	$ 1,730	$ 2,820	$ -	$ -	$ 47,087	$ 5,998	$ 48,817	$ 8,818
368	$ 17,176	$ 23,366	$ -	$ -	$ (2,846)	$ 10,586	$ 14,330	$ 33,951
369	$ (322)	$ (322)	$ -	$ -	$ 329	$ 334	$ 7	$ 12
371	$ 4,982	$ 8,575	$ -	$ -	$ -	$ -	$ 4,982	$ 8,575
373	$ 43,782	$ 51,053	$ 8,590	$ 137	$ 75,727	$ 54,953	$ 128,099	$ 106,143
Grand Total	$ 275,091	$ 209,807	$ 18,806	$ 20,569	$ 183,057	$ 150,138	**$ 476,954**	**$ 380,514**
373.3	$ 1,792,137		$ 126,656		$ 1,179,713		$ 3,098,506	
Total LED Exclusions	$ 2,067,228	$ 209,807	$ 145,462	$ 20,569	$ 1,362,770	$ 150,138	$ 3,575,460	$ 380,514

[96] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
[97] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
[98] WP LED Exclusions 2022.
[99] WP BRCS FE 2022 DCR Work Orders and Exclusions.

Blue Ridge identified $380,514 of LED work within the population based on work order number, FERC accounts, and the Companies. We did not identify any FERC 37330—Street Light—LED accounts within the population.

Blue Ridge was unable to specifically identify the $476,954 of activity excluded within the non-37330 FERC accounts filed within the DCR Compliance Filing for the period 12/1/21 through 11/30/22. The Companies excluded $96,440 more than what Blue Ridge was able to identify within the population.

Government Directive Recovery Rider (Rider GDR)

Government Directive Recovery (GDR) Rider has the potential to impact the Rider DCR in the future. Rider GDR recovers costs associated with federal or state government mandates enacted after August 4, 2014. No activity has occurred on Rider GDR to date.[100] The Companies stated that, to the extent the Rider GDR is populated in the future, any costs included for recovery would exclude capital additions or other components that are currently being recovered through Rider DCR.[101] The GDR projects would have their own funding projects and work orders.[102]

Automated Meter Opt Out (Rider AMO)

Automated Meter Opt Out (AMO) Rider includes approved charges for customers electing to opt out of an advanced meter. The Companies charged no costs through Rider AMO.[103]

Solar Generation Fund (Rider SGF)

The Companies charged no costs through the Solar Generation Fund (SGF) Rider.[104]

Conclusion—Other Riders

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include projects related to Experimental Company Owned LED Light Program and Riders GDR, AMO, SGF, and CRC. Blue Ridge found no project costs related to LED, GDR, AMO, SGF, or CRC in the work order sample.

<u>General Exclusions</u>

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:[105]

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[100] WP FirstEnergy's response to audit scope 2022 Data Request BRC Set 1-DR-28.
[101] WP FirstEnergy's response to 2016 audit Data Request BRC Set 10-INT-001—Confidential.
[102] WP FirstEnergy's response to 2018 audit Data Request BRC Set 2-005.
[103] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44. FirstEnergy's response to audit scope 2022 Data Request 01-DR-030.
[104] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44. FirstEnergy's response to audit scope 2022 Data Request 01-DR-031.
[105] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.

Table 23: ATSI Land Lease (FERC Account 350) Excluded from Rider DCR[106]

Company	Actual 11/30/2021		Actual 11/30/2022		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 56,320,866	$ -	$ 56,320,866	$ -	$ -	$ -
OE	$ 86,382,513	$ -	$ 86,385,884	$ -	$ 3,371	$ -
TE	$ 15,628,438	$ -	$ 15,628,438	$ -	$ -	$ -
Grand Total	$ 158,331,817	$ -	$ 158,335,188	$ -	$ 3,371	$ -

The ATSI Land Lease exclusion changed by the incremental activity (i.e., additions, retirements, transfers, and adjustments) recorded in FERC Account 350. Blue Ridge reconciled the change from the prior year's balance to the recorded activity and found no exceptions.[107]

The work order sample testing included specific criteria to review project descriptions to ensure that the work orders did not include ATSI Land Lease amounts. Blue Ridge found two ATSI work orders within the sample that were charged to TECO inappropriately. More information can be found within this report in Testing Step T1E. Blue Ridge recommends that the Company review its process used to identify ATSI related work and ensure exclusion in the DCR.

Generation

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.

Vegetation Management

During the 2020 DCR Audit, pursuant to the PUCO Order in Case No 17-2009-EL-RDR, the Companies incorporated the Rider DCR revenue requirement impacts of removing certain prior capitalized vegetation management costs. Within the current DCR Compliance Filings, the Companies excluded the following amounts.[108]

Table 24: Exclusions Related to Vegetation Management as of 11/30/22

FERC Account	CEI		OE		TE	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
356	$ 702,182	$ 70,386	$ 246,913	$ 20,271	$ 7,627	$ 297
365	$ 36,122,240	$ 5,104,328	$ 34,045,393	$ 3,449,113	$ 9,614,165	$ 1,351,645
Grand Total	$ 36,824,422	$ 5,174,714	$ 34,292,306	$ 3,469,384	$ 9,621,792	$ 1,351,942

Table 25: Excluded from DCR[109]

Company	Actual 11/30/2021		Actual 11/30/2022		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 702,182	$ 50,865	$ 702,182	$ 70,386	$ -	$ (19,521)
OE	$ 246,913	$ 13,975	$ 246,913	$ 20,271	$ -	$ (6,296)
TE	$ 7,627	$ 93	$ 7,627	$ 297	$ -	$ (204)
Grand Total	$ 956,721	$ 64,933	$ 956,721	$ 90,954	$ -	$ (26,021)

[106] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
[107] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44; FirstEnergy's response to audit scope 2021 Data Requests 01-DR-002, -028, and -037.
[108] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
[109] CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.

The Companies are projecting no changes to Vegetation Management Gross Plant in the forecasted period ending February 28, 2023, as shown in the following table.[110]

Table 26: Vegetation Management Excluded from DCR

Company	Actual 11/30/2022		Estimate 2/28/23		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
CEI	$ 36,824,422	$ 5,174,714	$ 36,824,422	$ 5,530,883	$ -	$ 356,169
OE	$ 34,292,306	$ 3,469,384	$ 34,292,306	$ 3,700,765	$ -	$ 231,380
TE	$ 9,621,792	$ 1,351,942	$ 9,621,792	$ 1,442,125	$ -	$ 90,184
Grand Total	$ 80,738,520	$ 9,996,040	$ 80,738,520	$ 10,673,773	$ -	$ 677,733

Service Company Plant-in-Service

The Service Company adjustment relates to work order activity associated with FirstEnergy Products and thus was excluded from Rider DCR because the assets are not used in support of the provision of distribution service by the Companies.[111] The Summary of Exclusions in the DCR Compliance Filings lists the following amounts associated with the Service Company Adjustment that were excluded from Rider DCR.[112]

Table 27: Exclusions Related to Service Company Plant-in-Service as of 11/30/22 and 2/28/23

Company	Actual 11/30/2022		Estimate 2/28/23		Change	
	Gross	Reserve	Gross	Reserve	Gross	Reserve
Service Compa	$ 10,353,287	$ 2,069,136	$ 10,353,287	$ 2,388,678	$ 0	$ 319,542

Conclusion—Rider LEX, EDR, AMI, and General Exclusions

The Companies' exclusion of capital additions recovered through other Commission-approved Riders is not unreasonable.

GROSS PLANT IN SERVICE

- 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 28: Incremental Change in Gross Plant from 11/30/21 to 11/30/22[113]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 3,448,131,349	$ 3,490,647,504	$ 42,516,155
Ohio Edison Company	3,929,566,719	4,026,937,351	97,370,633
The Toledo Edison Company	1,320,224,489	1,330,957,423	10,732,934
Total	**$ 8,697,922,556**	**$ 8,848,542,278**	**$ 150,619,721**

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

110 CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
111 FirstEnergy's response to audit scope 2021 Data Request 09-DR-004.
112 CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44.
113 WP V&V FE DCR Compliance Filing 1.9.2023—Confidential.

on separate schedules within the filings. The plant balances developed on these schedules are used throughout the Rider DCR revenue requirement calculations.

The Companies had several large recurring Distribution construction and replacement programs in 2022. Construction of the Companies' approved Grid Mod I program continued in 2022. Each company had normal, recurring replacement programs, including Pole Replacements, Underground Cable Replacement, Feeder Repair/Replacement, Worst Performing Circuit/CEMI Program, and Downtown Network Upgrades.[114]

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations included in the actual and estimated schedules that support gross plant and verified that the gross plant balances rolled forward to the revenue requirement calculation correctly. We did not identify anything in the mathematical computations as unreasonable.[115]

Source Data Validation

Blue Ridge traced the values used for actual November 30, 2022, and estimated February 28, 2023, gross plant-in-service balances to source documentation.[116] The actual plant-in-service balances were adjusted to remove the cumulative pre-2007 impact of a change in pension accounting (discussed below), to incorporate applicable adjustments associated with recommendations from the Rider DCR Audit Reports filed in 2013–2022,[117] and to remove all balances associated with Grid Mod I as approved by the Commission in Case No. 16-481-EL-UNC et al. (as discussed in the Exclusion section of this report).

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:

> 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

[114] FirstEnergy's response to audit scope 2022 Data Request 01-DR-021.
[115] WP V&V - FE DCR Compliance Filing 1.9.2023 – BRC Set 1-DR-001 Attachment 1.
[116] WP V&V - FE DCR Compliance Filing 1.9.2023 – BRC Set 1-DR-001 Attachment 1.
[117] FirstEnergy's response to audit scope 2022 Data Request 01-INT-001, Attachments 4, 5, 6, 7, 8 and 9 (Confidential).

appropriate capitalized portion of actuarial gains and losses recognized as a result of this accounting methodology change.[118]

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.[119]

Validation of Work Order Population

The Companies provided a list of work orders that support gross plant in service for December 2021 through November 2022.[120] Blue Ridge validated that the work order amounts reconciled to the Companies' DCR filing gross plant balances.[121] Blue Ridge sorted the work order population by work order number to identify work order numbers that represent plant specifically excluded from Rider DCR. Blue Ridge discusses those findings in the Rider LEX, EDR, AMI, and General Exclusions section. In addition, we scanned the population for unusual transactions, and Blue Ridge included them as judgment samples if not selected in the statistical sample.

Transactional Testing of Sampled Work Orders

In addition to global evaluations of the population, Blue Ridge selected work orders for additional detailed testing. Using probability-proportional-to-size (PPS) sampling techniques [122] and professional judgment, Blue Ridge selected 48 work orders representing 83 FERC cost line items for detailed transactional testing. The following table provides the number of work orders in the population and the number in Blue Ridge's sample.

Table 29: Work Orders and FERC Cost Line Items in Population and Sample by Company[123]

	Population		Sample		
Company	**Work Orders**	**Work Order Amounts**	**Work Orders**	**Work Order Amounts**	**% Sample of Population**
CECO	20,922	$ 38,551,984	13	$ 2,846,029	7%
OECO	25,794	$ 92,192,831	18	$ 27,093,655	29%
TECO	8,452	$ 8,675,707	9	$ 2,044,040	24%
FECO	126	$ 35,632,030	8	$ 7,415,481	21%
Total	**55,294**	**$ 175,052,552**	**48**	**$ 39,399,205**	23%

The testing of work orders included review of project justifications, project actual versus 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, appropriateness of AFUDC charge on the work order, timeliness of recording of asset retirements for replacement work orders, and appropriate charge of cost of removal. The results of the detailed

118 FirstEnergy's response to audit scope 2011 Audit Data Request 14-INT-001.
119 WP FEOH 2022 Pre-Date Certain Pension Impact Analysis 2012-2022 - CONFIDENTIAL.
120 FirstEnergy's response to audit scope 2022 Audit Data Request 01-DR-002.
121 WP BRC Set 01-DR-005 Attachment 1 RECONCILIATION to Population and Last Year's Ending Balance.
122 WP FEOH 2021 Sample Size Calculation Work Orders through 11-30-21 – CONFIDENTIAL.
123 FirstEnergy's response to audit scope 2022 Audit Data Request 01-DR-002 and WP FEOH 2022 Sample Work Order Testing Matrix-Confidential.

transactional testing performed on the work order sample are included in the workpapers.[124] We list specific observations and findings about the testing below.

Description of Projects

The Companies provided descriptions of the projects included in the work order sample. In general, the projects may be categorized according to the following types of additions and replacements.

1. 30100 - Organization
2. 30300 - Misc. Intangible Plant
3. 35300 - Station Equipment
4. 35500 - Poles and Fixtures
5. 35610 - Overhead Conductor, Devices
6. 35800 - Underground Conductor, Devices
7. 36110 - Structures, Improvements
8. 36200 - Station Equipment
9. 36400 - Poles, Towers and Fixtures
10. 36500 - Overhead Conductor, Devices
11. 36600 - Underground Conduit
12. 36700 - Underground Conductor, Devices
13. 36800 - Line Transformers
14. 36900 - Services
15. 37100 - Inst. On Cust. Prem.
16. 37310 - Street Light - Oh, Ug Lines
17. 39010 - Structures, Improvements
18. 39020 - Clearing, Grading of Land
19. 39030 - Struct Improvement, Leasehold Imp
20. 39120 - Data Processing Equipment
21. 39200 - Transportation Equipment
22. 39400 - Tools, Shop, Garage Equip.
23. 39700 - Communication Equipment

Project Testing

To satisfy the review of these areas of focus, Blue Ridge formulated the objective criteria into the following transactional testing steps, labeled T1 through T9. Blue Ridge's observations and findings against the criteria follow.

T1: Project Type (The work is appropriately includable in Rider DCR)

- T1A: Is the work related to FESC, CE, OE, or TE?
- T1B: Does the work order / project include plant in service associated with distribution, subtransmission, general, or intangible plant (including general plant from First Energy Service Company that supports the Companies)?
- T1C: Is the work order for plant eligible for inclusion in the DCR? Review the work order against the following list of plant that is recovered in other riders.
  - AMI—Advanced Metering Infrastructure Rider
  - LEX—Line Extension Cost Recovery Rider
  - EDR(g)—Economic Development Rider
  - LED—Experimental Company Owned LED program
  - GDR—Government Directive Recovery Rider
  - GEN—Generation
  - ATSI—Land Lease
  - VM—Vegetation Management
  - AMO—Automated Meter Opt Out Rider
  - SGR—Solar Generation Fund
  - Other—Review responses to data requests to determine if any new riders include capitalized plant that should be identified and excluded from the DCR.

[124] WP FEOH 2022 Sample Work Order Testing Matrix-Confidential.

- T1D: Is the work order / project specific, blanket, multi-year, or other (provide description)?
- T1E: Is the work order / project an addition replacement, non-project allocation, or other (provide description)?

T2: Capital Scope
- T2A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?

T3: Justification
- T3A: For specific or multi-year work orders / projects (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?

T4: Approval/ Budget
- T4A: Did the work order / project have proper level of approval?
- T4B: Does the work order / project have an approved budget?
- T4C: Are the work order / project costs +/- 15% of the approved budget?
- T4D: Are explanations and approvals provided for cost overruns 15% and greater over the approved budget?

T5: In-Service Dates
- T5A: Is the actual in-service date in line (at or before) with the estimated in-service date?
- T5B: Was the work order / project in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?

T6: Continuing Property Records
- T6A: Do the Continuing Property Records support the asset completely and accurately?

T7: Cost Categories
- T7A: For work orders / projects, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total?
- T7B: For “other” (referring to T1d above), are the description and costs not unreasonable?

T8: Replacement projects
- T8A: Were assets retired?
- T8B: Was the date of retirement in line with the asset replacement date?
- T8C: Is the amount of the retired asset not unreasonable?
- T8D: Was salvage recorded?
- T8E: Was cost of removal charged? Is the amount not unreasonable?

T9: Field Verification
- T9A: Is the project a candidate for field verification?

The results of the detailed transactional testing performed on the work order sample are included in the workpapers. Specific observations and findings about the testing are listed below.

T1: Project Type (The work is appropriately includable in Rider DCR)

T1A: Is the work related to FESC, CE, OE, or TE?

The sample included the following number of work orders:

Company	Number of Work Orders in Sample
CECO	13

OECO	18
TECO	9
FESC	8

T1B: Does the work order / project include plant in service associated with distribution, subtransmission, general, or intangible plant (including general plant from FirstEnergy Service Company that supports the Companies)?

The sample included the following number of work orders:

Company	Number of Work Orders in Sample
Distribution	28
Transmission	1
General	8
Intangible	6
Dist/Trans	4
Dist/Intangible	1

Blue Ridge found that plant in service was associated with FESC, CE, OE, or TE distribution, subtransmission, general, and intangible plant.

T1C: Is the work order for plant eligible for inclusion in the DCR? Review the work order against the following list of plant that is recovered in other riders.

AMI—Advanced Metering Infrastructure Rider
LEX—Line Extension Cost Recovery Rider
EDR(g)—Economic Development Rider
LED—Experimental Company Owned LED program
GDR—Government Directive Recovery Rider
GEN—Generation
ATSI—Land Lease
VM—Vegetation Management
AMO—Automated Meter Opt Out Rider
SGR—Solar Generation Fund
Other—Review responses to data requests to determine if any new riders include capitalized plant that should be identified and excluded from the DCR.

DCR—Distribution Capital Rider

Blue Ridge reviewed the sample to ensure that each of the 48 work orders / projects tested should be included within the DCR. Blue Ridge found three work orders within the sample should not be included in the DCR filing.

1. FESC Work Order IF-SC-000337-1—SvcCo – AGO Café Project—$2,203,787.91
   FESC Work order IF-SC-000336-1—SvcCO – AGO Fitness Center Project—$557,775.54 (not within sample)
   a. The Companies stated that in the 2021 Rider DCR Audit Report, Blue Ridge recommended that the Companies exclude two Service Company work orders from

the Rider DCR (IF-SC-000336-1 and IF-SC-000337-1). As such, IF-SC-000337-1 was selected for testing in this year's audit. IF-SC-000337-1 balances were included in BRC Set 1-INT-002 Attachment 1 Confidential because they reside in Rider DCR depreciation groups. However, they were excluded from the Rider DCR balances. This work order was included in the "Act-Exclusions" and "Est-Exclusions" tabs in BRC Set 1-INT-001 Attachment 1 Confidential to be removed from Rider DCR.[125]

Blue Ridge found that the Companies appropriately excluded the Service Company work order amounts from FERC 390 DCR filing.

2. OECO Work Order OE-001659-F—Youngstown Concreate Replacement—$(415,925)
   a. The Companies stated that the work order activity is a result of the corrections made per findings from the 2021 DCR Audit to correct an entry between Removal and Additions.[126]

   Blue Ridge found that the Companies appropriately removed the cost of removal charges from the population of work orders as they were inadvertently added back to plant during 2021.

3. OECO Work Order OE-002031-TQ—OE MDT Purchase and Installations—$(1,409,593.11)
   a. The Companies stated that the work order activity is a result of the corrections per findings from the 2021 DCR audit to reverse AFUDC and reclass charges to O&M.[127] The Companies went further to explain that an AFUDC adjustment of ($1,591,043.75) was posted in May 2022 per the findings of the 2021 DCR Audit. OE-002031-TQ is an open blanket work order and the difference of $181,451 represents additional activity on the work order between December 2021-November 2022 as follows:

      Company Labor $25,220
      Other Company Overheads $14,157
      Other Direct Costs $7,286
      Stock Materials $134,153
      AFUDC $635[128]

   Blue Ridge found that the Companies appropriately reversed AFUDC charges from the population of work orders and reclassed the charges to O&M.

AMI/Smart Grid—Advanced Metering Infrastructure Rider and Grid Mod 1

Blue Ridge reviewed the project descriptions for each work order that had FERC account within the sample to ensure that those descriptions excluded AMI or SmartGrid[129] projects. Blue

[125] FirstEnergy's response to 2022 Audit Data Request 02-001.
[126] FirstEnergy's response to 2022 Audit Data Request 02-001.
[127] FirstEnergy's response to 2022 Audit Data Request 02-001.
[128] FirstEnergy's response to 2022 Audit Data Request 12-002.
[129] FirstEnergy's response to 2022 Audit Data Request 01-DR-027, Attachment 1

Ridge confirmed that AMI/Smart Grid work orders were properly excluded from Rider DCR. Blue Ridge found that the sample did not include any AMI or Grid Mod 1 work orders.[130]

LEX—Line Extension Cost Recovery Rider

Blue Ridge reviewed the project scope for each work order that had FERC account 360, Distribution Plant—Land and Land Rights, to ensure that each does not include line extension work charged. Blue Ridge confirmed that LEX work orders were properly excluded from Rider DCR. Blue Ridge found that the sample did not include any LEX work orders.[131]

EDR(g)—Economic Development Rider

Blue Ridge did not find any work order descriptions in the sample that indicated the work was done in connection with the Cleveland Clinic Foundation and EDR(g).[132]

LED—Experimental Company Owned LED program

Blue Ridge reviewed project descriptions and FERC accounts to determine that the sample did not include any LED program work.[133]

GDR—Government Directive Recovery Rider

The Companies stated that the Companies have not sought to recover any costs through Rider GDR.[134] Blue Ridge found no work orders / projects in the sample related to GDR.

GEN—Generation Work

Blue Ridge found no work orders / projects in the sample related to generation.[135]

ATSI Land Lease

Blue Ridge reviewed the project scope for each work order that had FERC account 350—Land & Land Rights to ensure that the sample did not include ATSI Land Lease.[136] Blue Ridge found that one work order was inappropriately charged to TECO instead of ATSI (discussed and adjustments made in T1E item #7 and #8 of this report).

VM—Vegetation Management

Blue Ridge's sample did not include any vegetation management work orders. However, Blue Ridge identified two vegetation management work orders within the population amounting to $(50,651).

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[130] WP FEOH 2022 Sample Work Order Testing Matrix and WP BRCS FE 2022 DCR Work Orders and Exclusions
[131] FirstEnergy's response to 2022 Audit Data Request 01-DR-027, part d.
[132] FirstEnergy's response to 2022 Audit Data Request 01-DR-027, part c.
[133] FirstEnergy's response to 2022 Audit Data Request 01-DR-027 Attachment 10.
[134] FirstEnergy's response to 2022 Audit Data Request 01-DR-028.
[135] FirstEnergy's response to 2022 Audit Data Request 01-DR-027, part a.
[136] FirstEnergy's response to 2022 Audit Data Request 01-DR-027 Attachment 3.

Table 30 Vegetation Management Work Orders within Population[137]

Company	FERC Plant Account	Work Order	Activity
CECO	36510 - Clearing, Grading of Land	CE-900186-VMPL-DIST	$(48,638)
CECO	36510 - Clearing, Grading of Land	CE-900189-VMUPL-DIST	$ (2,012)

Pursuant to the Commission Order in Case No. 17-2009-EL-RDR, the Companies stopped charging capital accounts for planned and unplanned vegetation management activities. During the last year of VM capital activity, $50,651 was charged to capital in error and was adjusted. The Companies has since removed the amount from plant in service.

Table 31 Vegetation Management Spend (Capital and Expense)[138]

Company	Expense	Capital	Total
CECO	$ 21,267,886	$ (50,651)	$ 21,217,235
OECO	$ 27,525,243	$ -	$ 27,525,243
TECO	$ 6,607,182	$ -	$ 6,607,182
Total	**$ 55,400,311**	**$ (50,651)**	**$ 55,349,660**

Blue Ridge found that the Companies' response is not unreasonable.

AMO—Automated Meter Opt Out Rider

The Companies stated no costs have been charged through Rider AMO.[139] Blue Ridge found no work orders / projects in the sample related to AMO.

SGR—Solar Generation Fund

The Companies stated no costs have been charged through the Solar Generation Fund (SGF) Rider.[140] Blue Ridge found no work orders / projects in the sample related to SGF.

T1D: Is the work order / project specific, blanket, multi-year, or other (provide description)?

Blue Ridge identified the following breakdown:

137 FirstEnergy's response to audit scope 2022 Data Request 02-DR-001 and 01-DR-027 Attachment 8.
138 FirstEnergy's response to 2022 Audit Data Request 01-DR-046
139 CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44. FirstEnergy's response to audit scope 2022 Data Request 01-DR-030.
140 CEI, OE, and TE Rider DCR Compliance Filings, dated 1/9/23, pages 19 and 44. FirstEnergy's response to audit scope 2022 Data Request 01-DR-031.

Table 32: Specific, Blanket, Program etc. as a % of Sample[141]

	Work Orders	% of Sample	Activity Cost
Specific	22	52%	$ 30,227,195
Blanket	11	26%	$ 2,378,362
Program	4	10%	$ 762,365
IT Project	5	12%	$ 15,519,309
Total Tested	42	100%	$ 48,887,231
NA-Not Tested			
NA-Service Company Exclusion	1	17%	$ 2,203,788
NA-Reclass	2	33%	$ 456
NA-Accounting	1	17%	$ (9,866,751)
NA-Adjustments based on 2021 Audit Findings	2	33%	$ (1,825,518)
Total Not Tested	**6**	**100%**	**$ (9,488,026)**
Total	**48**		**$ 39,399,205**

T1E: Is the work order / project an addition, replacement, non-project allocation, or other (provide description)?

Blue Ridge identified the following breakdown:

Table 33: Additions, Replacements, etc. as a % of Sample[142]

	Work Orders	% of Sample	Activity Cost
Replacement	24	50%	$ 8,490,768
Addition	16	33%	$ 41,954,462
Other	2	4%	$ (1,557,999)
NA-Not Tested	6	13%	$ (9,488,026)
Total	**48**	**100%**	**$ 39,399,205**

The project descriptions/scope in the following work orders (labeled as Additions in the population of work orders) indicate that each were Replacements.

1. CECO Work Order 16348385—Equip Investigate/Repair—Miscellaneous—$458,438.87
   a. Project scope: Replace 14MVA 138-13kv transformer with 22MVA
   b. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated, and retirements recorded at the time of unitization.[143]

2. CECO Work Order 16629298—PID 105998 E Cleve Euclid Ave CEI UG—$696,954.45
   a. Project scope: Replacement of equipment due to inability to get parts or outdated equipment

[141] FirstEnergy's response to 2022 Audit Data Request 02-DR-001.
[142] FirstEnergy's response to 2022 Audit Data Request 02-DR-001, attachment 1 and 2.
[143] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

   b. The Companies indicated cost of removal in the amount of $6,503.46 was recorded between August 2020 and November 2020, outside the audit scope period. This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[144]

3. CECO Work Order 17099542—Oil Sample On Demand—Trans LTC—$233,546.89
   a. Project scope: Replacement of failed equipment and devices to correct customer outages
   b. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated, and retirements recorded at the time of unitization.[145]

4. OECO Work Order 14864962—Equip Investigate / Repair—Regulator—$664,226.70
   a. Project scope: Replace failed 3-phase 4.15kv regulators VR-5
   b. The Companies indicated cost of removal in the amount of $25,269.67 was recorded between February 2016 and December 2021, primarily outside the audit scope period. This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[146]

5. OECO Work Order 16646068—Equip Investigate/Repair—Miscellaneous—$906,766.51
   a. Project scope: Replace or repair items at substation that were identified during inspections (transformers, brakers, regulators, control switches, bushings, fences, etc.)
   b. The Companies indicated cost of removal in the amount of $71,672.29 was recorded between August 2020 and November 2022 $(15,821.33) within the audit scope period) and a retirement in the amount of $(7,977.92) was recorded in December 2022.[147]

6. OECO Work Order 16759481—OE- Greenfield Substation-Breaker Failu—$263,806.43
   a. Project scope: Replace failed breaker
   b. The Companies indicated cost of removal in the amount of $11,801.45 was recorded between December 2020 and November 2022 ($5,587.10 within the audit scope period). This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[148]

7. TECO Work Order 16898512—Equip Investigate/Repair—Transformer O—$1,149,500.67

[144] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[145] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[146] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[147] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[148] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

a. Project scope: Replace failed Richland #1 autotransformer
b. The Companies indicated the existing transformer noted as at the York Substation was located at a customer's substation, the North Star Steel—York Substation (NSS-York) and was originally purchased by Toledo Edison to be used by this customer. In 2021, North Star Steel purchased their own transformer to replace this one and began the process to remove and decommission the existing transformer. At the same time, the transformer at TECO's Richland Substation failed and needed to be replaced. There was no spare transformer that could be used and TECO found significant benefits to using the existing transformer decommissioned from NSS-York rather than absorbing additional cost and lead time to purchase a new transformer. The NSSYork transformer was tested and proved it could be a reliable replacement for the transformer that failed. The full scope of this project also included replacing a strain conductor from the circuit switcher to transformer high-side, replacing drops for low-side, replacing surge arresters, installing relays, switches, and fuses for the BU Relay Panel, and all other necessary work to tie-in to the 138kV bus. Based on all of the details surrounding this project, the accounting is being treated in the same way TE would capitalize a replacement using a capital spare transformer.

   Further, after reviewing this project in more detail, it has been determined that the transformer that failed and was replaced at Richland was owned by ATSI. The retirement of the failed transformer will be recorded by ATSI and the cost of removal charged to the TECO work order will be reversed and charged to an ATSI work order to align with the retirement. The Companies in a future DCR filing will make an adjustment to incorporate the cumulative revenue requirement impact.[149]

   Cost of removal in the amount of $120,019.61 was recorded between March 2021 November 2022 (($239.26) within the audit scope period). However, after reviewing the activity and circumstances surrounding this project, it has been determined that the transformer replaced was owned by ATSI and ATSI will retire the asset. The Cost of Removal will be reversed from the TECO project and charged to an ATSI work order to align with the retirement. Refer to the response to BRC Set 8-DR-39 for more information. The Companies will make an adjustment in a future Rider DCR filing to incorporate the cumulative revenue requirement impact.[150]

Blue Ridge recommends, and the Companies agree, that the $120,019.61 of COR recorded to TE should be reversed and charged to ATSI. Blue Ridge estimates the effect on TE DCR revenue requirements to be $(11,983). **[ADJUSTMENT #1]**

8. TECO Work Order 17079576—DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV—$658,264.28
   a. Project scope Replace assets in response to storm
   b. The Companies indicated cost of removal in the amount of $303,269.17 was recorded between March 2021-November 2022 ($105,499.92 within the audit scope period). This work order is not yet unitized and will be manually unitized (since not fed by a

[149] FirstEnergy's response to 2022 Audit Data Request 08-DR-039.
[150] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

work management system). The related retirements will be recorded at the time of unitization.[151]

As discussed in Testing Step T2a, it was determined that the charges to TECO should have been charged to ATSI. Blue Ridge recommends, and the Companies agree, that an adjustment should be made (Details are in Testing Step T2a).

The Companies indicated that when preparing the response to BRC Set 2-INT-001, they designated projects where there is no retirement activity as Additions, because it would be difficult to discern the designation from the description alone for all work orders. Also, note the change in scope description. It appears there was a mix-up between two projects.[152]

For numbers 1, 2, 3, 4, 5, 6, and 8 above, see the unitization discussion in Testing Step T8A of this report.

The following two work orders were classified as "Other."

1. OECO Work Order 13564107—OE Spare 11/14 MVA 69KV 12.47 KV TRNSF—$(662,739)
   a. This was a spare piece of equipment that was purchased in 2013. In late 2021 the equipment was moved from order # 13564107 to order # 16258499 and installed at Ironville Sub in Toledo Edison.[153]

			2022 Activity		Total Cost		Activity Prior to 2022	
Work Order	Work Order Description	Date	OECO	TECO	OECO	TECO	OECO	TECO
13564107	OE SPARE 11/14 MVA 69KV 12.47 KV TRNSF	3/31/13	$ (662,738.53)		$ (662,738.53)		$ -	$ -
16258499	Equip Investigate/Repair - Transformer O	8/20/21		$ 615,831.55		$ 662,738.53	$ -	$ 46,906.98
Grand Total			**$ (662,738.53)**	**$ 615,831.55**	**$ (662,738.53)**	**$ 662,738.53**	**$ -**	**$ 46,906.98**

2. TECO Work Order 16514434—Equip Investigate/Repair – Transformer O—$(895,261)
   a. Replace failed Ironville #3 69 12.5kv transformer, along with foundations, underground conduits, and cables, new recloser to replace circuit switcher. ***OE has a used unit that will work, TE will need to purchase a new unit for OE.*** A contractor will be required for the removal of the old foundation, new stone base and installation of a new foundation work, ***transporting the OE unit to TE***, and to install new conduits and to GPS locate underground facilities. [Emphasis added.]
   b. Companies' Explanation: The transformer purchased under TECO work order 16514434 was transferred from TECO to Pennsylvania affiliate Operating Company Met-Ed in December 2021 for use at the Bernville Substation. It was not transferred from OECO to TECO.[154] The Companies went further to explain that the credit is due to a replacement Transformer that was ordered by TECO to replace the OECO spare transformer but was subsequently needed in PA at MECO. TECO later ordered another spare transformer e to replace the one from OECO.[155]

[151] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[152] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[153] FirstEnergy's response to 2022 Audit Data Request 02-DR-001, attachment 1.
[154] FirstEnergy's response to 2022 Audit Data Request 08-DR-001.
[155] FirstEnergy's response to 2022 Audit Data Request 14-DR-001.

Blue Ridge found the Companies' explanation for the two work orders classified as "Other" not unreasonable.

The following six work orders were adjustments, exclusions, or reclassifications from the 2021 DCR Audit.

1. FESC Work Order IF-SC-000337-1—SvcCo – AGO Café Project—$2,203,787.91[156]

Blue Ridge found that #1 reflects service company exclusions from the DCR filing.

2. OECO Work Order OE-001659-F—Youngstown Concreate Replacement—$(415,925)[157]
3. OECO Work Order OE-002031-TQ—OE MDT Purchase and Installations—$(1,409,593)[158]

Blue Ridge found that items #2–3 reflect adjustments from the 2021 DCR Audit.

4. FESC Work Order IF-SC-000349-1—SvcCo – AGO Plaza & Tower Roofs—$1,039,937.63[159]
5. FESC Work Order RE-000001-1—Akron GO – Leasehold Improvements—$(1,039,481.99)

Blue Ridge found that items #4 and #5 above are the opposite sides of a reclassification.

6. FESC Work Order L1094—FECO PROP ASSET-PWR PLT TRNSF & ADJ—$(9,866,751.23) is an accounting work order primarily used for transfers of assets between companies or for any transaction that is not directly associated with a Project Management work order.[160] As such, this work order was tested differently from the rest. Our testing did not find any issues with the content of the transfers.

T2: Capital Scope

T2A: Is the scope of work properly classified as capital and charged to the proper FERC 300 account(s) as dictated by the FERC code of accounts (CFR 18)?

The Companies provided descriptions of the type of work included in specific work orders / projects in the sample. Blue Ridge evaluated the information to determine whether the work orders / projects in the sample were appropriately classified as capital and charged to the proper Intangible, Distribution, and General Equipment FERC 300 accounts.

Blue Ridge found 14 work orders that needed further review to determine whether the work was capital.

Charges to Distribution vs Transmission and Transfers/Adjustment

1. CECO Work Order 14857555—Newell – Replace Westinghouse MFB Lineba—$(211,923.88)

[156] Removed via Exclusions in the DCR Filing.
[157] Removed from population of work orders as it was an adjustment from the 2021 Audit Report.
[158] Removed from population of work orders as it was an adjustment from the 2021 Audit Report.
[159] Reclassed from one work order to another as required based on the 2021 Audit Report.
[160] FirstEnergy's response to 2022 Audit Data Request 02-DR-001.

a. Blue Ridge Initial Concern: The Benefits of Recommended Solution column of the Attachment indicates "Replaces Obsolete and Unreliable equipment Reduces future maintenance on circuit switchers Reduces failure rate from 5% to 0.025% Replace during Planned outage verses unplanned emergency outage ***Improve integrity of 138kV transmission system***." [Emphasis added.] Charges for this work order landed in FERC 362.

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Depreciation Rate	*1.80%*	*1.80%*	
Total Activity	**$0.00**	**$(211,923.88)**	**$(211,923.88)**

b. The Companies indicated that the charges were reversed out of FERC 362—Station Equipment.[161]

Blue Ridge found that the Companies appropriately transferred the FERC 362 charges to FERC 353. No depreciation adjustment is recommended since the depreciation rates for both FERC accounts are the same at 1.80%. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

2. CECO Work Order 15854703—Capital Replacement Program - Circuit—$37,025.31
   a. Blue Ridge Initial Concern:
      i. transfer/adjustment
      ii. charges to FERC 353 included in the DCR

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Depreciation Rate	1.80%	1.80%	
Other Company Overhead	$49,273	($43,420)	$5,852
Stock Materials	$44,717	($8,793)	$35,925
Total Activity			**$41,777**

   b. The Companies indicated the following.
      i. The original work order estimate assigned the assets to FERC 362, but upon further review at unitization, it was determined that these charges should be classified in FERC 353.
      ii. FERC account 353 is authorized to be included in the calculation of Rider DCR, consistent with the Companies' last base rate case and the PUCO Order authorizing Rider DCR in the Companies' ESP cases. The activity on this work order was for the Lloyd Substation, which is a Distribution substation owned by CEI and used in the provision of distribution service. The work order estimate was unitized to FERC 353 Station Equipment because the substation is configured at subtransmission voltage and is a networked asset.[162]

[161] FirstEnergy's response to 2022 Audit Data Request 08-DR-017.
[162] FirstEnergy's response to 2022 Audit Data Request 08-DR-004.

Blue Ridge found that the Companies appropriately transferred the FERC 362 charges to FERC 353. No depreciation adjustment is recommended since the depreciation rates for both FERC accounts are the same at 1.80%.

3. CECO Work Order 17026370—CEI Inventory to Capital Spare—$142,516.44
   a. Blue Ridge Initial Concern:
      i. transfer/adjustment
      ii. removal of substation transformer from stock and charged to capital credited FERC 362—station equipment and debited FERC 362—overhead conductors and 368—line transformers

Cost Element	FERC 362 Activity	FERC 365 Activity	FERC 368 Activity	Activity
Depreciation Rates	1.80%	3.89%	2.91%	
Stock Materials	($981,717)	$243,150	$881,084	$142,516

   b. The Companies indicated the following.
      i. This work order was unitized in March 2022, during which the original estimate was updated from FERC 362 to the final As-Built of FERC 365 and FERC 368. The original entry to record the capital spares was in FERC 362 and the unitization resulted in the move to FERC 365 and 368. There was a quantity of 4 Switch Retirement Units recorded to FERC 365 and 19 Transformer Retirement Units recorded to FERC 368.
      ii. The credit to FERC 362 was part of the unitization process as the final work order As-Built representing asset additions was added to PowerPlant. It was not related to the original entries moving stock from inventory to capital spares.[163]

Blue Ridge found that while FERC 362, 365, and 368 have different depreciation accrual rates, the transfer between accounts occurred during the period under audit, and depreciation expense is calculated in the DCR revenue requirements using ending balances (11/30/22), no adjustment is required.

4. CECO Work Order PA213627410—PO FW: UG Access Pt MH-4424-89 TO TEST F—$149,946.96
   a. Blue Ridge Initial Concern: charges to FERC 358 included in the DCR

Cost Element	FERC 358 Activity	FERC 367 Activity	Activity
Depreciation Rate	2.00%	2.44%	
Total	$127,114	$23,535	$150,648

   b. The Companies indicated the following.
      i. There is no transfer or adjustment on this work order, these are normal additions to Plant during the audit period for the work completed on this work order.

[163] FirstEnergy's response to 2022 Audit Data Request 08-DR-005.

ii. FERC account 358 is authorized to be included in the calculation of Rider DCR, consistent with the Companies' last base rate case and the PUCO Order authorizing Rider DCR in the Companies' ESP cases. The work order estimate comes from the CREWS, the Companies' work management system, and based on the data input for the work completed, the equivalent FERC account for each retirement unit was either FERC 358 or FERC 367. Upon additional review, it has been determined that the entire circuit was 36kV and is considered subtransmission and a correction will be made to the estimate. The $23,535 will be moved to FERC 358.[164]

Blue Ridge found, and the Companies agree, that the charges in FERC 367 should have been transferred to FERC 358. A depreciation adjustment is necessary because the depreciation rates for each account are different. While the impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included in the total. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(184). **[ADJUSTMENT #3]**

5. OECO Work Order 13564107—OE SPARE 11/14 MVA 69KV 12.47 KV TRNSF—$(662,738.53)
   TECO Work Order 16258499—Equip Investigate/Repair-Transformer O—$662,738.53
   a. Blue Ridge Initial Concern: transfer/adjustment of Spare from OECO FERC 362 to TECO FERC 362 and TECO FERC 361.1

	OECO Work Order 13564107		**TECO Work Order 16258499**		
Cost Element	**FERC 362 Activity**	**FERC 361.1 Activity**	**FERC 362 Activity**	**FERC 361.1 Activity**	**Activity**
AFUDC-Debt	($4,089)		$3,820	$269	$0
AFUDC-Equity	($4,097)		$3,563	$535	$0
Company Labor	($7,063)		$5,143	$1,920	$0
Contract Cost			($2,782)	$2,782	$0
Other Company Overheads	($66,157)		$61,977	$4,180	$0
Other Direct Costs	($1,800)		$1,045	$755	$0
Stock Materials	($579,531)		$578,799	$743	$0

   b. The Companies indicated that the transformer purchased as a capital spare on OECO work order was purchased and placed in-service in 2013. As work was underway on TECO work order 16258499 at the Ironville Substation, it was determined that this spare transformer was needed, and a transfer was posted in PowerPlant from the original work order it was purchased under (OECO 13564107) to the current project underway (TECO 16258499). PowerPlan posts the transfer using the cost basis buckets as originally charged when the capital spare was purchased and in-serviced.

[164] FirstEnergy's response to 2022 Audit Data Request 08-DR-007.

The remaining charges to FERC 361.1 represent additional yard surfacing costs incurred on the Ironsville Sub project.[165]

Blue Ridge found the Companies' explanation to be not unreasonable.

6. OECO Work Order 16080601—Equip Investigate/Repair – Circuit Break—$(82,424.11)
   a. Blue Ridge Initial Concern: transfer/adjustment and charges to FERC 353 included in the DCR

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Depreciation Rate	2.20%	2.55%	
Total	$419,923	($419,923)	$0

   b. The Companies indicated the following.
      i. The original work order estimate assigned the assets to FERC 362, but upon further review at unitization, it was determined that these charges be classified in FERC 353.
      ii. FERC account 353 is authorized to be included in the calculation of Rider DCR, consistent with the Companies' last base rate case and the PUCO Orders authorizing Rider DCR in the Companies' ESP cases. The activity on this work order was for the Riverbend Substation, which is a Distribution substation owned by OE and used in the provision of distribution service. The work order estimate was unitized to FERC 353 Station Equipment because the substation is configured at subtransmission voltage and is a networked asset.[166]

Blue Ridge found that the Companies appropriately transferred the FERC 362 charges to FERC 353. A depreciation adjustment is necessary because the depreciation rates are different. However, the Companies have agreed that there should be an adjustment for delayed retirements. Details are in Testing Step T8B.

7. OECO Work Order 16471269—Bowman Sub transformer #1 repair—$(27,950.21)
   a. Blue Ridge Initial Concern: transfer/adjustment and charges to FERC 353 included in the DCR

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Depreciation Rate	2.20%	2.55%	
Other Company Overhead	($140,845)	$140,958	$123
Stock Materials	($13,314)	$14,792	$1,478
Total Activity			**$1,601**

   b. The Companies indicated the adjustment between FERC 353 and FERC 362 was a result of a prior year DCR Audit response, please refer to Case No. 21-1038-EL-DR,

[165] FirstEnergy's response to 2022 Audit Data Request 08-DR-006.
[166] FirstEnergy's response to 2022 Audit Data Request 08-DR-010.

BRC Set 8-DR-012. This work order during the current audit period of 12/1/22-11/30/22. This activity was a correction to the classification only.[167]

Blue Ridge found that the Companies appropriately transferred the FERC 362 charges to FERC 353. As the activity from this work order is a correction/result from the prior DCR Audit no depreciation rate adjustment is necessary.

8. OECO Work Order 17026398—OE Inventory to Capital Spare—$0.00
   a. Blue Ridge Initial Concern: transfer/adjustment

Cost Element	FERC 362 Activity	FERC 368 Activity	Activity
Depreciation Rate	2.55%	3.50%	
Stock Materials	($205,497)	$205,497	$0

   b. The Companies indicated that the adjustment between FERC 362 and FERC 368 was a result of the unitization of the work order and classification to the correct utility account. Upon review, it was determined that the appropriate FERC classification was to FERC 368 – Line Transformers. The original transfer from Inventory to Utility Plant occurred in August 2021 and falls outside the scope of this audit period.[168]

Blue Ridge found that the Companies appropriately transferred the FERC 362 charges to FERC 368. While FERC 362 and 368 have different depreciation accrual rates, the transfer between accounts occurred prior to the end of the scope period under audit, and depreciation expense is calculated in the DCR revenue requirements using ending balances (11/30/22), no adjustment is required.

9. TECO Work Order 17079576—DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV—$658,264.28
   a. Blue Ridge Initial Concern: charges to FERC 355 and FERC 356.1 included in DCR

Cost Element	FERC 355 Activity	FERC 356.1 Activity	Activity
Depreciation Rate	3.75%	2.67%	
Total Activity	$353,696	$304,569	$658,264

   b. The Companies indicated upon review, it was determined that this work order was incorrectly assigned to Toledo Edison and should have been assigned to ATSI as the work performed was storm restoration of 69kV transmission lines. The TECO work order will be cancelled and all charges will be reversed and directed to an ATSI work order, resulting in a reduction in Plant in Service of ($658,264) once the transaction is complete. The Companies will make an in adjustment in a future Rider DCR filing to include the cumulative revenue requirement impact of the reduction in plant in service.[169]

[167] FirstEnergy's response to 2022 Audit Data Request 08-DR-008.
[168] FirstEnergy's response to 2022 Audit Data Request 08-DR-009.
[169] FirstEnergy's response to 2022 Audit Data Request 08-DR-011.

Blue Ridge found, and the Companies agree, that the charges to TECO should have been charged to ATSI. Blue Ridge recommends removing of $658,264 from TECO gross plant. Blue Ridge estimates that the effect on TECO DCR revenue requirements to be $(117,231). **[ADJUSTMENT #2]**

Capital Spares Used

1. CECO Work Order 17031647—Equip Investigate/Repair - Transformer O—$880,788.76
   a. Blue Ridge Initial Concern: capital spare issued out of inventory
   b. The Companies indicated that no capital spare was issued out of inventory. The capital spare used on this work order was an existing capital spare purchased by CECO in 2010.[170]
2. OECO Work Order 16080601—Equip Investigate/Repair - Circuit Break—($82,424.11)
   a. Blue Ridge Initial Concern: capital spare issued out of inventory (M&S)
   b. The Companies indicated that no capital spare was used during the course of completing this work.[171]
3. TECO Work Order 16258499—Equip Investigate/Repair - Transformer O—$615,831.55
   a. Blue Ridge Initial Concern: capital spare issued out of inventory
   b. The Companies indicated that the transformer purchased as a capital spare on OECO work order was purchased and placed in-service in 2013. As work was underway on TECO work order 16258499 at the Ironville Substation, it was determined that this spare transformer was needed, and a transfer was posted in PowerPlant from the original work order it was purchased under (OECO 13564107) to the current project underway (TECO 16258499). PowerPlan posts the transfer using the cost basis buckets as originally charged when the capital spare was purchased and in-serviced. The remaining charges to F 361.1 represent additional yard surfacing costs incurred on the Ironsville Sub project.[172]
4. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O—($895,260.58)
   a. Blue Ridge Initial Concern: capital spare issued out of inventory
   b. The Companies indicated that the transformer purchased under TECO work order 16514434 was transferred from TECO to Pennsylvania affiliate Operating Company Met-Ed in December 2021 for use at the Bernville Substation, it was not transferred from OECO to TECO.[173] No capital spare was issued out of inventory. the transformer purchased on this work order was a capital spare in-serviced in July 2021 and transferred to Pennsylvania affiliate, Met-Ed.[174]

[170] FirstEnergy's response to 2022 Audit Data Request 08-DR-012.
[171] FirstEnergy's response to 2022 Audit Data Request 08-DR-012.
[172] FirstEnergy's response to 2022 Audit Data Request 08-DR-006.
[173] FirstEnergy's response to 2022 Audit Data Request 08-DR-001.
[174] FirstEnergy's response to 2022 Audit Data Request 08-DR-012.

5. TECO Work Order 16622904—Equip Investigate/Repair - Transformer O—($157,241.36)
   a. Blue Ridge Initial Concern: capital spare issued out of inventory
   b. The Companies indicated that no capital spare was issued out of inventory. The transformer used for this work order was originally purchased by Pennsylvania affiliate Met-Ed on work order 16327926 but was transferred to TECO work order 16622904 by manual SAP journal entry. The Met-Ed transformer was never in-serviced as a spare, it was only a move of direct purchased material from one construction project to another.[175]

Blue Ridge found the Companies' explanations not unreasonable for each of the capital spare work orders.

T3: Justification

T3A: For specific or multi-year work orders / projects (i.e., not blankets), does the project have detailed justification that supports that it was necessary and not unreasonable?

Blue Ridge reviewed the justification for all work orders in the sample, exclusive of blanket, multi-year projects, transfers, and adjustments, and found all project work orders included justifications that were not unreasonable. In addition, the explanations for transfers and adjustments were not unreasonable. The nature of the blanket projects is what would typically be expected for core work of an electric utility.

T4: Approval/Budget

T4A: Did the work order / project have proper level of approval?

In 2020, CEI had put a Portfolio Control Process in place to enhance controls on spending and to lend additional visibility prior to the jobs being released to the field. The process brings financial discipline and enhanced business planning by requiring a Change Management Approval Form to be created and approved by leadership when a project that is greater than $20,000 has these conditions:

- Budget Variances > 10%
- Schedule Deferral
- Labor Source Changes
- Scope Changes

OE also has had a Control Process similar to CEI's in place since prior to 2020. In 2020, OE created a process to work with the Companies' Economic Development group to identify new business to include in the forecast. If there is a high probability that these jobs will occur, a specific RPA is added to the forecast.

[175] FirstEnergy's response to 2022 Audit Data Request 08-DR-012.

In 2020, TE continued to monitor its process for approving scope changes on projects. If a project in TE is changed in scope and dollars, the engineering manager must approve, and the director may also need to approve.[176]

Blue Ridge found that all 42 work orders tested were properly approved based on the Companies' Capitalization Policy.

T4B: Does the work order / project have an approved budget?

Blue Ridge found that 23 of the 42 work orders sampled had approved budgets. 13 work orders did not have budgets as they were either emergent/reactionary work, spares, or storm work. The remaining 6 work orders did not have budgets for the following reasons

- Two work orders were originally funded/budgeted under a different project blanket[177]
- Four work orders were capital blankets,[178] one of which was inadvertently budgeted under a similar blanket project. During the same time period this blanket had over $2 million budgeted with minimal actual charges.[179]

T4C: Are the work order / project costs +/- 15% of the approved budget?

In summary, Blue Ridge found the following calculated results:

- 21%—Nine work orders over budget by greater than 15%
- 21%—Nine work orders were over/under budget by less than 15%
- 12%—Five projects were underbudget by greater than 15%
- 45%— Nineteen projects did not have budgets (emergent work, accounting work orders, or storm work)

T4D: Are explanations and approvals provided for cost overruns 15% and greater over the approved budget?

As listed below, the Companies provided explanations for the nine work orders that were over budget by more than 15%. The explanations included highway relocations by the ODOT, projects that spanned multiple years or phases, emergent work, changes in scope, additional labor required, more failures than budgeted, and supply chain issues due to the pandemic.[180]

1. CECO Work Order 14791367—Industrial Upgrade—($627,220.05)
   a. Project Description: Extend R-14-LY from Babbitt Road & the CSX to Lakeshore Boulevard for supplying increased load at the City of Euclid Wastewater Treatment Plant.

[176] FirstEnergy's response to 2020 audit BRC Set 1-INT-009.
[177] CECO Work Order 16629298 and CECO Work Order 17031647.
[178] TECO Work Order 17149683, CECO Work Order 17143332, CECO Work Order CE-000172-S-1, and OECO Work Order 17026398.
[179] TECO Work Order 17149683.
[180] Further detail can be found in Blue Ridge's Detailed Transactional Workpapers.

b. Total Cost: $1,409,752.77
c. Budget: $824,693.26
d. Variance: $585,059.51
e. % Variance to Budget: 71%
f. Reason for overrun: Additional internal construction, flagging and supervision, supporting eng. services labor needed. Work required start in 2016 work continued in 2017and 2018 with completion in 2019 In addition to construction, flagging labor required during construction due heavy traffic on Babbitt Rd. for 1.5 miles, Heavy traffic Babbitt & Lakeshore intersection, new conductor install on Babbitt over I-90 Highway subject to highway rolling stop. New conductor install over CSX RR subject to permitting delays RR flagger coordination. Customer Construction coordination.

Blue Ridge found that the delays related to permitting, railroad flagger coordination, and customer coordination would account for delays in project completion but not necessarily create cost overruns. While we are not recommending an adjustment, we believe that better planning could have mitigated some or all of the cost overruns. For instance, scoping out the area where the work was being done during the planning stages could have allowed the Companies to estimate the project need for more flagging or additional supervision. However, the Companies have agreed that there should be an adjustment due to the delayed retirements. Details are in Testing Step T5B. Blue Ridge concludes that better upfront planning and scoping out the work site could have mitigated some or all of the cost overruns. Blue Ridge recommends the Company should continue to strive for better planning on large projects.

2. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O—$1,225,570.10
   a. Project Description: Newport Substation transformer failed and needs repaired.
   b. Total Cost: $1,368,224.72
   c. Budget: $344,834.34
   d. Variance: $1,023,390.38
   e. % Variance to Budget: 297%
   f. Reason for overrun: Q2 2020 emergent project due to XFMR 71 failure. Project did not have an original estimate. Recondition of transformer was initially planned. However, during inspection at OTC facility, damage was found inside transformer core. More costly complete redesign and rewind of core and coil assembly and remanufactured LTC was needed.

   Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

3. CECO Work Order PA213627410—PO FW: UG Access Pt MH-4424-89 TO TEST F—$149,946.96
   a. Project Description: Replace UG network and ducted cables at failure.
   b. Total Cost: $13,276,771.29
   c. Budget: $8,954,056.57
   d. Variance: $4,322,714.72

e. % Variance to Budget: 48%
f. Reason for overrun: Greater than originally anticipated number of circuit faults occurred in underground distribution system resulting in increased labor and material usage.

Blue Ridge found the Companies' explanation not unreasonable. However, Blue Ridge recommends an adjustment regarding the reclassification of these charges to the proper FERC account as discussed in testing step T2A.

4. OECO Work Order 15298831—Akron Main Street Rehabilitation—$9,122,736.27
   a. Project Description: COMPLETE- Rebuild multiple manhole and vault tops due to new streetscape in downtown Akron. The project scope is to rebuild S Main St from Cedar (south of ballpark) to north of Mill St from face of building to face of building. Included in the City's project scope is the construction of a roundabout at the intersection of S Main St & Mill St which is at the corner of the FirstEnergy General Office. Rebuild any crushed or vull duct bank and improve network facilities while the roadway is disturbed and under construction. This project potentially affects 31 manholes and 14 vaults. The City of Akron is executing this project utilizing Design Build which means no detailed design plans for the road sidewalk work exist until after the project is awarded. Specifications and conceptual plans are submitted by OE prior to project award. Construction plans are developed just prior to construction. All estimates are conceptual initially due to Design Build construction technique.
   b. Total Cost: $24,585,996.19
   c. Budget: $19,200,678.13
   d. Variance: $5,385,318.06
   e. % Variance to Budget: 28%
   f. Reason for overrun: After construction was completed there were a number of close out items around material charges and contractor charges that came in after the construction was completed. These charges continue to be reconciled to this day. This project was designated a design build project, so the city was essentially designing the project as other pieces were being constructed so identifying a definitive budget was a challenge.

   Blue Ridge found the Companies' explanation not unreasonable.

5. OECO Work Order 16057717—INSTALL MH 3-D—$1,615,603.82
   a. Project Description: COMPLETE- Rebuild multiple manhole and vault tops due to new streetscape in downtown Akron. The project scope is to rebuild S Main St from Cedar (south of ballpark) to north of Mill St from face of building to face of building. Included in the City's project scope is the construction of a roundabout at the intersection of S Main St & Mill St which is at the corner of the FirstEnergy General Office. Rebuild any crushed or vull duct bank and improve network facilities while the roadway is disturbed and under construction. This project potentially affects 31 manholes and 14 vaults. The City of Akron is executing this project utilizing Design Build which means no detailed design plans for the road sidewalk work exist until after the project is awarded. Specifications and conceptual plans are submitted by

OE prior to project award. Construction plans are developed just prior to construction. All estimates are conceptual initially due to Design Build construction technique.

b. Total Cost: $24,585,996.19
c. Budget: $19,200,678.13
d. Variance: $5,385,318.06
e. % Variance to Budget: 28%
f. Reason for overrun: After construction was completed there were a number of close out items around material charges and contractor charges that came in after the construction was completed. These charges continue to be reconciled to this day. This project was designated a design build project so the city was essentially designing the project as other pieces were being constructed so identifying a definitive budget was a challenge.

Blue Ridge found the Companies' explanation not unreasonable.

6. OECO Work Order 16800407—2021 OE Vehicle Purchases—$721,981.12
   a. Project Description: OE - Blanket - Tools and Equipment - Small Tools
   b. Total Cost: $819,240.57
   c. Budget: $690,000.00
   d. Variance: $129,240.57
   e. % Variance to Budget: 19%
   f. Reason for overrun: The 2021 budget was loaded on OE-003243 for $690k. Actuals hit a different WBS OC-900960. Actuals are higher due to supply chain delays associated with the pandemic.

   Blue Ridge found the Companies' explanation not unreasonable.

7. TECO Work Order 16472952—HIGHWAY WIDENING—$132,921.73
   a. Project Description: Obligation for TE to relocate TE facilities within Defiance County R W per Defiance County Engineer associated with the outcome of previous litigation.
   b. Total Cost: $583,014.19
   c. Budget: $392,933.85
   d. Variance: $190,080.34
   e. % Variance to Budget: 48%
   f. Reason for overrun: This project is due to an on-going obligation to relocate TE facilities within Defiance County. The county has a say in when the particular work is done during a given time period and those decisions are not always made prior to the budget being finalized. This project was originally budgeted to cover just year 2021. Some of the work that was started in 2020 was charged to the 2021 project, contributing to the variance.

   Blue Ridge found the Companies' explanation not unreasonable.

8. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O—($895,260.58)

a. Project Description: replace failed Ironville #3 69 12.5kv transformer, along with foundations, underground conduits, and cables, new recloser to replace circuit switcher. OE has a used unit that will work, TE will need to purchase a new unit for OE. A contractor will be required for the removal of the old foundation, new stone base and installation of a new foundation work, transporting the OE unit to TE, and to install new conduits and to GPS locate underground facilities.
b. Total Cost: $2,778,527.65
c. Budget: $2,116,685.30
d. Variance: $661,842.35
e. % Variance to Budget: 31%
f. Reason for overrun: This was an emergent project in that the failure of the transformer happened after the budget for the year was finalized. The capital portfolio for the region was reviewed and other cuts were made to try to offset this emergent need. Part of the funding for the Failure came from the Forced Failures blanket TW-900083 which had an underrun of $3.68 M on a budget of $9.71 M for 2020 and part from Substation Failures placeholder TW-800030 with a budget of $1.03M in 2020. This funding was split between this project at $2.12M and the Archbold Transformer failure TW-001741 at $2.59M during the same year.

Blue Ridge found the Companies' explanation not unreasonable.

9. TECO Work Order 16596140—REPLACE 2 LIVEFRONT TRANSFORMERS—$76,315.17
   a. Project Description: Distribution Condition Blanket
   b. Total Cost: $1,125,401.60
   c. Budget: $607,283.40
   d. Variance: $518,118.20
   e. % Variance to Budget: 85%
   f. Reason for overrun: For this time period, spending was increased due to the type of equipment and the number of outdated equipment needing replaced that were found during annual inspection.

   Blue Ridge found that even though the work was budgeted under a blanket work order, better planning and site review before the budget was initiated may have resulted in a budget that was more accurate.

Blue Ridge found that, for the most part, the explanations for actual cost exceeding budget were not unreasonable. We also understand that actual costs can increase for reasons outside the Companies' direct control. However, Blue Ridge recommends that the Companies make a concerted effort to scope out the work on the front end which should make the budget more accurate and possibly in some instances mitigate cost overruns.

T5: In-Service Dates

T5A: Is the actual in-service date in line (at or before) with the estimated in-service date?

Blue Ridge found that eight work orders / projects in our sample were blankets or other types of work orders, such as emergent projects, storms, and adjustments, that would not typically have estimated in-service dates.

Of the 34 work orders / projects with estimated in-service dates, 22, or 65%, had in-service dates that were within the 90-day threshold. The 12 work orders (approximately 35%) with in-service dates that were over 90 days delayed from the estimates are discussed below.

1. CECO Work Order 14791367—Industrial Upgrade
    a. In-Service Date: 10/2/20
    b. Estimated or Need Date: 4/1/17
    c. Days Delayed: 1,280
    d. Total Cost: $1,409,752.77
    e. Companies' Explanation: Permitting delays in 2016-2017 1.5 miles of new poles and primary conductor installed energized customer on time in Q2 2018 in coordination with customer construction needs. Work in 2019 not related to customer needs

    Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an adjustment due to the delayed retirements. Details are in Testing Step T5B.

2. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 3/10/22
    b. Estimated or Need Date: 5/31/21
    c. Days Delayed: 283
    d. Total Cost: $1,368,224.72
    e. Companies' Explanation: Longer lead time required by XFMR repair vendor Sept. 2020 PO XFMR repair vendor to start redesign and rewind allowed a July 2021 delivery XFMR energized Sept. 2021

    Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

3. CECO Work Order 17031647—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 3/10/22
    b. Estimated or Need Date: 10/1/21
    c. Days Delayed: 160
    d. Total Cost: $756,114.66
    e. Companies' Explanation: Equipment was in-service in Oct 2021 in Cascade. Order was not closed until March due to As-builts.

    Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

4. OECO Work Order 14864962—Equip Investigate / Repair - Regulator
    a. In-Service Date: 3/14/22
    b. Estimated or Need Date: 12/31/18
    c. Days Delayed: 1,169
    d. Total Cost: $689,496.37
    e. Companies' Explanation: Outage constraints and logistics in construction.

Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

5. OECO Work Order 15298831—Akron Main Street Rehabilitation
   a. In-Service Date: 2/1/22
   b. Estimated or Need Date: 5/31/20
   c. Days Delayed: 611
   d. Total Cost: $24,585,996.19
   e. Companies' Explanation: FirstEnergy was working with the city project manager and had to adjust our completion schedule based on timing and delays from their side. Ohio Edison had to work under the direction of the City's project manager to complete. In addition, work had to be in cooperation with the road construction contractor and was dependent on when the contractor opened that section of the street.[181]

   Blue Ridge found the Companies' explanation not unreasonable.

6. OECO Work Order 16057717—INSTALL MH 3-D
   a. In-Service Date: 2/23/22
   b. Estimated or Need Date: 5/31/20
   c. Days Delayed: 634
   d. Total Cost: $24,585,996.19
   e. Companies' Explanation: FirstEnergy was working with the city project manager and had to adjust our completion schedule based on timing and delays from their side. Ohio Edison had to work under the direction of the City's project manager to complete. In addition, work had to be in cooperation with the road construction contractor and was dependent on when the contractor opened that section of the street.[182]

   Blue Ridge found the Companies' explanation not unreasonable.

7. OECO Work Order 16759481—OE- Greenfield Substation- Breaker Failu
   a. In-Service Date: 11/28/22
   b. Estimated or Need Date: 3/31/21
   c. Days Delayed: 607
   d. Total Cost: $275,607.88
   e. Companies' Explanation: Breaker needed to be ordered, received in late spring of 2022 and we could not take an outage to replace due to a large customer (Cedar Point). this project was delayed due to material lead times. When the material was available, the customer (Cedar Point) was unable to accommodate an outage to perform the work until after their season was complete.[183]

[181] FirstEnergy's response to 2022 Audit scope 14-DR-002.
[182] FirstEnergy's response to 2022 Audit scope 14-DR-002.
[183] FirstEnergy's response to 2022 Audit scope 14-DR-002.

Blue Ridge found the Companies' explanation not unreasonable.

8. OECO Work Order 16995176—Perm repairs to 4 Chestnut CKTs & Duct
   a. In-Service Date: 10/27/22
   b. Estimated or Need Date: 7/30/21
   c. Days Delayed: 455
   d. Total Cost: $464,235.59
   e. Companies' Explanation: This was a major outage to downtown Warren caused by contractor dig-in. All engineering was performed on the fly. No valid schedule could have been anticipated.

   Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

9. TECO Work Order 16258499—Equip Investigate/Repair - Transformer O
   a. In-Service Date: 8/20/21
   b. Estimated or Need Date: 4/1/20
   c. Days Delayed: 507
   d. Total Cost: $2,778,527.65
   e. Companies' Explanation: The project took far longer to complete than was originally anticipated, as there were multiple engineering re-designs needed due to the complexity of the installation at the site and from using a Capital spare that had been designed for another project. There was also a longer lag time than expected in the delivery of the Capital spare replacement transformer. For the Ironville transformer project, there were multiple engineering redesigns needed due to the complexity of the installation at the site. In addition, the project used a Capital spare that had been designed for another project. There was also a longer lag time than expected in the delivery of the Capital spare replacement transformer.[184]

   Blue Ridge found that some of the delay would be outside the Companies' control. The long lead times for the purchase of spare transformers would be an example. However, the delays caused by redesigning the project multiple times due to the complexity of the installation may have been avoided in whole or in part by more detailed upfront work before the project started. Blue Ridge continues to find project in-service delays that are greater than 90 days after the estimated in-service date that could possibly have been avoided. Blue Ridge continues to recommend that the Companies expend the effort needed to limit in-service delays.

10. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 7/29/21
    b. Estimated or Need Date: 4/1/20
    c. Days Delayed: 484
    d. Total Cost: $2,778,527.65

[184] FirstEnergy's response to 2022 Audit scope 14-DR-002.

e. Companies' Explanation: The project took far longer to complete than was originally anticipated, as there were multiple engineering re-designs needed due to the complexity of the installation at the site and from using a Capital spare that had been designed for another project. There was also a longer lag time than expected in the delivery of the Capital spare replacement transformer. For the Ironville transformer project, there were multiple engineering redesigns needed due to the complexity of the installation at the site. In addition, the project used a Capital spare that had been designed for another project. There was also a longer lag time than expected in the delivery of the Capital spare replacement transformer.[185]

Blue Ridge found, in general, the Companies' explanation for the delay not unreasonable as it relates to using a capital spare that was designed for another project. However, the delays caused by the necessity of multiple engineering redesigns may have been avoided in whole or in part by more detailed upfront work before the project started. Blue Ridge recommends that the Companies continue to expend the effort needed to limit in-service delays.

11. TECO Work Order 16622904—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 4/18/22
    b. Estimated or Need Date: 11/5/19
    c. Days Delayed: 896
    d. Total Cost: $3,318,044.25
    e. Companies' Explanation: The project took far longer to complete than was originally anticipated, as there were multiple engineering re-designs needed due to the complexity of the installation at the site and from using a Capital spare that had been designed for another project. The Need Date placed in the OPPM system was mistakenly entered as the date that the project setup was needed rather than as an estimated in-service date. For the Archbold transformer project there were multiple engineering redesigns needed due to the complexity of the installation at the site. In addition, the project used a Capital spare that had been designed for another project. The Need Date placed in the OPPM system was mistakenly entered as the date that the project setup was needed rather than as an estimated in-service date.[186]

    Blue Ridge found the Companies' explanation not unreasonable.

12. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 1/20/22
    b. Estimated or Need Date: 7/1/21
    c. Days Delayed: 203
    d. Total Cost: $1,320,728.76
    e. Companies' Explanation: The main reason for the in-service of this work going past the initial need date had to do with having to schedule an outage with a major industrial customer at the York sub to do the demo work to remove the unit at that

[185] FirstEnergy's response to 2022 Audit scope 14-DR-002.
[186] FirstEnergy's response to 2022 Audit Data Request 14-DR-002.

location. There was also some engineering redesigns to accommodate for the new location, which required additional testing.

Blue Ridge found the Companies' explanation not unreasonable. However, Blue Ridge recommends an adjustment regarding the reclassification of these charges to ATSI as discussed in testing step T1E.

T5B: Was the work order / project in service and closed to UPIS within a reasonable time period from project completion, and if not, was AFUDC stopped?

Of the 34 work orders / projects with estimated in-service dates, 11, or approximately 32%, had in-service dates before December 31, 2021 (prior to the scope period covered by this audit).

1. CECO Work Order 14791367—Industrial Upgrade
   a. Total Cost: $1,409,752.77
   b. 2022 Activity: ($627,220.05)
   c. In-Service Date: 10/2/20
   d. Companies' Explanation: This work order was in-serviced in Oct 2020 and unitized in Aug 2022. At the time the unitization was being reviewed, retirements were recorded on the work order in the amount of ($627,220.05) in July and Aug 2022, which represents the activity during the audit period.[187]

   Blue Ridge found that the Companies routinely delay retiring assets until unitization. The delay in unitizing assets results in retirements being recorded well after the date the project was in-serviced (in this case 22 months after being placed in-service). An adjustment is necessary. Further discussion can be found in testing step T8A of this report. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(55,040). **[ADJUSTMENT #10]**

2. CECO Work Order 14857555—Newell - Replace Westinghouse MFB Lineba
   a. Total Cost: $44,473.79
   b. 2022 Activity: ($211,923.88)
   c. In-Service Date: 7/1/20
   d. Companies' Explanation: This work order is currently Suspended and there is no new actual in-service date. No depreciation was adjusted when the in-servicing was reversed. The in-servicing was reversed in May 2022, but the work order was not suspended until November 2022. An AFUDC stop date was entered as of 11/16/22 and no AFUDC was calculated after that date. Upon further review, it has been determined that AFUDC should have been turned off as of 2/1/2017 in accordance with when the work on this project was actually put on hold. An adjustment of $37,099.32 will be recorded on this project to reverse the AFUDC incurred after January 2017.[188]

[187] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.
[188] FirstEnergy's response to 2022 Audit Data Request 08-DR-017.

Blue Ridge recommends (and the Companies concur) that AFUDC be reduced by $37,099.32. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(6,336). **[ADJUSTMENT #4]**

3. CECO Work Order 15777764—Equip Investigate/Repair - Transformer O
   a. Total Cost: $2,565,736.10
   b. 2022 Activity: ($64,342.51)
   c. In-Service Date: 9/1/20
   d. Companies' Explanation: This work order was in-serviced in Sep 2021 and backdated with an in-service date in Sep 2020 and was reviewed for unitization during the audit scope period. At the time the unitization was being reviewed, a true-up between CWIP and RWIP was posted for the cost of removal incurred in the amount of $61,590.51 and retirements were recorded in the amount of ($2,752.00), which represents the activity during the audit period. The unitization to 101 Electric Plant in Service was recorded in November 2022.[189] No cost of removal had been recorded on this project due to the original estimate, this was trued up at unitization. The original construction costs were recorded between December 2018-September 2020.[190]

   Blue Ridge found the Companies' explanation not unreasonable.

4. CECO Work Order 15854703—Capital Replacement Program - Circuit
   a. Total Cost: $2,565,736.10
   b. 2022 Activity: $37,025.31
   c. In-Service Date: 9/17/19
   d. Companies' Explanation: This work order was in-serviced outside the audit scope period but unitized during the period.[191]

   Blue Ridge found the Companies' explanation not unreasonable.

5. CECO Work Order CE-000172-S-1—Total Substation
   a. Total Cost: $0.00
   b. 2022 Activity: ($527,509.91)
   c. In-Service Date: 4/12/10
   d. Companies' Explanation: Transformer was purchased in 2010 to Work Order CE-000172-S-1 and in-serviced into Capital Spare in April 2010. In 2022, due to a failure at CEI Lark Substation the transformer was transferred (from CE-000172) to the Lark Substation, CEI asset location (work order 17031647). The transfer was all within CEI 362 so there is no impact to DCR for the period December 2021 through November 2022.[192]

[189] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.
[190] FirstEnergy's response to 2022 Audit Data Request 08-DR-018.
[191] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.
[192] FirstEnergy's response to 2022 Audit Data Request 08-DR-024.

Blue Ridge found the Companies' explanation not unreasonable.

6. OECO Work Order 13564107—OE SPARE 11/14 MVA 69KV 12.47 KV TRNSF
   a. Total Cost: $166,418.97
   b. 2022 Activity: ($662,738.53)
   c. In-Service Date: 3/31/13
   d. Companies' Explanation: The transformer purchased as a capital spare on OECO work order was purchased and placed in-service in 2013. As work was underway on TECO work order 16258499 at the Ironville Substation, it was determined that this spare transformer was needed, and a transfer was posted in PowerPlant from the original work order it was purchased under (OECO 13564107) to the current project underway (TECO 16258499). PowerPlan posts the transfer using the cost basis buckets as originally charged when the capital spare was purchased and in-serviced. The remaining charges to FERC 361.1 represent additional yard surfacing costs incurred on the Ironsville Sub project.

   Blue Ridge found the Companies' explanation not unreasonable.

7. TECO Work Order 16258499—Equip Investigate/Repair - Transformer O
   a. Total Cost: $2,778,527.65
   b. 2022 Activity: $615,831.55
   c. In-Service Date: 8/20/21
   d. Companies' Explanation: The transformer purchased as a capital spare on OECO work order was purchased and placed in-service in 2013. As work was underway on TECO work order 16258499 at the Ironville Substation, it was determined that this spare transformer was needed, and a transfer was posted in PowerPlant from the original work order it was purchased under (OECO 13564107) to the current project underway (TECO 16258499). PowerPlan posts the transfer using the cost basis buckets as originally charged when the capital spare was purchased and in-serviced. The remaining charges to FERC 361.1 represent additional yard surfacing costs incurred on the Ironsville Sub project.

   Blue Ridge found the Companies' explanation not unreasonable.

8. OECO Work Order 16080601—Equip Investigate/Repair - Circuit Break
   a. Total Cost: $751,889.22
   b. 2022 Activity: ($82,424.11)
   c. In-Service Date: 10/13/20
   d. Companies' Explanation: This work order was in-serviced outside the audit scope period but unitized during the period.[193]

   Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an adjustment for delayed retirements. Details are in Testing Step T8B.

[193] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.

9. OECO Work Order 16471269—Bowman Sub transformer #1 repair
   a. Total Cost: $509,128.72
   b. 2022 Activity: ($27,950.21)
   c. In-Service Date: 5/1/21
   d. Companies' Explanation: This work order was in-serviced outside the audit scope period but unitized during the period.[194]

   Blue Ridge found the Companies' explanation not unreasonable.

10. OECO Work Order OE-003702-DO-MSTM—OE MSTM 11 - 7/27/2020
    a. Total Cost: $1,261,089.15
    b. 2022 Activity: ($92,551.39)
    c. In-Service Date: 7/31/20
    d. Companies' Explanation: This work order was in-serviced in March 2021 and backdated with an in-service date in July 2020 and was reviewed for unitization during the audit scope period. At the time the unitization was being reviewed, retirements were recorded in the amount of ($92,551.48), which represents the activity during the audit period. The unitization to 101 Electric Plant in Service was recorded in April 2022.[195]

    Blue Ridge found the Companies' explanation not unreasonable.

11. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O
    a. Total Cost: $2,778,527.65
    b. 2022 Activity: ($895,260.58)
    c. In-Service Date: 7/29/21
    d. Companies' Explanation: This work order was in-serviced outside the audit scope period but unitized during the period.[196]

    Blue Ridge found the Companies' explanation not unreasonable.

Table 34 Summary of Adjustments from Work Orders In-Serviced Prior to Scope Period

Company	Work Order	Description	Adjustment	Adjusted $
CECO	14791367	Industrial Upgrade	Adj#11-Retirement	($627,220)
CECO	14857555	Newell - Replace Westinghouse MFB Lineba	Adj#4-AFUDC	$37,099
CECO	CE-000172-S-1	Total Substation	Adj#5-AFUDC	$17,764
Total Retirement Adjustment				($627,220)
Total AFUDC Adjustment				$54,863

Of the 11 work orders / projects which were not closed timely after the work was complete, 10 work orders continued to accrue AFUDC.

1. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O

[194] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.
[195] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.
[196] FirstEnergy's response to 2022 Audit Data Request 08-DR-014.

a. In-Service Date: 3/10/22
b. Estimated or Need Date: 5/31/21
c. Days Delayed: 283
d. Total Cost: $1,368,224.72
e. AFUDC Accrued in 2022: $60,570.58
f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays during construction that would cause over-accrued AFUDC. However, it has been determined that the in-service date entered of 3/10/22 was incorrect and the actual inservice date was 9/30/21. AFUDC incurred after 9/30/21 will be reversed in the amount of $46,663.43.[197]

Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced by $46,663.43. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(8,196). **[ADJUSTMENT #5]**

2. CECO Work Order 17031647—Equip Investigate/Repair - Transformer O
   a. In-Service Date: 3/10/22
   b. Estimated or Need Date: 10/1/21
   c. Days Delayed: 160
   d. Total Cost: $756,114.66
   e. AFUDC Accrued in 2022: $14,530.45
   f. Companies' Explanation: The completion of the project was not delayed as first reported in response to BRC Set 2-DR-001, but rather the in-service date entered of 3/10/22 was incorrect and the actual in-service date was 10/4/21, which was the engineering need-by date. AFUDC incurred after October 2021 will be reversed in the amount of $17,763.93.[198]

   Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced by $17,763.93. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(3,149). **[ADJUSTMENT #6]**

3. OECO Work Order 14864962—Equip Investigate / Repair - Regulator
   a. In-Service Date: 3/14/22
   b. Estimated or Need Date: 12/31/18
   c. Days Delayed: 1,169
   d. Total Cost: $689,496.37
   e. AFUDC Accrued in 2022: $72,854.50
   f. Companies' Explanation: Due to workforce constraints beginning in mid-2019 and 2020, this project was moved into late 2020/early 2021 and should have been suspended in April 2019. If suspended, AFUDC would have also been suspended until the project resumed work. An adjustment to AFUDC of $34,070.62 will be made. Further, it has been determined that the in-service date entered of 3/14/22 was

[197] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[198] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.

incorrect and the actual in-service date was 11/30/21. AFUDC incurred after 11/30/21 will also be reversed in the amount of $16,705.36.[199]

Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced by a total of $50,775.98 ($34,070.62 and $16,705.36). Blue Ridge estimates the effect on OE DCR revenue requirements to be $(7,956). **[ADJUSTMENT #7]**

4. OECO Work Order 15298831—Akron Main Street Rehabilitation
   a. In-Service Date: 2/1/22
   b. Estimated or Need Date: 5/31/20
   c. Days Delayed: 611
   d. Total Cost: $24,585,996.19
   e. AFUDC Accrued in 2022: $898,229.82
   f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays during construction that would cause over-accrued AFUDC and the in-service date is correct. OE was following the road construction schedule in accordance with the City of Akron for Phase I of the Main Street Rehabilitation.[200]

   Blue Ridge found the Companies' explanation not unreasonable.

5. OECO Work Order 16057717—INSTALL MH 3-D
   a. In-Service Date: 2/23/22
   b. Estimated or Need Date: 5/31/20
   c. Days Delayed: 634
   d. Total Cost: $24,585,996.19
   e. AFUDC Accrued in 2022: $30,168.22
   f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays during construction that would cause over-accrued AFUDC and the in-service date is correct.[201]

   Blue Ridge found the Companies' explanation not unreasonable.

6. OECO Work Order 16759481—OE- Greenfield Substation- Breaker Failu
   a. In-Service Date: 11/28/22
   b. Estimated or Need Date: 3/31/21
   c. Days Delayed: 607
   d. Total Cost: $275,607.88
   e. AFUDC Accrued in 2022: $9,510.26
   f. Companies' Explanation: Construction began later than expected took longer than expected, but construction was continuous up until the project was in-service. There

[199] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[200] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[201] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.

were no delays during construction that would cause over-accrued AFUDC and the in-service date is correct.[202]

Blue Ridge found the Companies' explanation not unreasonable.

7. OECO Work Order 16995176—Perm repairs to 4 Chestnut CKTs & Duct
   a. In-Service Date: 10/27/22
   b. Estimated or Need Date: 7/30/21
   c. Days Delayed: 455
   d. Total Cost: $464,235.59
   e. AFUDC Accrued in 2022: $21,914.56
   f. Companies' Explanation: The completion of the project was not delayed as first reported in BRC Set 2-DR-001, but rather the in-service date entered of 10/27/22 was incorrect and the actual in-service date was 8/31/21, which was more closely aligned with the engineering need-by date. AFUDC incurred after 8/31/21 will be reversed in the amount of $34,052.17.[203]

   Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced by a total of $34,052.17. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(5,231). **[ADJUSTMENT #8]**

8. TECO Work Order 16258499—Equip Investigate/Repair - Transformer O
   a. In-Service Date: 8/20/21
   b. Estimated or Need Date: 4/1/20
   c. Days Delayed: 507
   d. Total Cost: $2,778,527.65
   e. AFUDC Accrued in 2022: $8,178.54
   f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays during construction that would cause over-accrued AFUDC and the in-service date is correct.[204]

   Blue Ridge found the Companies' explanation not unreasonable.

9. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O
   a. In-Service Date: 7/29/21
   b. Estimated or Need Date: 4/1/20
   c. Days Delayed: 484
   d. Total Cost: $2,778,527.65
   e. AFUDC Accrued in 2022: $(35,026.78)
   f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays

[202] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[203] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[204] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.

during construction that would cause over-accrued AFUDC and the in-service date is correct.[205]

Blue Ridge found the Companies' explanation not unreasonable.

10. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O
    a. In-Service Date: 1/20/22
    b. Estimated or Need Date: 7/1/21
    c. Days Delayed: 203
    d. Total Cost: $1,320,728.76
    e. AFUDC Accrued in 2022: $19,705.16
    f. Companies' Explanation: The completion of the project took longer than expected, but construction was continuous up until the project was in-service. There were no delays during construction that would cause over-accrued AFUDC and the in-service date is correct.[206]

    Blue Ridge found the Companies' explanation not unreasonable. However, Blue Ridge recommends an adjustment regarding the reclassification of these charges to ATSI as discussed in testing step T1E.

Blue Ridge reviewed the Companies' explanation and the AFUDC accruals by month.[207] Blue Ridge found the Companies' explanation and accruals not unreasonable.

T6: Continuing Property Records

T6A: Do the Continuing Property Records support the asset completely and accurately?

The support for the continuing property records encompasses the scope and justification for each project, the detail that supports the cost, retirement, cost of removal detail, if appropriate, and the application of the proper FERC accounts. Blue Ridge found that, while we are recommending several adjustments to plant-in-service balances, in general, the Companies' continuing property records support the assets. Blue Ridge requested follow-up information regarding the Companies' Continuing Property Records for the following eight work orders.

CECO Work Order 14857555—Newell - Replace Westinghouse MFB Lineba—$44,473.79

a. Blue Ridge's initial concern: credit balance in 2022 when project was in-serviced in September 2021 in error and reversed in May 2022
b. Companies' Explanation: The ($211,923.88) is the reversal of the charges in 106 Plant In-Service back to 107 Construction Work in Process since the in-servicing was reversed indicating the project was not completed.[208]

[205] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[206] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[207] FirstEnergy's response to 2022 Audit Data Request 08-DR-015.
[208] FirstEnergy's response to 2022 Audit Data Request 08-DR-017.

Blue Ridge found the Companies' explanation not unreasonable. However, as discussed in Testing Step T5B, it was determined that AFUDC was over accrued, and an adjustment is recommended. Details are in Testing Step T5B.

2. CECO Work Order 15777764—Equip Investigate/Repair - Transformer O—$2,565,736.10
   a. Blue Ridge's initial concern: credit for $62k
   b. Companies' Explanation: The credit to Plant in Service was due to cost of removal recorded and credited to 106 Plant in Service and Debited to 108 RWIP, and retirements recorded at the time of unitization.[209]

   Blue Ridge found the Companies' explanation not unreasonable.

3. CECO Work Order 17026370—CEI Inventory to Capital Spare—$167,187.32
   a. Blue Ridge's initial concern: spare transformer taken out of stock and capitalized – accounting
   b. Companies' Explanation: Please refer to Case No. 21-1038-EL-RDR, BRC Set 23-DR-001 for all the support for the items issued out of inventory and in-serviced as capital spares on this work order.[210]

   Blue Ridge found the Companies' explanation not unreasonable.

4. CECO Work Order CE-000172-S-1—Total Substation—$0.00
   a. Blue Ridge initial concern: Adjustment for M&S returned to stock. In-Service 2010
   b. Companies' Explanation: The credit to Stores (M&S) occurred when the Capital Spare was taken out of inventory and moved to the CEI Lark Substation.
      Transformer was purchased in 2010 to Work Order CE-000172-S-1 and in-serviced into Capital Spare in April 2010. In 2022, due to a failure at CEI Lark Substation the transformer was transferred (from CE-000172) to the Lark Substation, CEI asset location (work order 17031647). The transfer was all within CEI 362 so there is no impact to DCR for the period December 2021 through November 2022.[211]

   Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

5. OECO Work Order 17026398—OE Inventory to Capital Spare—$0.00
   a. Blue Ridge initial concern: transfer/reclass from M&S to UPIS – accounting and timing
   b. Companies' Explanation: the original transfer from Inventory to Utility Plant occurred in August 2021 and falls outside the scope of this audit period.[212]

   Blue Ridge found the Companies' explanation not unreasonable.

6. OECO Work Order OE-003702-DO-MSTM—OE MSTM 11 - 7/27/2020—$1,261,089.15

[209] FirstEnergy's response to 2022 Audit Data Request 08-DR-018.
[210] FirstEnergy's response to 2022 Audit Data Request 08-DR-005.
[211] FirstEnergy's response to 2022 Audit Data Request 08-DR-024.
[212] FirstEnergy's response to 2022 Audit Data Request 08-DR-009.

a. Blue Ridge initial concern: 2020 storm with retirement charges in 2022
b. Companies' Explanation: This work order was in-serviced in PowerPlant in March 2021 with a retroactive date representative of when the work was completed, and manually unitized (since not fed by a work management system) in April 2022, at which time the retirement was recorded. The details required to complete retirements and manual unitization of the appropriate assets are typically not known by the accounting team immediately following in-servicing.[213]

Blue Ridge found the Companies' explanation not unreasonable. The timing of when retirements take place is further discussed in the work order backlog section of this report.

7. TECO Work Order 16514434—Equip Investigate/Repair - Transformer O—$2,778,527.65
   a. Blue Ridge initial concern: transfer from OECO to TECO but charge to TECO is a credit
   b. Companies' Explanation: The transformer purchased under TECO work order 16514434 was transferred from TECO to Pennsylvania affiliate Operating Company Met-Ed in December 2021 for use at the Bernville Substation, it was not transferred from OECO to TECO.[214] The credit is due to a replacement Transformer that was ordered by TECO to replace the OECO spare transformer but was subsequently needed in PA at MECO. TECO later ordered another spare transformer e to replace the one from OECO.[215]

   Blue Ridge found the Companies' explanation not unreasonable.

8. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O—$1,320,728.76
   a. Blue Ridge initial concern: transfer of an asset from one location to answer – why is this capital?
   b. Companies' Explanation: The existing transformer noted as at the York Substation was located at a customer's substation, the North Star Steel – York Substation (NSS-York) and was originally purchased by Toledo Edison to be used by this customer. In 2021, North Star Steel purchased their own transformer to replace this one and began the process to remove and decommission the existing transformer. At the same time, the transformer at TECO's Richland Substation failed and needed to be replaced. There was no spare transformer that could be used and TECO found significant benefits to using the existing transformer decommissioned from NSS-York rather than absorbing additional cost and lead time to purchase a new transformer. The NSSYork transformer was tested and proved it could be a reliable replacement for the transformer that failed. The full scope of this project also included replacing a strain conductor from the circuit switcher to transformer high-side, replacing drops for low-side, replacing surge arresters, installing relays, switches, and fuses for the BU Relay

[213] FirstEnergy's response to 2022 Audit Data Request 08-DR-035.
[214] FirstEnergy's response to 2022 Audit Data Request 8-DR-001.
[215] FirstEnergy's response to 2022 Audit Data Request 14-DR-001.

Panel, and all other necessary work to tie-in to the 138kV bus. Based on all of the details surrounding this project, the accounting is being treated in the same way TE would capitalize a replacement using a capital spare transformer.

Further, after reviewing this project in more detail, it has been determined that the transformer that failed and was replaced at Richland was owned by ATSI. The retirement of the failed transformer will be recorded by ATSI and the cost of removal charged to the TECO work order will be reversed and charged to an ATSI work order to align with the retirement. The Companies in a future DCR filing will make an adjustment to incorporate the cumulative revenue requirement impact.[216]

Cost of removal in the amount of $120,019.61 was recorded between March 2021-November 2022 (($239.26) within the audit scope period). However, after reviewing the activity and circumstances surrounding this project, it has been determined that the transformer replaced was owned by ATSI and ATSI will retire the asset. The Cost of Removal will be reversed from the TECO project and charged to an ATSI work order to align with the retirement. Refer to the response to BRC Set 8-DR-39 for more information. The Companies will make an adjustment in a future Rider DCR filing to incorporate the cumulative revenue requirement impact.[217]

Blue Ridge found the Companies inappropriately charged an ATSI work order to TECO. An adjustment was recommended in Testing Step T1.

T7: Cost Categories

T7A: For work orders / projects, are the cost categories (Payroll, M&S, etc.) not unreasonable and support the work order total?

Blue Ridge requested additional cost information for 13 work orders. The remaining detail can be found in Blue Ridge's workpapers.

1. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O—$1,368,224.72
   a. Blue Ridge initial concern: overhead costs appear high
   b. Companies' Explanation: Total overheads on this project are attributable to the following overhead categories and percentages:

Supervision & Engineering	$347,345.82	24.7%
Administrative & General	$141,525.79	10.1%
Pension/OPEB/COLI	$24,955.74	1.8%

The overheads on this project were 36.5% of total costs and were applied consistent with the Companies' overhead policy. The individual overhead rates are in line with the established monthly rates calculated for CEI.[218]

[216] FirstEnergy's response to 2022 Audit Data Request 8-DR-039.
[217] FirstEnergy's response to 2022 Audit Data Request 8-DR-020.
[218] FirstEnergy's response to 2022 Audit Data Request 8-DR-019.

Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

2. CECO Work Order 17026370—CEI Inventory to Capital Spare—$167,187.32
   a. Blue Ridge initial concern: spare transformer out of stock and capitalized - accounting
   b. Companies' Explanation: This activity is a result of the unitization of this work order and not new transfers from Inventory into Plant.[219]

   Blue Ridge found the Companies' explanation not unreasonable.

3. CECO Work Order 17143332—Equip Investigate/Repair - Transformer O—$452,237.47
   a. Blue Ridge initial concern: overhead costs appear high
   b. Companies' Explanation: Total overheads on this project are attributable to the following overhead categories and percentages:

Supervision & Engineering	$130,821.08	28.9%
Administrative & General	$18,548.95	4.1%
Pension/OPEB/COLI	$25,243.00	5.6%

   The overheads on this project were 38.6% of total costs and they were applied consistent with the Companies' overhead policy. The individual overhead rates are in line with the established monthly rates calculated for CEI.[220]

   Blue Ridge found the Companies' explanation not unreasonable.

4. FESC Work Order ITS-SC-000430-2021R1-1—UI Planner Software Enh. 2021R1 - CAP—$1,621,394.19
   a. Blue Ridge initial concern: contractor charges for $1.2 million and capital vs expense
   b. Companies' Explanation: All contractor costs ($1,198,991) are for UTILITIES INTERNATIONAL INC resources for 2021 UI Planner Roadmap Enhancements from Feb 2021 through Jan 2022. Capitalized costs are based on the application development phase activities that qualify to be capitalized as per FASB guidance on software capitalization as represented in FirstEnergy policy for software capitalization. No expense costs were charged to the project accounting during the 2021 UI Planner Roadmap phase (ITS-SC-000430-2021R1-1) of the multi-phase UI Planner Software Enhancements program. This was a FirstEnergy Service Company project that benefits multiple FirstEnergy entities. Costs associated with the project are allocated using the standard process consistent with the cost allocation manual. In Rider DCR, FirstEnergy Service Company plant in-service is allocated to the Companies consistent with the allocation factors from Case No. 07-0551-EL-AIR, as authorized in the Companies' ESP cases, most recently Case No. 14-1297-EL-SSO.[221]

[219] FirstEnergy's response to 2022 Audit Data Request 8-DR-005.
[220] FirstEnergy's response to 2022 Audit Data Request 08-DR-023.
[221] FirstEnergy's response to 2022 Audit Data Request 08-DR-025.

Blue Ridge found the Companies' explanation not unreasonable.

5. FESC Work Order ITS-SC-000657-1—App Development Continuous Improve - CAP—$1,960,434.85
   a. Blue Ridge initial concern: capital vs expense
   b. Companies' Explanation: In addition to the $1,960,434.85 of capital costs, $14,025.71 of O&M (expense) was charged to the project accounting (ITS-SC-000657). The capital costs are based on the application development phase activities that qualify to be capitalized as per FASB guidance on software capitalization as represented in FirstEnergy policy for software capitalization. The O&M costs represent project related activities that must be expensed (e.g. project scoping & planning, training, organizational readiness etc.). This was a FirstEnergy Service Company project that benefits multiple FirstEnergy entities. Costs associated with the project are allocated using the standard process consistent with the cost allocation manual. In Rider DCR, FirstEnergy Service Company plant in-service is allocated to the Companies consistent with the allocation factors from Case No. 07-0551-EL-AIR, as authorized in the Companies' ESP cases, most recently Case No. 14-1297-EL-SSO.[222]

   Blue Ridge found the Companies' explanation not unreasonable.

6. FESC Work Order ITS-SC-000668-1—2021 Filenet Cont. Improvement - CAP—$620,048.83
   a. Blue Ridge initial concern: capital vs expense
   b. Companies' Explanation: In addition to the $620,048.83 of capital costs, $22,493.52 of O&M (expense) was charged to the project accounting (ITS-SC-000657). The capital costs are based on the application development phase activities that qualify to be capitalized as per FASB guidance on software capitalization as represented in FirstEnergy policy for software capitalization. The O&M costs represent project related activities that must be expensed (e.g. project scoping & planning, training, organizational readiness etc.). This was a FirstEnergy Service Company project that benefits multiple FirstEnergy entities. Costs associated with the project are allocated using the standard process consistent with the cost allocation manual. In Rider DCR, FirstEnergy Service Company plant in-service is allocated to the Companies consistent with the allocation factors from Case No. 07-0551-EL-AIR, as authorized in the Companies' ESP cases, most recently Case No. 14-1297-EL-SSO. [223]

   Blue Ridge found the Companies' explanation not unreasonable.

7. FESC Work Order ITS-SC-000675-2021-1—Power BI Implementation 2021 - CAP—$10,876,110.43
   a. Blue Ridge initial concern: capital vs expense
   b. Companies' Explanation: In addition to the $10,876,110.43 of capital costs, $138,452.53 of O&M (expense) was charged to the project accounting (ITS-SC-

[222] FirstEnergy's response to 2022 Audit Data Request 08-DR-026.
[223] FirstEnergy's response to 2022 Audit Data Request 08-DR-027.

000675). The capital costs are based on the application development phase activities that qualify to be capitalized as per FASB guidance on software capitalization as represented in FirstEnergy policy for software capitalization. The O&M costs represent project related activities such as project scoping & planning, training, organizational readiness etc. This was a FirstEnergy Service Company project that benefits all FirstEnergy companies across all states in which those companies operate. Costs are allocated using the standard distribution of FirstEnergy corporate costs across all FirstEnergy legal entities. QlikView is still in use as PowerBI data modeling is being refined and validated and migration of QlikView reporting to PowerBI continues.[224]

Blue Ridge found the Companies' explanation not unreasonable.

8. OECO Work Order 14864962—Equip Investigate / Repair - Regulator—$689,496.37
   a. Blue Ridge initial concern: AFUDC represents 21% of total project costs
   b. Companies' Explanation: Refer to the response to BRC Set 8-DR-015; this project should have been suspended for a period of time, which would also suspend AFUDC, and an incorrect in-service date was entered, both of which contributed to over-accrued AFUDC in the amount of $50,775.98. Once that adjustment is made, AFUDC would be lowered to 14% of the total work order cost. The Companies in a future Rider DCR filing will incorporate the cumulative revenue requirement impact.[225]

   Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced. The Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

9. OECO Work Order 15298831—Akron Main Street Rehabilitation—$24,585,996.19
   a. Blue Ridge initial concern:
      i. AFUDC representing 20% of total project costs
      ii. Other Company Overheads
   b. Companies' Explanation:
      i. The Akron Main Street Rehabilitation project began in March 2017 and was in-serviced with a date of 2/1/2022. Over the length of the project there was never a stoppage in the work being completed, but the project did take longer than anticipated due to timing and delays on the part of the City of Akron. The AFUDC of $1,805,629 is representative of the project spanning over the 59 months. AFUDC is calculated on the monthly cumulative balance in CWIP per FirstEnergy's AFUDC Policy and capitalization of AFUDC continued throughout the span of the project until it was completed for its intended use.
      ii. Total overheads on this project are attributable to the following overhead categories and percentages:

Supervision & Engineering	$2,808,405.44	30.8%
Administrative & General	$385,233.72	4.2%

[224] FirstEnergy's response to 2022 Audit Data Request 08-DR-028.
[225] FirstEnergy's response to 2022 Audit Data Request 08-DR-034.

Pension/OPEB/COLI	$11,432.79	0.1%

The overheads on this project were 35.1% of total costs and were applied consistent with the Companies' overhead policy. The individual overhead rates are in line with the established monthly rates calculated for OE.[226] The Companies provided the cost by month by cost category for the Akron Main Rehabilitation project from March 2017-November 2022.[227]

Blue Ridge found the Companies' explanation not unreasonable.

10. OECO Work Order 16057717—INSTALL MH 3-D—$24,585,996.19
    a. Blue Ridge initial concern: on-going charges when in-serviced in February 2022
    b. Companies' Explanation: Work order 16057717 was in-serviced on February 23, 2022, and there are no longer new charges being reconciled to this order. The original project had over 100 work orders associated with it. To ease the in-servicing of the project, it was separated into two phases. Work order 16057717 is attached to Phase 1. Phase 2 is currently ongoing and contains orders that continue to be reconciled. BRC Set 8-DR-040 Attachment 1 contains a list of orders associated with this project.[228]

Blue Ridge found the Companies' explanation not unreasonable.

11. OECO Work Order IF-OE-000166-1—OE - Mansfield Service Center B01 Rf01—$862,493.00
    a. Blue Ridge initial concern: overhead costs appear high
    b. Companies' Explanation: Total overheads on this project are attributable to the following overhead categories and percentages:

Supervision & Engineering	$624,303.95	37.8%
Administrative & General	$126,047.00	7.6%
Pension/OPEB/COLI	$155.24	0.01%

The overheads on this project were 45.41% of total costs and were applied consistent with the Companies' overhead policy. The individual overhead rates are in line with the established monthly rates calculated for OE.[229]

Blue Ridge found the Companies' explanation not unreasonable.

12. OECO Work Order OE-005999-OMSCAP-ADMS—ADMS Upgrade Capital—$20,789,661.26
    a. Blue Ridge initial concern:
        i. cost allocation
        ii. capital vs expense

[226] FirstEnergy's response to 2022 Audit Data Request 8-DR-029.
[227] FirstEnergy's response to 2022 Audit Data Request 14-DR-003.
[228] FirstEnergy's response to 2022 Audit Data Request 8-DR-040.
[229] FirstEnergy's response to 2022 Audit Data Request 8-DR-032.

b. Companies' Explanation:
   i. The Other Direct Cost of $3,988,730 represent Computer Software Costs and Computer Software Maintenance costs.
   ii. The project was for the installation of new software across the organization and was 100% capital. Per the FirstEnergy accounting rules, installation of software involved in the dayto-day operations of the business is a Capital expense. See the attached software capitalization policy, BRC Set 8-INT-036 Attachment

   This project is applicable to FirstEnergy companies outside Ohio.
   - Metropolitan Edison Company
   - Monongahela Power Company
   - Pennsylvania Power Company
   - Pennsylvania Electric Company
   - The Potomac Edison Company
   - West Penn Power Company
   - Jersey Central Power and Light Company

   The project costs were split between entities based on customer count.[230]

Blue Ridge found the Companies' explanation not unreasonable.

13. OECO Work Order OE-700641-SW20—IT Speech Analytics for Customer Service—$441,320.47
   a. Blue Ridge initial concern:
      i. capital vs expense
      ii. cost allocations
   b. Companies' Explanation:
      i. $2,424,185.60 of capital costs ($441,320.47 - OE-700641-SW20 portion) and $0 O&M (expense) was charged to the project accounting (ITS-SC-000657). The capital costs are based on the application development phase activities that qualify to be capitalized as per FASB guidance on software capitalization as represented in FirstEnergy policy for software capitalization. For FirstEnergy IT capital projects, non-material, related O&M (expense) costs are not required to be charged to the project accounting.
      ii. This was a FirstEnergy Service Company project that benefits multiple FirstEnergy entities. Costs of the project were allocated using the standard process consistent with the cost allocation manual. In Rider DCR, FirstEnergy Service Company plant in-service is allocated to the Companies using the allocation factors from Case No. 07-0551-EL-AIR, as authorized in the Companies' ESP cases, most recently in Case No. 14-1297-EL-SSO.[231]

   Blue Ridge found the Companies' explanation not unreasonable.

[230] FirstEnergy's response to 2022 Audit Data Request 8-DR-036.
[231] FirstEnergy's response to 2022 Audit Data Request 08-DR-037.

T7B: For "other" (referring to T1d above), are the description and costs not unreasonable?

Blue Ridge requested additional cost information for one work order. The remaining detail can be found in Blue Ridge's workpapers.

1. FESC Work Order LA096—FEOC PROP ASSET-PWR PLT TRNSF & ADJ—$0.00
   a. Blue Ridge initial concern: adjusting work order
   b. Companies' Explanation:
      Transfers to PA affiliate Met-Ed and New Jersey affiliate JCP&L
      Transfer to OE
      The adjustments to FERC 391.2 Data Processing Equipment were transfers
         (1) from FERC 391.2 to FERC 303 on FESC
         (2) from FESC to Met-Ed.[232]

   Blue Ridge found the Companies' explanation not unreasonable.

Blue Ridge reviewed the sampled work orders and found that the cost categories are not unreasonable. However, during additional review of three work orders not within the sample, Blue Ridge found that FirstEnergy included costs related to Long-Term Incentive Compensation (FE LTIP) within the DCR.

According to the FirstEnergy's 2021 Proxy Statement, FirstEnergy has a long-term incentive program that is described as "Variable cash and equity compensation designed to reward the achievement of longer-term goals and drive shareholder value and growth," and that is awarded to Named Executive Officers (NEOs).[233] The FirstEnergy LTIP is comprised entirely of performance-adjusted RSUs with two-thirds of the earned award payable in Company stock and one-third of the earned award payable in cash.[234] FirstEnergy's long-term incentive compensation program for 2022 maintained the Cumulative Operating EPS metric (increasing the weighting from 50% to 65%) while eliminating Average Capital Effectiveness metric and replacing it with a standalone Relative TSR metric, weighted at 35%. The design change simplifies the structure of the plan, enhances the link to shareholder value, and is similar to the approach used by their utility peer companies.[235] These performance measures support continued financial improvement and increase focus on earnings across the Companies' Regulated Distribution and Regulated Transmission businesses.

The LTIP rewards behavior that promotes the interest of shareholders. Excessive focus on increasing profitability and share price growth can harm customers. Investments included in the Rider DCR can be based on decisions to retire and replace assets that are financially driven rather than risk driven.

For example, between rate cases, during periods of slow revenue growth, a company may reduce expenses to maintain profitability. While reducing expenses can and should benefit

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[232] FirstEnergy's response to 2022 Audit Data Request 08-DR-033.
[233] FirstEnergy 2023 Proxy Statement and Notice of Annual Meeting of Shareholders, page 66.
[234] FirstEnergy 2023 Proxy Statement and Notice of Annual Meeting of Shareholders, page 66.
[235] FirstEnergy 2023 Proxy Statement and Notice of Annual Meeting of Shareholders, page 59.

ratepayers, taken to an extreme, it can harm customers. For example, expenses can be reduced to increase profitability by deferring utility plant maintenance (resulting in safety issues or outages). Further, expenses can be reduced by failing to adequately staff Customer Services, which could lead to difficulties in, for example, accessing customer service to report leaks or outages. Customer services would also have long wait times for other inquiries or complaints if the company were understaffed in order to reduce costs and drive up profitability.

Due to the LTIP's focus on shareholder interest (which can be detrimental to customers), Blue Ridge recommends that all the costs related to Restricted Stock Unit Costs and Performance Share Costs included in Rider DCR be removed. Removing the LTIP costs reduces the plant in service.

Blue Ridge has estimated the following impacts to the DCR:

- Reduced CE DCR revenue requirements $(433,866)
- Reduced OE DCR revenue requirements $(431,632)
- Reduced TE DCR revenue requirements $(154,848)

Total impact to FirstEnergy DCR revenue requirements $(1,020,346) **[ADJUSTMENT #9].**

T8: Replacement projects

T8A: Were assets retired?

Blue Ridge identified 24 replacement work order / projects. The following eight replacement work orders did not have retirement charges in the audit scope period.

1. CECO Work Order 16348385—Equip Investigate/Repair - Miscellaneous—$458,438.87
   a. Project scope: Replace 14MVA 138-13kv transformer with 22MVA
   b. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated and retirements recorded at the time of unitization.[236]
2. CECO Work Order 16629298—PID 105998 E Cleve Euclid Ave CEI UG—$696,954.45
   a. Project scope Replacement of equipment due to inability to get parts or outdated equipment
   b. The Companies indicated cost of removal in the amount of $6,503.46 was recorded between August 2020-November 2020, outside of the audit scope period. This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[237]
3. CECO Work Order 17099542—Oil Sample On Demand – Trans LTC—$233,546.89
   a. Project scope Replacement of failed equipment and devices to correct customer outages

[236] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[237] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

   b. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated and retirements recorded at the time of unitization.[238]

4. OECO Work Order 14864962—Equip Investigate / Repair - Regulator—$664,226.70
   a. Project scope Replace failed 3-phase 4.15kv regulators VR-5
   b. The Companies indicated cost of removal in the amount of $25,269.67 was recorded between February 2016-December 2021, primarily outside of the audit scope period. This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[239]

5. OECO Work Order 16646068—Equip Investigate/Repair - Miscellaneous—$906,766.51
   a. Project scope Replace or repair items at substation that were identified during inspections (transformers, brakers, regulators, control switches, bushings, fences, etc)
   b. The Companies indicated cost of removal in the amount of $71,672.29 was recorded between August 2020-November 2022 ($15,821.33 within the audit scope period) and a retirement in the amount of ($7,977.92) was recorded in December 2022.[240]

6. OECO Work Order 16759481—OE- Greenfield Substation-Breaker Failu—$263,806.43
   a. Project scope Replace failed breaker
   b. The Companies indicated cost of removal in the amount of $11,801.45 was recorded between December 2020-November 2022 ($5,587.10 within the audit scope period). This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[241]

7. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O—$1,149,500.67
   a. Project scope Replace failed Richland #1 autotransformer
   b. The Companies indicated cost of removal in the amount of $120,019.61 was recorded between March 2021-November 2022 (($239.26) within the audit scope period). However, after reviewing the activity and circumstances surrounding this project, it has been determined that the transformer replaced was owned by ATSI and ATSI will retire the asset. The Cost of Removal will be reversed from the TECO project and charged to an ATSI work order to align with the retirement. Refer to the response to

[238] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[239] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[240] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[241] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

BRC Set 8-DR-39 for more information. The Companies will make an adjustment in a future Rider DCR filing to incorporate the cumulative revenue requirement impact.[242]

Blue Ridge recommended an adjustment regarding the reclassification of these charges to ATSI as discussed in testing step T1E.

8. TECO Work Order 17079576—DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV—$658,264.28
   a. Project scope Replace assets in response to storm
   b. The Companies indicated cost of removal in the amount of $303,269.17 was recorded between March 2021-November 2022 ($105,499.92 within the audit scope period). This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[243]

   As discussed in Testing Step T2a, it was determined that TECO's DCR was overstated, and an adjustment is recommended. [See Testing Step T2a.] Blue Ridge found, and the Companies agree, that the charges in TECO Work Order 17079576 should have been charged to ATSI. Blue Ridge recommends the charges be removed from TECO.

Blue Ridge found the Companies record retirements and adjust Cost of Removal estimates for manually unitized work orders at the time they are unitized rather than when the work orders are closed to FERC 106. This process is dependent on the timely unitization of the work orders. Therefore, at any given month-end, gross plant could be overstated, and the net plant understated. Blue Ridge is not recommending that the Companies change the process so that retirements are recorded when the work orders are closed, but Blue Ridge recommends that the Companies carefully monitor the work order backlog to ensure that manual work orders are unitized on a timely basis. In addition, Blue Ridge recommends that the next audit confirm that the actual retirements and/or cost of removal amounts were appropriately recorded and reflected in the DCR revenue requirements.

Blue Ridge found two work order with retirements that required follow-up.

1. CECO Work Order 14791367—Industrial Upgrade—$1,409,752.77
   a. In-Service Date: 10/2/20
   b. Retirement Data:
      i. Retirement Charges: $(627,220)
      ii. Retirement Quantity: (9,036)
      iii. Retirement Date: 7/1/22
   c. Companies' Explanation: The in-service date for this project is 10/2/2020
      This project was unitized in August 2022 and the retirements were posted as part of the unitization review process. The timing of the unitization was due to delays in getting the job closed out in CREWS, the work management system.

[242] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[243] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

This statement was to indicate that the new poles and 36kV primary conductor required by the customer were installed on schedule. There was additional work completed in 2019 to transfer the existing 5kV and secondary (120/240 volts) conductors on Babbitt Road to the new poles.

Cost of removal of $45,480.28 was recorded between July 2016 and October 2020, outside the scope of this audit period.[244]

Blue Ridge found and the Companies have agreed that there should be an adjustment due to the delayed retirements. Details are in Testing Step T5B.

2. OECO Work Order IF-OE-000166-1—OE - Mansfield Service Center B01 Rf01—$862,493.00
    a. In-Service Date: 3/14/2022
    b. Retirement Data:
        i. Retirement Charges: $(149,151)
        ii. Retirement Quantity; None
        iii. Retirement Date: 7/1/22
    c. Companies' Explanation: There was no associated quantity because this was a partial retirement of a larger roofing system asset that does not have a quantity associated with it.[245]

Blue Ridge found the Companies' response not unreasonable.

T8B: Was the date of retirement in line with the asset replacement date?

For the retirements that were recorded, Blue Ridge reviewed the retirement and cost of removal dates against the in-service dates and found seven of the 24 replacement work orders sampled had (1) retirements not yet unitized, (2) booked estimated COR as they were not yet unitized, or (3) retirement delays. The Companies did not record the estimated retirement and cost of removal in relationship to when the assets were placed in service. The Companies have a process that retirements are not recorded until the work order is unitized. In some instances, the estimated retirements and/or cost of removal were not recorded within the scope period of this audit.

In addition, the Companies' work order unitization backlog, the actual retirements, and/or cost of removal adjustments could be significantly delayed. The delays in recording estimates and the backlog are discussed in this report.

1. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O—$1,368,224.72
    a. In-service Date: 3/10/22
    b. Blue Ridge initial concern: assets were retired 120 days after project was in-service
    c. Retirement Data:
        i. Retirement Charges: $(181,700)

[244] FirstEnergy's response to 2022 Audit Data Request 08-DR-016.
[245] FirstEnergy's response to 2022 Audit Data Request 8-DR-032.

ii. Retirement Quantity: (1)
iii. Retirement Date: 7/1/22

d. Companies' Explanation: The retirements were recorded in July 2022 while being reviewed for unitization, which also occurred in July 2022. Final work order estimates, including details of asset retirements, aren't typically known/finalized at the time a work order is placed in service.
The work performed on this work order was a not a full replacement of the transformer, but rather a rewinding/refurbishment. All costs to refurbish the transformer were considered capital additions and no cost of removal was required. Retirements recorded in instances where the transformer was not replaced represent a partial retirement equivalent of the replacement amount.[246]

Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

2. CECO Work Order 17031647—Equip Investigate/Repair - Transformer O—$756,114.66
   a. In-Service Date: 3/10/22
   b. Blue Ridge initial concern: assets were retired 120 days after project was in-service
   c. Retirement Data:
      i. Retirement Charges: $(282,556)
      ii. Retirement Quantities: (1)
      iii. Retirement Date: 7/1/22
   d. Companies' Explanation: This work order was manually unitized (since not fed by a work management system) in July 2022 at which time the retirement was recorded. The details required to complete retirements and manual unitization of the appropriate assets are typically not known by the accounting team immediately following in-servicing.[247]

   Blue Ridge found the Companies' explanation not unreasonable.

3. OECO Work Order 13564107—OE SPARE 11/14 MVA 69KV 12.47 KV TRNSF—($662,738.53)
   TECO Work Order 16258499—Equip Investigate/Repair - Transformer O—$2,778,527.65
   a. In-Service Date: 8/20/21
   b. Blue Ridge initial concern: transfer of a transformer from OECO to TECO. This was done in August 2021 but retirement and COR were book for the TECO work order in December 2021
   c. Retirement Data:
      i. Retirement Charges: $(46,906)
      ii. Retirement Quantities: (2)
      iii. Retirement Date: 12/1/21

[246] FirstEnergy's response to 2022 Audit Data Request 8-DR-019.
[247] FirstEnergy's response to 2022 Audit Data Request 8-DR-022.

d. Companies' Explanation: The transformer purchased as a capital spare on OECO work order was purchased and placed in-service in 2013. As work was underway on TECO work order 16258499 at the Ironville Substation, it was determined that this spare transformer was needed, and a transfer was posted in PowerPlant from the original work order it was purchased under (OECO 13564107) to the current project underway (TECO 16258499). PowerPlan posts the transfer using the cost basis buckets as originally charged when the capital spare was purchased and in-serviced. The remaining charges to FERC 361.1 represent additional yard surfacing costs incurred on the Ironsville Sub project.[248]

Blue Ridge found the Companies' explanation not unreasonable.

4. OECO Work Order 16080601—Equip Investigate/Repair - Circuit Break—$751,889.22
   a. In-Service Date: 10/13/20
   b. Blue Ridge initial concern: assets were retired 120 days after project was in-serviced
   c. Retirement data:
      i. Retirement Charges: $(82,424)
      ii. Retirement Quantity: (1)
      iii. Retirement Date: 12/1/21

   Companies' Explanation: This work order was manually unitized (since not fed by a work management system) in December 2021 at which time the retirement was recorded. The details required to retire the appropriate assets were not available until the work order was reviewed for manual unitization.[249]

   Blue Ridge found the Companies explanation not unreasonable.

5. OECO Work Order 16471269—Bowman Sub transformer #1 repair—$509,128.72
   a. In-Service Date: 5/1/21
   b. Blue Ridge initial concern: looks like a retirement asset in-service in April 2022 and retirement in May 2022
   c. Retirement Data:
      i. Retirement Charges: $(29,551)
      ii. Retirement Quantity: None
      iii. Retirement Date: 4/1/22
   d. Companies' Explanation: The activity of ($27,950.21) is a retirement of ($29,550.83) and Additions of $1,600.62 due to the true-up of costs between Additions and Cost of Removal recorded in April 2022. This work order is not fed by a work management system and therefore the details required to retire the appropriate assets are manually gathered. In this case, the work order was identified in the 2021 DCR Audit (see Case No. 21-1038-EL-RDR, BRC Set 17-DR-003) as one requiring a retirement be recorded and as such, the retirement was recorded in the month the response was given to Blue Ridge.

[248] FirstEnergy's response to 2022 Audit Data Request 8-DR-006.
[249] FirstEnergy's response to 2022 Audit Data Request 8-DR-030.

See response BRC Set 1-DR-009 where the Companies incorporated the revenue requirement adjustment associated with Adjustment #22 from the DCR report in Case No. 21-1038-EL-RDR.[250]

Blue Ridge found the Companies' explanation not unreasonable.

6. TECO Work Order 16622904—Equip Investigate/Repair - Transformer O—$3,318,044.25
   a. In-Service Date: 4/18/22
   b. Retirement Data:
      i. Retirement Charges: $(157,241)
      ii. Retirement Quantities: (211)
      iii. Retirement Date: 12/1/21
   c. Companies' Explanation: This work order was manually unitized (since not fed by a work management system) in December 2021 at which time the retirement was recorded. The details required to retire the appropriate assets were not available until the work order was reviewed for manual unitization.
      See BRC Set 8-DR-038 Attachment 1 for the estimated DCR revenue requirement impact. Cost of Removal in the amount of $219,546.07 was recorded in November 2021 as part of the manual unitization review process, which is outside the audit scope period.[251]

Blue Ridge found the Companies explanation not unreasonable.

T8C: Is the amount of the retired asset not unreasonable?

Retired assets are based on the original cost of the asset retired. Four of the 24 replacement work orders / projects had neither retirement nor cost of removal charges. Blue Ridge requested additional information and found that because these work orders / projects were not fed by a work management system, manual intervention was required. The recording of retirements and cost of removal are timing issues and Blue Ridge is not recommending adjustments to the DCR revenue requirements.

1. CECO Work Order 16348385—Equip Investigate/Repair - Miscellaneous—$458,438.87
   a. Type: Replacement
   b. In-Service Date: 11/1/22
   c. Total Cost: $2,490,223.59
   d. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated, and retirements recorded at the time of unitization.[252] The details required

[250] FirstEnergy's response to 2022 Audit Data Request 8-DR-031.
[251] FirstEnergy's response to 2022 Audit Data Request 8-DR-038.
[252] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

to complete retirements and manual unitization of the appropriate assets are typically not known by the accounting team immediately following in-servicing.[253]

2. CECO Work Order 16629298—PID 105998 E Cleve Euclid Ave CEI UG—$696,954.45
   a. Type: Replacement
   b. In-Service Date: 1/24/22
   c. Total Cost: $1,309,995.49
   d. The Companies indicated cost of removal in the amount of $6,503.46 was recorded between August 2020-November 2020, outside of the audit scope period. This work order is not yet unitized and will be manually unitized (since not fed by a work management system). The related retirements will be recorded at the time of unitization.[254]
3. CECO Work Order 17099542—Oil Sample On Demand – Trans LTC—$233,546.89
   a. Type: Replacement
   b. In-Service Date: 4/1/22
   c. Total Cost: $2,565,736.10
   d. The Companies indicated this work order is not yet unitized and will be manually unitized (since not fed by a work management system). The removal estimate will be updated and retirements recorded at the time of unitization.[255]
4. CECO Work Order CE-000172-S-1—Total Substation—$0.00
   a. Type: Replacement
   b. In-Service Date: 4/12/10
   c. Total Cost $0.00
   d. The Companies indicated the only activity related to this work order during the audit scope period was the transfer of a spare transformer originally purchased on this work order and utilized on work order 17031647 for the Lark Substation. When transfers are recorded, the original purchasing work order is used on the "transfer from" side of the transaction for record keeping purposes. This work order would more appropriately have been classified as "Other" in BRC Set 1-DR-002 – Attachment 1 (work order activity) than "Replacement".

   Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

Several of the work orders within the scope period of January 1, 2022, through December 31, 2022, did not have retirements and/or Cost of Removal recorded. The Companies' process is that they do not record retirements when the work orders are placed in service, which means transferred from FERC 107 (CWIP) to FERC 106 (CCNC). The retirements and COR are recorded when the work order is unitized, which means transferred from FERC 106 to FERC 101. Therefore, the timing of

[253] FirstEnergy's response to 2022 Audit Data Request 15-DR-002.
[254] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[255] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.

when the projects are added to plant versus when the retirements and COR are recorded creates an overstatement of plant at any given time.

For purposes of the DCR, that overstatement would be when work orders are in service and not unitized within the same calendar year or DCR scope period. This process makes the timely unitization of work orders more critical. To the extent retirements are delayed, Utility Plant is overstated, which creates an over accrual of Depreciation. This process also brings to the forefront the importance of maintaining a current work order backlog and not allowing work orders to linger waiting to be unitized.

This appears to be a procedural issue as to when retirements are recorded on manually unitized work orders. To more accurately reflect net plant balances, Blue Ridge recommends that the Companies record estimated retirements for those work orders that will be manually unitized when they are placed in service. The estimated retirement can be trued up to actual when the work order is manually unitized.

T8D: Was salvage recorded?

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. Salvage is applied to the work order, using cost element 650974—Sale of Property-Proceeds, and amounts in this cost element settle 100% to GL108 for both blanket and specific work order projects.[256]

Blue Ridge found the Companies' process not unreasonable.

T8E: Was cost of removal charged? Is the amount not unreasonable?

For specific work orders, all costs charged to the work order are derived from CWIP/RWIP/Expense based on the current work order estimate in PowerPlan. Charges to the work orders are grouped by charge type (Material, Labor, Equipment, Contractor, and CIAC) and settled to construction work and process, cost of removal, or expense based on the work order estimate. These estimates are either sent by a work management system like CREWS or are manually entered by the work order creator. At completion of the work, an as-built is entered to reflect how the work was completed in the field. Blanket work orders have a settlement rule that does not change and is set based on the type of work.[257]

Blue Ridge found the process for specific work order not unreasonable.

Four work order had cost of removal that required further explanation:

1. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O—$1,149,500.67.
    a. The Companies indicated that the cost of removal in the amount of $120,019.61 was recorded between March 2021 November 2022 (($239.26) within the audit scope period). However, after reviewing the activity and circumstances

[256] FirstEnergy's response to audit scope 2019 Data Request 06-INT-001.
[257] FirstEnergy's response to audit scope 2019 Data Request 06-INT-001.

surrounding this project, it has been determined that the transformer replaced was owned by ATSI and ATSI will retire the asset. The Cost of Removal will be reversed from the TECO project and charged to an ATSI work order to align with the retirement. Refer to the response to BRC Set 8-DR-39 for more information. The Companies will make an adjustment in a future Rider DCR filing to incorporate the cumulative revenue requirement impact.[258]

Blue Ridge found and the Companies agreed that the DCR is overstated. Therefore, as of the end of the scope period the DCR is overstated by $120,019.61. Blue Ridge recommends and the company agrees that the cost of removal will be removed from the DCR. The adjustment can be found in Testing Step T1E of this report.

- In-Service 1/20/22
- Gross Plant in 2022: $1,149,501
- Gross Plant Prior to 2022: $171,228
- Cost of Removal: $120,020
- Cost of removal in 2022: ($239) (Salvage of $2,030)
- Depreciation (FERC 362)
- Reserve

2. CECO Work Order 15777764—Equip Investigate/Repair - Transformer O
   a. Total Cost: $2,565,736.10
   b. 2022 Activity: ($64,342.51)
   c. In-Service Date: 9/1/20
   d. Companies' Explanation: No cost of removal had been recorded on this project due to the original estimate, this was trued up at unitization. The original construction costs were recorded between December 2018-September 2020.[259]

   Blue Ridge found the Companies explanation not unreasonable. However, Blue Ridge recommended an adjustment regarding the reclassification of these charges to ATSI as discussed in testing step T1E.

3. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O—$1,368,224.72
   a. Cost of Removal Recorded: No COR
   b. Companies' Explanation: This work order was manually unitized (since not fed by a work management system) in July 2022 at which time the retirement was recorded. The details required to complete retirements and manual unitization of the appropriate assets are typically not known by the accounting team immediately following in-servicing.[260]

[258] FirstEnergy's response to 2022 Audit Data Request 08-DR-020.
[259] FirstEnergy's response to 2022 Audit Data Request 08-DR-018.
[260] FirstEnergy's response to 2022 Audit Data Request 08-DR-022.

Blue Ridge found the Companies' explanation not unreasonable. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

T9: Field Verification

T9A: Is the project a candidate for field verification?

Field Inspections

Blue Ridge selected 14 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. Blue Ridge selected the work orders / projects based on whether the assets could be physically seen and whether they were installed within the scope period of this review. Blue Ridge's engineer, with assistance from FirstEnergy representatives, conducted "desk-top" field verifications on April 4 and 6, 2023. The Companies provided Blue Ridge with information for each work order / project, including schematics, one-line diagrams, project justification statements, photographs, and other detailed information of the installed assets. Blue Ridge included the completed review and supporting documentation as workpapers with this report.

Blue Ridge inspected these projects:

1. CECO Work Order 16348385—Equip Investigate/Repair - Miscellaneous—$2,490,223.59
   a. In-Service Date: 11/1/22
   b. FERC Accounts: 36200
   c. Type: Addition
   d. 2022 Activity: $458,438.87
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[261]	Cost[262]
Labor	$87,088	$86,958
Contractor	$129,570	$128,751
Material	$59,218	$59,218
Other Direct Costs	$15,884	$389
Total	$291,761	$275,316

   Blue Ridge found that the work order is prudent and used and useful.

2. CECO Work Order 16527415—Equip Investigate/Repair - Transformer O—$1,368,224.72
   a. In-Service Date: 113/10/22
   b. FERC Accounts: 36200
   c. Type: Replacement
   d. 2022 Activity: $1,225,570.10

[261] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[262] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[263]	Cost[264]
	$119,744	$119,744
ctor	$647,872	$647,872
al	$23,714	$10,092
Direct Costs	$720	$2,526
	$792,050	$780,234

Blue Ridge found that the work order is prudent and used and useful. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

3. CECO Work Order 17031647—Equip Investigate/Repair - Transformer O—$756,114.66
   a. In-Service Date: 113/10/22
   b. FERC Accounts: 36200
   c. Type: Replacement
   d. 2022 Activity: $880,788.76
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[265]	Cost[266]
Labor	$275,001	$314,625
Contractor	$78,314	$93,887
Material	$419,742	$13,180
Other Direct Costs	$31,068	$23,105
Total	$804,125	$444,797

Blue Ridge found that the work order is prudent and used and useful. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

4. OECO Work Order 14864962—Equip Investigate / Repair - Regulator—$689,496.37
   a. In-Service Date: 113/14/22
   b. FERC Accounts: 36200
   c. Type: Addition
   d. 2022 Activity: $664,226.70
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[267]	Cost[268]

[263] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[264] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[265] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[266] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[267] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[268] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

Labor	$115,083	$127,196
Contractor	$1,616	$1,786
Material	$243,628	$218,879
Other Direct Costs	$23,897	$10,331
Total	$384,223	$358,192

Blue Ridge found that the work order is prudent and used and useful. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B.

5. OECO Work Order 15298831—Akron Main Street Rehabilitation—$24,585,996.19
   a. In-Service Date: 112/1/22
   b. FERC Accounts: 36700
   c. Type: Addition
   d. 2022 Activity: $9,122,736.27
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[269]	Cost[270]
Labor	$147,362	$147,362
Contractor	$3,819,683	$3,819,693
Material	$122,989	$112,298
Other Direct Costs	$22,002	$14,354
Total	$4,112,035	$4,093,707

Blue Ridge found that the work order is prudent and used and useful.

6. OECO Work Order 16057717—INSTALL MH 3-D—$24,585,996.19
   a. In-Service Date: 112/23/22
   b. FERC Accounts: 36700
   c. Type: Addition
   d. 2022 Activity: $1,615,603.82
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[271]	Cost[272]
Labor	$649,442	$649,442
Contractor	$13,504	$13,504
Material	$367,160	$283,204
Other Direct Costs	$21,240	$7,664
Total	$1,051,346	$953,814

Blue Ridge found that the work order is prudent and used and useful.

[269] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[270] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[271] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[272] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

7. OECO Work Order 16646068—Equip Investigate/Repair - Miscellaneous—$624,309.52
   a. In-Service Date: 1110/26/22
   b. FERC Accounts: 36200
   c. Type: Addition
   d. 2022 Activity: $906,766.51
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[273]	Cost[274]
Labor	$207,234	$76,521
Contractor	$158,803	$3,898
Material	$67,496	$1,330
Other Direct Costs	$89,574	$19,425
Total	$523,108	$101,174

   Blue Ridge found that the work order is prudent and used and useful.

8. OECO Work Order 16759481—OE- Greenfield Substation- Breaker Failu—$275,607.88
   a. In-Service Date: 1111/28/22
   b. FERC Accounts: 36200
   c. Type: Addition
   d. 2022 Activity: $263,806.43
   e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[275]	Cost[276]
Labor	$37,706	$40,063
Contractor	$55,121	$58,566
Material	$52,112	$52,112
Other Direct Costs	$4,910	$1,373
Total	$149,849	$152,114

   Blue Ridge found that the work order is prudent and used and useful.

9. OECO Work Order 16995176—Perm repairs to 4 Chestnut CKTs & Duct—$464,235.59
   a. In-Service Date: 1110/27/22
   b. FERC Accounts: 36700
   c. Type: Addition
   d. 2022 Activity: $414,001.45
   e. Direct Cost (not including Overheads AFUDC, other):

[273] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[274] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[275] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[276] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

Direct Costs	Costs[277]	Cost[278]
Labor	$96,800	$495,619
Contractor	$72,739	$48,081
Material	$73,813	$233,390
Other Direct Costs	$5,249	$136
Total	$248,601	$777,226

Blue Ridge found that the work order is prudent and used and useful. However, the Companies have agreed that there should be an AFUDC adjustment. Details are in Testing Step T5B. In addition, the Companies filed a claim with the contractor for $419,874.61 on January 12, 2023.[279] Since January 2023 is out of scope for this audit, Blue Ridge recommends that the claim be reviewed in the next DCR audit.

10. OECO Work Order IF-OE-000166-1—OE - Mansfield Service Center B01 Rf01—$862,493.00
    a. In-Service Date: 113/14/2022
    b. FERC Accounts: 39000
    c. Type: Roof Replacement
    d. 2022 Activity: $1,503,546.71
    e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[280]	Cost[281]
Labor	$568	$568
Contractor	$807,615	$853,454
Material	$447	$448
Other Direct Costs	$68	$68
Total	$808,697	$854,538

Blue Ridge found that the work order is prudent and used and useful.

11. TECO Work Order 16258499—Equip Investigate/Repair - Transformer O—$2,778,527.65

    In Case No. 21-1038-EL-RDR Blue Ridge found that the work order is prudent and used and useful.

12. TECO Work Order 16898512—Equip Investigate/Repair - Transformer O—$1,320,728.76
    a. In-Service Date: 11/20/22
    b. FERC Accounts: 36200
    c. Type: Addition

[277] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[278] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[279] First Energy's response to audit scope 2022 Data Request 16-DR-001.
[280] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[281] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

d. 2022 Activity: $1,149,500.67
e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[282]	Cost[283]
Labor	$239,607	$266,230
Contractor	$351,883	$390,981
Material	$41,788	$41,367
Other Direct Costs	$2,519	$13,009
Total	$635,797	$711,587

Blue Ridge found that the work order is prudent and used and useful. However, Blue Ridge recommended an adjustment regarding the reclassification of these charges to ATSI as discussed in testing step T1E.

13. TECO Work Order 17007080—LUC-Brint/Kilburn Roundabout—$581,747.10
    a. In-Service Date: 117/19/22
    b. FERC Accounts: Various
    c. Type: Replacement
    d. 2022 Activity: $416,556.61
    e. Direct Cost (not including Overheads AFUDC, other):

Direct Costs	Costs[284]	Cost[285]
Labor	$31,936	$39,400
Contractor	$197,121	$243,187
Material	$40,051	$34,345
Other Direct Costs	$11,502	$128
Total	$280,610	$317,060

Blue Ridge found that the work order is prudent and used and useful.

14. TECO Work Order 17079576—DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV—$1,475,345.46

Blue Ridge found that the work order is prudent and used and useful. However, as discussed in Testing Step T2a, Blue Ridge found, and the Companies agree, that the charges in TECO Work Order 17079576 should have been charged to ATSI. Blue Ridge recommends the charges be removed from TECO. [See details in Testing Step T2a]

The assets of all 14 projects selected for field verification were confirmed to be used and useful.

Work Order Backlog

Blue Ridge found that the Companies increased the number of backlogged work orders over 15 months old by 16%. Most of the work orders are distribution (89%) and individually would not be

[282] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[283] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.
[284] FirstEnergy's response to audit scope 2022 Data Request 02-DR-001, Attachment 2.
[285] FirstEnergy's response to audit scope 2022 Data Request 09-DR-001.

material to the accumulated reserve for depreciation on an aggregate basis; however, the distribution work orders in the over-15-month backlog total $32,072,643, which remains significant. Blue Ridge is unable to quantify the potential impact on the accumulated reserve for depreciation.

Table 35: Backlog over 15 Months of Work Order Unitization[286]

Description	Unitization Backlog	Unitization Backlog $
as of 12/31/18	1,403	$14,122,115
as of 12/31/19	3,308	$42,355,007
as of 12/31/20	2,347	$35,902,687
as of 12/31/21	3,115	$31,926,531
as of 12/31/22	3,724	$38,585,946

In general, a backlog could create problems with recording the replacement of assets that are still in the backlog and have not been unitized. A delay in recording retirements will overstate depreciation expense. Where assets are being replaced, not unitizing the retiring assets will delay the unitization of the replacement assets, thus increasing the backlog. The backlog can have an impact on the depreciation reserve as depreciation studies are performed. To the extent the reserve is not properly stated, the actual reserve balance that is used in a depreciation study would also be misstated. Blue Ridge found that the delayed unitization resulted in retirements and/or Cost of Removal not being appropriately reflected in the Rider DCR (as evident in the findings of work order testing step T8B above).

In the case of FirstEnergy manually unitized work orders, timely unitization is more critical because the Companies do not record retirements on replacement work orders when the work order is placed in service. Retirements are recorded when the work order is manually unitized.[287]

Prior audits have recommended that the Companies continue to make a concerted effort to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level, and concentrate that effort on the larger replacement work orders that require manual unitization. In response, the Companies in 2022 focused on working on a PowerPlan upgrade project that was applied in November 2022. This upgrade will allow the Companies to auto-unitize work orders. Although the unitization backlog increased from 2021, as shown in the responses to BRC Set 1 DR-034 and BRC Set 1 DR-035, the Companies expect that the upgrade to PowerPlan will assist in the reduction of the backlog going forward. While Blue Ridge expects the Companies' PowerPlan upgrade to be successful, subsequent audits will reveal whether the PowerPlan upgrade does, indeed, reduce work order backlog.

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

[286] FirstEnergy's response to audit scope 2022 Data Request 01-DR-034 and 01-DR-035.
[287] FirstEnergy's response to audit scope 2022 Data Request 15-DR-001.

for the Companies from December 1, 2021, through November 30, 2022. There are also no insurance recoveries pending for the Companies.[288]

Conclusion—Gross Plant in Service

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 subsection of this report.

ACCUMULATED RESERVE FOR DEPRECIATION

- 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 36: Incremental Change in Reserve for Depreciation from 11/30/21 to 11/30/22[289]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ (1,605,276,827)	$ (1,635,803,248)	$ (30,526,421)
Ohio Edison Company	(1,682,152,579)	(1,726,281,082)	(44,128,503)
The Toledo Edison Company	(728,974,628)	(737,127,121)	(8,152,493)
Total	**$ (4,016,404,035)**	**$ (4,099,211,452)**	**$ (82,807,417)**

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. No exceptions were noted.[290]

Source Data Validation

Blue Ridge traced the values used for the actual November 30, 2022, and estimated February 28, 2023, reserve balances to the source documentation. The actual and estimated balances reconciled to the supporting documents.

[288] FirstEnergy's response to audit scope 2022 Data Request 01-DR-022 and -023.
[289] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[290] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.

Impact of Change in Pension Accounting

In similar treatment as to the Gross Plant schedules, the Companies modified the reserve balances 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 the Companies replace assets, they retire the existing assets. Gross plant in service and the depreciation reserve are reduced to reflect that the assets are no longer in service on the books of the Companies. When assets are replaced, the Companies incur cost of removal and, in some cases, receive salvage for the old assets. Thus, the reserve has three components: (1) accumulated depreciation, (2) cost of removal, and (3) salvage. Cost of removal represents the cost of dismantling, demolishing, tearing down, or otherwise removing retired utility plant. Salvage represents the amount received for property retired.

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

Of the 47 sampled work orders Blue Ridge obtained as part of the validation testing, 24 work orders were for replacement work, including blanket and project work orders. The Companies provided the cost of the new assets, retirement data, cost of removal, and, if appropriate, salvage for each work order from the PowerPlan 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.

Conclusion—Accumulated Reserve for Depreciation

As discussed in testing steps T1 through T9 above, Blue Ridge found adjustments that should be made to the reserve balances to ensure that net plant is appropriately reflected in the DCR. The impacts of these findings are discussed in this report's subsection Overall Impact of Findings on Rider DCR Revenue Requirements.

ACCUMULATED DEFERRED INCOME TAXES

- Determine if the Companies' recovery of the incremental accumulated deferred income taxes (ADIT) is 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.

Table 37: Incremental Change in ADIT from 11/30/21 to 11/30/22[291]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ (447,695,281)	$ (442,794,107)	$ 4,901,175
Ohio Edison Company	(534,272,702)	(535,383,214)	(1,110,512)
The Toledo Edison Company	(137,439,941)	(139,225,996)	(1,786,055)
Total	**$ (1,119,407,925)**	**$ (1,117,403,317)**	**$ 2,004,608**

The standard ADIT schedules include the FERC 281 and 282 Property Accounts. The Companies' ADIT includes the allocated portion of the ADIT attributed to the Service Company.

Requirement to Reflect ADIT in Rider DCR

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO provide the requirement to reflect Accumulated Deferred Income Taxes (ADIT) within Rider DCR. The Combined Stipulation includes this direction in Section B.2:

> 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[292] (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.[293]

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. No exceptions were noted.[294]

Source Data Validation

The book-tax differences supporting the Companies' and Service Company's ADIT balances (not including excess deferred income taxes) reconciled to the values reflected in the revenue requirement calculation.

The Companies provided a list of the items included in ADIT for each distribution company and the Service Company.[295] Blue Ridge found the majority of dollars included in ADIT based on temporary differences associated with (1) book and tax depreciation, (2) Section 263A overheads and indirect costs that are required to be expensed for book purposes but capitalized for tax purposes, and (3) repairs that, for book purposes, are capitalized and depreciated over the life of the

[291] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[292] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
[293] Blue Ridge's Compliance Audit of the 2011 Delivery Capital Recovery (DCR) Rider, submitted April 12, 2012, page 52.
[294] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[295] FirstEnergy's response to audit scope 2022 Data Request 01-INT-001, Attachment 004 (Confidential).

asset and, for tax purposes, are allowed to be deducted as repairs. The Companies excluded deferred taxes in CWIP, ADIT associated with future use and non-utility property, ATSI land leases, capital lease vehicles, and Smart Meters/Grid/Software. The Companies also exclude the ADIT associated with Pension Restatement (cumulative 2006). In prior audits, the Companies provided explanations for the items that were not clearly identified as being related to plant in service or were not readily apparent that they should be included in the DCR.[296] Similar items were included in this year's filings. Blue Ridge found that the Companies' explanations regarding how each of the items was related to plant in service or should otherwise be included in the DCR to be not unreasonable.

With respect to the normalized and non-normalized property-related EDIT balances included in total ADIT, the Companies did not adopt Blue Ridge's recommended adjustments from the audit in Case No. 19-1887-EL-RDR. In response to Blue Ridge's finding that the reflected values did not tie as expected to the approved Stipulation in Case No. 19-1887-EL-RDR, the Companies countered:

> Blue Ridge's misunderstanding of the Stipulation fails to recognize that the Stipulation plainly labels all of the balances reflected therein as "illustrative." While those balances were based upon the Companies' financial reporting for 2017, but were subject to adjustment and therefore were not final. These preliminary balances were used in the Stipulation because they were the best available balances at that time, and they were labeled as "illustrative" in recognition that they were not the actual final balances.[297]

At this time, Blue Ridge maintains its finding and recommendation from the prior audit because (1) the other Parties to the Stipulation filed comments objecting to the Companies' claim that the specified balances were intended to be "illustrative" and (2) the PUCO has not yet rendered a decision. To reconcile to the total property-related EDIT balances reflected in the Stipulation, Blue Ridge recommends the following ending balances, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2022, and February 28, 2023. Different from Case Nos. 19-1887-EL-RDR and 20-1629-EL-RDR, the recommended non-normalized property EDIT balances are computed based on the amortization the Companies are recording in their financial records on an actual basis, as opposed to the pro forma amortization Blue Ridge initially recommended.

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[296] FirstEnergy's response to audit scope 2018 Data Requests 08-INT-002, 13-INT-005 (Confidential), 08-INT-003 (Confidential), 13-INT-006 (Confidential), and 08-INT-004 (Confidential).
[297] Comments of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company in Case No. 19-1887-EL-RDR, dated 7/27/2020, page 2.

Table 38: Recommended Adjustments to Total ADIT in Rider DCR

Description	CEI	OE	TE	Total
Normalized Property EDIT - 11/30/22 and 02/28/23 (As Filed)	$ 138,603,679	$ 148,975,974	$ 42,541,350	$ 330,121,003
Normalized Property EDIT - BRC-Recommended	$ 143,769,758	$ 152,187,557	$ 42,970,005	$ 338,927,321
Difference	$ 5,166,079	$ 3,211,583	$ 428,656	$ 8,806,318
Non-Normalized Property EDIT - 11/30/22 (As Filed)	$ 33,111,012	$ 40,395,520	$ 10,474,148	$ 83,980,680
Non-Normalized Property EDIT - BRC-Recommended	$ 37,205,418	$ 55,142,166	$ 12,199,290	$ 104,546,874
Difference	$ 4,094,407	$ 14,746,646	$ 1,725,142	$ 20,566,195
Non-Normalized Property EDIT - 02/28/23 (As Filed)	$ 31,484,566	$ 38,400,296	$ 9,961,694	$ 79,846,557
Non-Normalized Property EDIT - BRC-Recommended	$ 35,578,973	$ 53,146,942	$ 11,686,837	$ 100,412,752
Difference	$ 4,094,407	$ 14,746,646	$ 1,725,142	$ 20,566,195
Adjustment to Total ADIT - Actual 11/30/22	$ 9,260,486	$ 17,958,229	$ 2,153,798	$ 29,372,513
Adjustment to Total ADIT - Estimated 02/28/23	$ 9,260,486	$ 17,958,229	$ 2,153,798	$ 29,372,513

Conclusion—Accumulated Deferred Income Taxes

In Case No. 19-1887-EL-RDR, Blue Ridge found that the total ADIT offset in rate base did not appropriately reflect the EDIT balances resulting from the Tax Cuts and Jobs Act of 2017 (TCJA), as ordered in Case No. 18-1604-EL-UNC. The Companies' disagreed with the finding and the PUCO has since issued an Order accepting Blue Ridge's recommendation.

Apart from the EDIT balances, Blue Ridge found the standard ADIT items, resulting from typical book tax differences, are consistent with prior filings, are related to plant in service, and are not unreasonable.[298]

Depreciation Expense

- Determine if the Companies' recovery of the incremental depreciation expense is 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 39: Incremental Change in Depreciation Expense from 11/30/20 to 11/30/21[299]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 110,809,899	$ 112,678,312	$ 1,868,413
Ohio Edison Company	116,145,650	119,775,011	3,629,361
The Toledo Edison Company	42,461,760	42,977,002	515,242
Total	**$ 269,417,308**	**$ 275,430,325**	**$ 6,013,017**

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

[298] FirstEnergy's response to audit scope 2021 Data Request BRC Set 24-DR-001.
[299] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.

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

Mathematical Verification

The Companies stated the methodology to calculate depreciation expense for OE, CEI, and TE was approved in Case No. 07-551-EL-AIR and must continue to be used in Rider DCR in order to properly calculate incremental depreciation expense. For the Service Company, the Companies did not have an approved methodology for calculating depreciation expense. The Companies created the Service Company depreciation expense schedules for Rider DCR based on net plant in service, which has consistently been used in all Rider DCR filings since inception.[300]

Blue Ridge found that the calculation of depreciation expense was consistent with the methodology used in the last distribution rate case. Blue Ridge verified the mathematical accuracy of the depreciation expense calculations and found them not unreasonable.

The Rider DCR uses gross plant-in-service balances consistent with the last distribution rate case 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 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.[301]

Source Data Validation

The depreciation accrual rates used in the Rider DCR are based upon balances as of May 31, 2007. 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, issued on January 21, 2009, directed the Companies to use the accrual rates proposed by the Staff.[302]

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.[303] The accrual rates used by CE were not unreasonable.

Conclusion—Depreciation Expense

Blue Ridge found that the calculation of depreciation expense was consistent with the methodology used in the last distribution rate case.

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 provided the updated study to the Commission Staff on June 1, 2015.[304] Since the last depreciation

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[300] FirstEnergy's response to audit scope 2017 Data Request 11-INT-012.
[301] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[302] FirstEnergy's response to audit scope 2018 Data Request 01-INT-022.
[303] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[304] FirstEnergy's response to audit scope 2015 Data Request 01-INT-012 (Confidential).

study was based on balances from eight years ago, Blue Ridge had recommended in the DCR year 2018 audit that the Companies perform a depreciation study. As stipulated in Case No. 16-381-EL-UNC, FirstEnergy has agreed to perform a Depreciation Study by June 30, 2023. The Commission has approved the Stipulation in that case.

PROPERTY TAX EXPENSE

- 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 40: Incremental Change in Property Tax Expense from 11/30/21 to 11/30/22[305]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 125,581,907	$ 126,736,887	$ 1,154,980
Ohio Edison Company	103,970,727	108,444,430	4,473,703
The Toledo Edison Company	34,736,286	34,714,120	(22,167)
Total	**$ 264,288,921**	**$ 269,895,437**	**$ 5,606,517**

The Actual and Estimated Schedules C-3.10 support the incremental calculation of personal and real property taxes based upon the gross plant for the three operating companies. A separate schedule supports the property tax associated with the Service Company plant in service.

Mathematical Verification

Blue Ridge performed mathematical checks on the calculations and validated that the calculation to roll the computed property taxes forward to the revenue requirement performed correctly. No exceptions were noted.[306]

Source Data Validation

Property tax rates were calculated using the most recent (2022) Ohio Annual Property Tax Return filings and the State of Ohio Assessment.[307] The actual property tax rates were applied to the estimated plant balances to determine the estimated property taxes. The change in property tax rates from 2021 to 2022 did not appear unreasonable, as shown in the following table.

[305] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[306] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[307] FirstEnergy's response to audit scope 2022 Data Request 01-DR-1, Attachment 6 (Confidential).

Table 41: Property Tax Rates 2021 and 2022

Description	CE	OE	TE
2021 Property Tax Rates	1.91%	0.90%	1.12%
2022 Property Tax Rates	1.86%	0.91%	1.11%
Difference 2022-2021	-0.05%	0.01%	-0.01%
% change	-2.64%	0.99%	-0.71%

Conclusion—Property Tax Expense

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 the appropriate amount of property tax is included within the DCR.

SERVICE COMPANY

- 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 Service Company incremental plant in service, accumulated reserve, ADIT, depreciation expense, and property tax expense for each company.

Table 42: Change in Service Company Rate Base and Expense from 11/30/21 to 11/30/22[308]

Description	CEI	OE	TE	Total
Actual 11/30/22				
Gross Plant	$ 133,777,224	$ 162,114,272	$ 71,360,405	$ 367,251,901
Reserve	83,709,701	101,441,313	44,653,028	229,804,042
ADIT	5,172,897	6,268,634	2,759,364	14,200,895
Rate Base	**$ 44,894,626**	**$ 54,404,325**	**$ 23,948,013**	**$ 123,246,964**
Depreciation Expense	$ 4,620,952	$ 5,599,775	$ 2,464,942	$ 12,685,669
Property Tax Expense	77,195	93,546	41,178	211,918
Total Expenses	**$ 4,698,147**	**$ 5,693,321**	**$ 2,506,119**	**$ 12,897,587**
Actual 11/30/21				
Gross Plant	$ 129,367,378	$ 156,770,320	$ 69,008,074	$ 355,145,772
Reserve	77,840,329	94,328,675	41,522,146	213,691,150
ADIT	2,611,445	3,164,608	1,393,016	7,169,068
Rate Base	**$ 48,915,604**	**$ 59,277,037**	**$ 26,092,912**	**$ 134,285,553**
Depreciation Expense	$ 4,640,928	$ 5,623,982	$ 2,475,597	$ 12,740,507
Property Tax Expense	81,884	99,229	43,679	224,792
Total Expenses	**$ 4,722,812**	**$ 5,723,211**	**$ 2,519,276**	**$ 12,965,299**
Incremental				
Gross Plant	$ 4,409,846	$ 5,343,951	$ 2,352,332	$ 12,106,129
Reserve	5,869,372	7,112,638	3,130,882	16,112,892
ADIT	2,561,452	3,104,026	1,366,348	7,031,827
Rate Base	**$ (4,020,978)**	**$ (4,872,712)**	**$ (2,144,899)**	**$ (11,038,590)**
Depreciation Expense	$ (19,976)	$ (24,207)	$ (10,656)	$ (54,838)
Property Tax Expense	(4,690)	(5,683)	(2,502)	(12,874)
Total Expenses	**$ (24,665)**	**$ (29,890)**	**$ (13,157)**	**$ (67,712)**

The DCR Compliance Filings include actual November 30, 2022, and estimated February 28, 2023, schedules that present Service Company general and intangible gross plant, reserve, ADIT, and incremental depreciation and property tax expense that are then allocated to the Companies based upon the allocation factors agreed to within the Combined Stipulation.

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 Nos. 12-1230-EL-SSO[309] and 14-1297-EL-SSO[310]) provide the authority for the Service Company allocation factors used within Rider DCR. The Combined Stipulation includes this direction in Section B.2:

> 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[311] (emphasis added).

308 WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
309 Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11.
310 Case No. 14-1297-EL-SSO Commission Opinion and Order, March 31, 2016, page 119.
311 Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.

The following allocation factors were used in Case No. 07-551-EL-AIR[312] and were appropriately used in accordance with the Combined Stipulation to allocate Service Company costs in Rider DCR:

Table 43: 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.[313]

Source Data Validation

The actual November 30, 2022, and estimated February 28, 2023, general and intangible gross plant balances, reserve, and ADIT were reconciled to their source documentation.[314]

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 subsection 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—Service Company

Blue Ridge found nothing that would indicate that Service Company costs included within Rider DCR are unreasonable.

COMMERCIAL ACTIVITY TAX AND INCOME TAXES

- 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.
- 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) for each company. The CAT is calculated based on the statutory 0.26 percent.

[312] FirstEnergy response to audit scope 2011 Data Request 10-INT-010 and 10-INT-011.
[313] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.
[314] WP V&V – FE DCR Compliance Filing 1.9.2023 – Confidential.

Table 44: Incremental Change in CAT from 11/30/21 to 11/30/22[315]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 417,293	$ 429,572	$ 12,279
Ohio Edison Company	428,462	463,119	34,657
The Toledo Edison Company	102,931	104,432	1,501
Total	**$ 948,686**	**$ 997,123**	**$ 48,437**

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

Table 45: Incremental Change in Income Tax from 11/30/21 to 11/30/22[316]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 7,311,916	$ 7,566,488	$ 254,571
Ohio Edison Company	9,409,178	10,180,151	770,973
The Toledo Edison Company	1,022,478	1,037,755	15,276
Total	**$ 17,743,573**	**$ 18,784,393**	**$ 1,040,820**

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 Nos. 12-1230-EL-SSO[317] and 14-1297-EL-SSO[318]) provide the authority for the recovery of income taxes and commercial activity tax within Rider DCR. The Combined Stipulation includes this direction in Section B.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[319] (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.[320] No exceptions were noted.

[315] WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
[316] WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
[317] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11.
[318] Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10–11, and Case No. 14-1297-SSO Commission Opinion and Order, March 31, 2016.
[319] Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 13.
[320] WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.

Source Data Validation

FirstEnergy appropriately applied the CAT rate of 0.26% to gross receipts calculated within the Compliance Filings.

The following table shows the composite income tax rates used in the Companies' filings. The composite tax rates should reflect the effective tax rate for federal income tax and the Ohio and municipalities' tax rates as of December 31, 2022. Blue Ridge validated that the 2022 rates reflected in the revenue requirement matched the rates in the Companies' tax provision system.[321] The 2022 composite income tax rates are not unreasonable. The rates were applied to equity return component of the DCR revenue requirement for the actual measurement period.

Table 46: Effective Income Tax Rates Reflected in Companies' Filings for 2022 and 2023[322]

Description	CEI	OE	TE
2022 Effective Income Tax Rates			
Local Effective Tax Rate	1.99%	1.58%	1.66%
Federal Income Tax Rate	21.00%	21.00%	21.00%
2022 Effective Income Tax Rate	22.58%	22.25%	22.31%
2023 Effective Income Tax Rates			
Local Effective Tax Rate	1.99%	1.58%	1.66%
Federal Income Tax Rate	21.00%	21.00%	21.00%
2023 Effective Income Tax Rate	22.58%	22.25%	22.31%
Difference	*0.00%*	*0.00%*	*0.00%*

Conclusion—Commercial Activity Tax and Income Taxes

Blue Ridge found that the CAT and income tax expense were calculated consistently with prior filings and are not unreasonable. Any adjustments discussed in other subsections of this report will impact the final CAT and income tax included within the Rider DCR.

TAX CUTS AND JOBS ACT EFFECT

- Determine if the Companies' implementation of the Tax Cuts and Jobs Act of 2017, is consistent with what was approved by the Commission on July 17, 2019, in Case No. 18-1656-EL-ATA.

In Case No. 17-2009-EL-RDR, Blue Ridge expressed concerns regarding the Companies' treatment of excess deferred income taxes (EDIT) arising from the Tax Cuts and Jobs Acts (TCJA) of 2017. Blue Ridge recommended that (1) the amount by which the ADIT balance is revalued or reduced in rate base is also the amount by which the Companies' must set up regulatory liabilities to flow the excess balances back to ratepayers, who funded the future tax obligations which decreased by 40% under the new law, and (2) the Companies should apply the average rate assumption method

[321] FirstEnergy's response to audit scope 2022 Data Request 01-INT-044 (Confidential).
[322] WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.

(ARAM) consistent with IRS normalization rules in determining the period over which to amortize the regulatory liabilities.

On November 9, 2018, the Companies filed a Stipulation and Recommendation in Case No. 18-1604-EL-UNC ("Stipulation") which resolved the question about the treatment of the EDIT balances that was raised by Blue Ridge in the above recommendation. The Companies implemented the Stipulation beginning with the October 1, 2019, Rider DCR Compliance Filing pursuant to an Opinion and Order dated July 17, 2019.[323]

Under the Stipulation, Rider DCR rate base will reflect the gross *normalized* property EDIT balance as of December 31, 2017, and the net *non-normalized* property EDIT balance as of the measurement period.

1) Normalized Property: Amortization of the normalized property EDIT balance in accordance with ARAM and the related cumulative reserve will be accounted for in a new credit mechanism. The cumulative reserve in the credit mechanism will accrue a return in the same manner as Rider DCR to make the Companies whole for the gross normalized property EDIT in Rider DCR rate base.[324]
2) Non-Normalized Property: Amortization of the non-normalized property EDIT balance over 10 years will flow back to customers via the new credit mechanism, while both the gross balance and cumulative reserve will be accounted for in Rider DCR.[325]

The actual amount of the EDIT flowing back to customers will reflect the "final, audited balances" as of December 31, 2017.[326] The treatment of the EDIT balances will commence effective January 1, 2018, and will continue until the balances have been fully amortized.[327]

Source Data Validation

During the investigation of the 2018 DCR Compliance Filing, Blue Ridge issued data requests to ascertain the value of EDIT liability owed to customers. The language was very specific in identifying the "final, audited balances" as quoted below.[328]

> Data Request:
>
> Reference the Stipulation and Recommendation filed on November 9, 2018, in Case No. 18-1604-EL-UNC at page 9. a.
>
> EDIT Amount. The actual amount of EDIT flowing back to customers will reflect the final, audited balances, including a federal and state tax gross up, as of December 31, 2017.

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[323] FirstEnergy's response to 2019 audit Data Request BRC Set 5-INT-005—Confidential.
[324] Case No. 18-1604-EL-UNC Stipulation and Recommendation, November 9, 2018, TCJA Resolution (a).
[325] Case No. 18-1604-EL-UNC Stipulation and Recommendation, November 9, 2018, TCJA Resolution (b).
[326] Case No. 18-1604-EL-UNC Stipulation and Recommendation, November 9, 2018, TCJA Resolution (c).
[327] Case No. 18-1604-EL-UNC Stipulation and Recommendation, November 9, 2018, TCJA Resolution (d).
[328] FirstEnergy's response to 2018 audit Data Request BRC Set 6-INT-003.

1. Please provide "the final, audited balances" owed to customers, before and after federal and state tax gross up, as of December 31, 2017.

. . .

Response:

1. See BRC Set 6-INT-002 Attachment 1 Confidential

. . .

The following table summarizes the information provided in the Companies' response attachment—2018 BRC Set 6-INT-002 Attachment 1.

Table 47: Final, Audited EDIT Balances as of December 31, 2017–CONFIDENTIAL[329]

Description	CEI	OE	TE	Total
After-Tax				
Normalized Property	$ (173,640,455)	$ (157,240,782)	$ (42,962,870)	$ (373,844,107)
Non-Normalized Property	(39,321,477)	(89,328,343)	(22,284,682)	(150,934,501)
Non-Property	13,955,944	48,702,820	10,195,533	72,854,297
Total	$ (199,005,987)	$ (197,866,305)	$ (55,052,019)	$ (451,924,311)
Avg. Tax Rate				
Normalized Property	22.9%	22.5%	21.6%	
Non-Normalized Property	19.8%	23.1%	23.5%	
Non-Property	22.4%	22.1%	21.9%	
Pre-Tax				
Normalized Property	$ (225,096,763)	$ (202,870,343)	$ (54,795,596)	$ (482,762,701)
Non-Normalized Property	(49,050,345)	(116,207,017)	(29,136,313)	(194,393,675)
Non-Property	17,987,082	62,482,883	13,046,373	93,516,338
Total	$ (256,160,025)	$ (256,594,476)	$ (70,885,536)	$ (583,640,038)

The "final, audited balances" provided in the response matched those presented in Appendix A of the Stipulation filed on November 9, 2018, as well as the Supplemental Stipulation filed on January 25, 2019.

During the investigation of the 2019 DCR Compliance Filing, Blue Ridge compared the property-related EDIT values to the balances in the Stipulation agreed to by the Parties and approved by the Commission. They did not tie out as expected. In response to data requests, the Companies presented various adjustments, some of which on net reduce the total liability owed to customers. The Companies' revisions also reflected reclasses between EDIT categories that should have a net-zero impact on the total liability subject to refund, albeit they do impact the period over which the amortizing credits flow back to customers through the new credit mechanism.

The table below presents the Companies' adjustments, which include true-ups to the actual 2017 federal and state tax returns, exclusion of AFUDC equity, which the Companies represented has no

[329] FirstEnergy's response to audit scope 2018 Data Request 06-INT-002, Attachment 1 (Confidential).

associated EDIT, and reconciling differences between the tax provision calculation and PowerTax, a module within the Companies' plant accounting system.

Table 48: Companies' Adjustments to Property EDIT Balances as of December 31, 2017[330]

Description	CEI	OE	TE	Total
Normalized Property EDIT - 12/31/17 Stipulated	**$173,640,455**	**$157,240,782**	**$ 42,962,870**	**$373,844,107**
Prior Rate Change Differences	(4,578,827)	(3,319,535)	773,840	(7,124,522)
Return to Accural Adjustment - Federal	1,504,585	1,642,652	377,663	3,524,901
Return to Accrual Adjustment - State	(1,922,384)	(1,235,812)	(1,551,330)	(4,709,526)
Reclass Nuclear Item to Non-Normalized Property EDIT	(27,347,558)	-	-	(27,347,558)
Reclass Legacy Items to Non-Normalized Property EDIT	(2,523,139)	(5,053,225)	7,136	(7,569,228)
Other	(169,454)	(298,888)	(28,829)	(497,171)
Normalized Property EDIT - 12/31/17 FE Adjusted	**$138,603,679**	**$148,975,974**	**$ 42,541,350**	**$330,121,003**
Non-Normalized Property EDIT - 12/31/17 Stipulated	**$ 39,321,477**	**$ 89,328,343**	**$ 22,284,682**	**$150,934,501**
Prior Rate Change Differences	651,080	(1,281,139)	163,117	(466,942)
Return to Accural Adjustment - Federal	(3,797,495)	(5,393,127)	(659,021)	(9,849,643)
Return to Accrual Adjustment - State	(479,881)	(682,920)	(784,683)	(1,947,484)
Reclass Nuclear Item to Non-Normalized Property EDIT	27,347,558	-	-	27,347,558
Reclass Legacy Items to Non-Normalized Property EDIT	2,523,139	5,053,225	(7,136)	7,569,228
Reclass to Non-Property EDIT	(264,377)	(691,405)	(3,819)	(959,601)
Exclude AFUDC Equity (No Associated EDIT)	(404,924)	(6,570,080)	(419,798)	(7,394,802)
Transferring Items from Tax Provision into PowerTax	174,876	440,089	(391,741)	223,224
Other	(13,646)	(394,033)	316,546	(91,133)
Non-Normalized Property EDIT - 12/31/17 FE Adjusted	**$ 65,057,807**	**$ 79,808,952**	**$ 20,498,148**	**$165,364,907**
Total Property Related EDIT - 12/31/17 Stipulated	**$212,961,931**	**$246,569,125**	**$ 65,247,552**	**$524,778,608**
Total Property Related EDIT - 12/31/17 FE Adjusted	**$203,661,486**	**$228,784,927**	**$ 63,039,497**	**$495,485,910**

As summarized in the table below, the Companies' property-related EDIT adjustments reduce the total liability owed to customers as of December 31, 2017, by $28,333,097. There is also a reclass adjustment from non-normalized property to non-property which reduces the total property related EDIT balance as of December 31, 2017, in Rider DCR by $959,601. Subject to check, the reclass to non-property should have a net zero impact on the total liability owed to customers.

Table 49: Companies' Adjusted Property EDIT Balance in Rider DCR as of December 31, 2017

Description	CEI	OE	TE	Total
Normalized Property EDIT	$ 173,640,455	$ 157,240,782	$ 42,962,870	$ 373,844,107
Non-Normalized Property EDIT	39,321,477	89,328,343	22,284,682	150,934,501
Total Property EDIT - 12/31/17 Stipulated	**$212,961,931**	**$246,569,125**	**$ 65,247,552**	**$524,778,608**
Adjustments to Liability Owed to Customers	(9,036,069)	(17,092,793)	(2,204,235)	(28,333,097)
Reclasses to Non-Property Category	(264,377)	(691,405)	(3,819)	(959,601)
Reclasses within Property Category	-	-	-	-
Total Property EDIT - 12/31/17 FE Adjusted	**$203,661,486**	**$228,784,927**	**$ 63,039,497**	**$495,485,910**

When asked if the revised balances were reflected in the TCJA case record and, if not, how the Companies obtained authorization to update the balances, the Companies responded:

[330] FirstEnergy's responses to 2019 audit Data Request BRC Set 5-INT-010, Attachment 1—Confidential and BRC Set 16-INT-005, Attachment 1—Confidential.

> The Stipulation and Recommendation filed in Case No. 18-1656-EL-ATA et al. states that the actual amount of EDIT flowing back to customers will reflect the final, audited balances, including a federal and state tax gross up, as of December 31, 2017. The Companies filed compliance tariffs on July 26, 2019 in Case No. 18-1656-EL-ATA reflecting updated balances.[331]

Blue Ridge found the Companies' response to lack clarity, casting doubt on the actual meaning of "final, audited balances." PricewaterhouseCoopers performed the external audit of the December 31, 2017, financial statements, and they issued an unqualified opinion on February 20, 2018—months prior to the Stipulation, filed on November 9, 2018, as well as the Supplemental Stipulation, filed on January 25, 2019. Since no specific true-up provisions exist in the Stipulation to adjust to the 2017 filed tax returns and other later known variables, Blue Ridge recommends restoring the EDIT balances to reflect those agreed to within the settlement and allowing parties to consider the Companies' changes, such as the assertion that there is no EDIT associated with AFUDC equity, within the next Rider TSA annual filing. With respect to the reclass adjustments, Blue Ridge is neutral on their adoption since they have no impact on the total agreed-upon liability to be refunded to customers. The EDIT categories with varying amortization periods are judgmental to some extent and an audit opinion would not render such definitional determinations official or correct.

Blue Ridge recommends reversing all EDIT adjustments, except for reclasses between normalized and non-normalized property, so that the Total Property EDIT reflected in Rider DCR matches the Total Property EDIT as of December 31, 2017, in the Stipulation. The scope of Blue Ridge's current investigation is limited to the property-related EDIT balances in Rider DCR. Blue Ridge, therefore, has not and cannot validate that the reclass from property to non-property was appropriately reflected in the new credit mechanism. The following table presents the result of Blue Ridge's recommendation.

Table 50: Blue Ridge Recommended Property-Related EDIT Balances as of December 31, 2017

Description	CEI	OE	TE	Total
Normalized Property EDIT - 12/31/17 Stipulated	**$ 173,640,455**	**$ 157,240,782**	**$ 42,962,870**	**$ 373,844,107**
Adjustments to Liability Owed to Customers	(5,166,079)	(3,211,583)	(428,656)	(8,806,318)
Reclasses to Non-Normalized Property Category	(29,870,697)	(5,053,225)	7,136	(34,916,786)
Normalized Property EDIT - 12/31/17 FE Adjusted	**$ 138,603,679**	**$ 148,975,974**	**$ 42,541,350**	**$ 330,121,003**
Reverse: Adjustments to Liability Owed to Customers	5,166,079	3,211,583	428,656	8,806,318
Normalized Property EDIT - 12/31/17 BRC-Rcmd.	**$ 143,769,758**	**$ 152,187,557**	**$ 42,970,005**	**$ 338,927,321**
Non-Normalized Property EDIT - 12/31/17 Stipulated	**$ 39,321,477**	**$ 89,328,343**	**$ 22,284,682**	**$ 150,934,501**
Adjustments to Liability Owed to Customers	(3,869,990)	(13,881,210)	(1,775,579)	(19,526,779)
Reclass to Non-Property Category	(264,377)	(691,405)	(3,819)	(959,601)
Reclasses from Normalized Property Category	29,870,697	5,053,225	(7,136)	34,916,786
Non-Normalized Property EDIT - 12/31/17 FE Adjusted	**$ 65,057,807**	**$ 79,808,952**	**$ 20,498,148**	**$ 165,364,907**
Reverse: Adjustments to Liability Owed to Customers	3,869,990	13,881,210	1,775,579	19,526,779
Reverse: Reclass to Non-Property Category	264,377	691,405	3,819	959,601
Non-Normalized Property EDIT - 12/31/17 BRC-Rcmd.	**$ 69,192,173**	**$ 94,381,568**	**$ 22,277,546**	**$ 185,851,287**
Total Property EDIT - 12/31/17 Stipulated	**$ 212,961,931**	**$ 246,569,125**	**$ 65,247,552**	**$ 524,778,608**
Total Property EDIT - 12/31/17 BRC-Rcmd.	**$ 212,961,931**	**$ 246,569,125**	**$ 65,247,552**	**$ 524,778,608**

[331] FirstEnergy's responses to audit scope 2019 Data Request 16-INT-007(a).

On March 8, 2023, in Case No. 19-1887-EDL-RDR, the Commission accepting Blue Ridge's recommendation regarding the EDIT balances.

> {¶ 26} In July 2019, the Commission approved the TCJA Stipulation. In re Ohio Edison Co., The Cleveland Elec. Illum. Co., and The Toledo Edison Co., Case No. 16-481-EL-UNC, et al., Opinion and Order (July 17, 2019) (TCJA Resolution Order). By the terms of the stipulation, the Companies agreed to refund all tax savings associated with the TCJA including riders, tax savings not reflected in riders, and the return over time of all of the normalized and non-normalized excess ADIT from January 1, 2018. TCJA Resolution Order at ¶¶ 25-27, 66-67. Furthermore, the approval of the stipulation was consistent with the Commission's earlier determination that customers should receive the savings derived from the TCJA. See In re the Commission's Investigation of the Financial Impact of the TCJA on Regulated Ohio Utility Companies, Case No. 18-47-AU-COI (TCJA Investigation), Finding and Order (Oct. 24, 2018) at ¶ 30. While the Companies assert that they filed compliance tariffs for the Tax Savings Adjustment Rider (Rider TSA) on July 26, 2019, in Case No. 18-1656-EL-ATA, alleging those tariffs reflect the "final, audited balances," the objections presented in the comments submitted in this proceeding raise questions as to whether those compliance tariffs conform to the directives in the TCJA Resolution Order or the Commission's findings in the TCJA Investigation. Importantly, Staff seems to suggest that the Companies are making adjustments that fundamentally change what amounts should be included in the excess ADIT balances. **With these considerations in mind, the Commission finds it appropriate for the Companies to restore the excess ADIT balances to reflect the stipulated amounts** and allow the Commission to consider the parties' arguments and the Companies' adjustments, particularly the claim that there is no excess ADIT attributable to AFUDC equity, within the next Rider TSA annual filing. **Thus, we find that Blue Ridge's recommendations as to this issue should be adopted in their entirety.** Similarly, we also agree with Blue Ridge that the reclass adjustments may remain in place, as they have no impact on the total liability to be refunded to customers and would not interfere with our directives in the TCJA Investigation. (Emphasis added.)

Conclusion—Tax Cuts and Jobs Act Effect

The treatment of EDIT in Rider DCR from the prior investigations has been resolved per the Stipulation agreed to by the Parties and approved by the Commission in Case No. 18-1604-EL-UNC. The property-related EDIT balances, normalized and non-normalized, are accounted for between the Rider DCR and new credit mechanism. Blue Ridge recommends the normalized and non-normalized property EDIT balances under total ADIT in Case No. 22-0892-EL-RDR be restated as shown in the table below.

Table 51: Blue Ridge Recommended Property-Related EDIT Balances in Rider DCR Compliance Filing

Description	CEI	OE	TE	Total
Normalized Property EDIT - 12/31/17 BRC-Rcmd.	**$ 143,769,758**	**$ 152,187,557**	**$ 42,970,005**	**$ 338,927,321**
Non-Normalized Property EDIT - 12/31/17 BRC-Rcmd.	**$ 69,192,173**	**$ 94,381,568**	**$ 22,277,546**	**$ 185,851,287**
Book Amortization - 01/01/2018 thru 11/30/22	(31,986,755)	(39,239,402)	(10,078,256)	(81,304,413)
Non-Normalized Property EDIT - 11/30/22 BRC-Rcmd.	**$ 37,205,418**	**$ 55,142,166**	**$ 12,199,290**	**$ 104,546,874**
Book Amortization - 12/01/2022 thru 02/28/23	(1,626,445)	(1,995,224)	(512,454)	(4,134,123)
Non-Normalized Property EDIT - 02/28/23 BRC-Rcmd.	**$ 35,578,973**	**$ 53,146,942**	**$ 11,686,837**	**$ 100,412,752**

To reconcile to the total property-related EDIT balances reflected in the Stipulation, Blue Ridge recommends the following adjustments, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2022, and February 28, 2023. Different from Case Nos. 19-1887-EL-RDR and 20-1629-EL-RDR, the recommended non-normalized property EDIT balances are computed based on the amortization the Companies are recording in their financial records on an actual basis, as opposed to the pro forma amortization Blue Ridge initially recommended.

Table 52: Recommended Adjustment to ADIT in Rider DCR Actual 11/30/22

Description	CEI	OE	TE	Total
Normalized Property EDIT - 11/30/22 (As Filed)	$ 138,603,679	$ 148,975,974	$ 42,541,350	$ 330,121,003
Normalized Property EDIT - BRC-Recommended	$ 143,769,758	$ 152,187,557	$ 42,970,005	$ 338,927,321
Difference	$ 5,166,079	$ 3,211,583	$ 428,656	$ 8,806,318
Non-Normalized Property EDIT - 11/30/22 (As Filed)	$ 33,111,012	$ 40,395,520	$ 10,474,148	$ 83,980,680
Non-Normalized Property EDIT - BRC-Recommended	$ 37,205,418	$ 55,142,166	$ 12,199,290	$ 104,546,874
Difference	$ 4,094,407	$ 14,746,646	$ 1,725,142	$ 20,566,195
Adjustment to Total ADIT - Actual 11/30/22	$ 9,260,486	$ 17,958,229	$ 2,153,798	$ 29,372,513

Table 53: Recommended Adjustment to ADIT in Rider DCR Estimated 2/28/23

Description	CEI	OE	TE	Total
Normalized Property EDIT - 02/28/2 (As Filed)	$ 138,603,679	$ 148,975,974	$ 42,541,350	$ 330,121,003
Normalized Property EDIT - BRC-Recommended	$ 143,769,758	$ 152,187,557	$ 42,970,005	$ 338,927,321
Difference	$ 5,166,079	$ 3,211,583	$ 428,656	$ 8,806,318
Non-Normalized Property EDIT - 02/28/23 (As Filed)	$ 31,484,566	$ 38,400,296	$ 9,961,694	$ 79,846,557
Non-Normalized Property EDIT - BRC-Recommended	$ 35,578,973	$ 53,146,942	$ 11,686,837	$ 100,412,752
Difference	$ 4,094,407	$ 14,746,646	$ 1,725,142	$ 20,566,195
Adjustment to Total ADIT - Estimated 02/28/23	$ 9,260,486	$ 17,958,229	$ 2,153,798	$ 29,372,513

Blue Ridge estimates the update of the Commission approved adjustment to the Normalized and Non-normalized EDIT balances will have the following impacts to the DCR:

- Reduced CE DCR revenue requirements $(926,656)
- Reduced OE DCR revenue requirements $(1,792,017)
- Reduced TE DCR revenue requirements $(215,040)

Total impact to FirstEnergy DCR revenue requirements $(2,933,713) **[ADJUSTMENT #14]**

RETURN

- 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 54: Incremental Change in Return on Rate Base from 11/30/21 to 11/30/22[332]

Company	11/30/2021	11/30/2022	Incremental
The Cleveland Electric Illuminating Company	$ 41,341,377	$ 42,773,793	$ 1,432,417
Ohio Edison Company	54,209,976	58,630,946	4,420,970
The Toledo Edison Company	5,887,511	5,954,878	67,367
Total	**$ 101,438,864**	**$ 107,359,617**	**$ 5,920,753**

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

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 Nos. 12-1230-EL-SSO and 14-1297-EL-SSO[333]) provides the capital structure, cost of debt, and return on equity that is allowed in Rider DCR Revenue Requirements. The Combined Stipulation includes this direction in Section B.2:

> 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.[334]

Mathematical Verification

The rate of return and the return on plant is calculated correctly in accordance with the Combined Stipulation.[335]

Source Data Validation

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

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332 WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
333 Case No. 12-1230-EL-SSO Commission Opinion and Order, July 18, 2012, pages 10-11, and Case No. 14-1297-SSO Commission Opinion and Order, March 31, 2016.
334 Case No. 10-0388-EL-SSO Stipulation and Recommendation, March 23, 2010, page 14.
335 WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.

Conclusion—Return

Although the adjustments discussed in other subsections 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

- 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 November 30, 2022, and estimated February 28, 2023, balances. The Annual Rider DCR Revenue is compared against the Commission-approved Revenue Cap in the Companies' filings.[336]

Mathematical Verification

The various actual November 30, 2022, and estimated February 28, 2023, components, including gross plant, reserve, ADIT, depreciation, and property tax expense, were discussed in other subsections of this report and roll forward into the revenue requirements. Blue Ridge found no exceptions.

Annual Cap

Recovery through the DCR is subject to annual caps. The annual cap has been modified several times since the inception of the Rider DCR. The cap for the filing under review is a composite from two stipulations approved by the Commission.

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

> 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.[337]

The Stipulation in Case No. 14-1297-EL-SSO modified the annual cap of the Rider DCR Revenue collected:

> The revenue caps for the Delivery Capital Recovery Rider (Rider DCR) will increase annually to $30 million for the period of June 1, 2016, through May 31, 2019; <u>$20</u>

[336] CEI, OE, and TE Rider DCR Compliance Filings dated 1/9/23, page 57.
[337] Case No. 12-12-1230-EL-SSO Opinion and Order, July 18, 2012, page 10.

> million for the period of June 1, 2019, through May 31, 2022; and $15 million for the period of June 1, 2022, through May 31, 2024 [emphasis added].[338]

The Companies appropriately applied the annual caps in the stipulations in Case Nos. 12-1230-EL-SSO and 14-1297-EL-SSO that resulted in an annual cap for the 2022 DCR:

Table 55: Companies' Calculation of Annual Cap Prior to Under (Over) Recovery Adjustment[339]

Annual Cap Calculation

12 months 6/1/15 - 5/31/16		$ 210,000,000
12 months 6/1/16 - 5/31/17		30,000,000
12 months 6/1/17 - 5/31/18		30,000,000
12 months 6/1/18 - 5/31/19		30,000,000
12 months 6/1/19 - 5/31/20		20,000,000
12 months 6/1/20 - 5/31/21		20,000,000
12 months 6/1/21 - 5/31/22		20,000,000
12 months 6/1/22 - 5/31/23	$ 15,000,000	
Prorated for seven months		8,750,000
		$ 368,750,000

<u>Over/Under Recovery</u>

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:

> 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.[340]

The annual cap analysis included in the January 9, 2023, filing included revenues through November 30, 2022. Using the actual annual revenue, the Companies have a cumulative under recovery of $34.5 million as shown in the following table.[341]

[338] Case No. 14-1297-EL-SSO Opinion and Order, March 31, 2016, page 25.
[339] WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
[340] 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.
[341] WP V&V—FE DCR Compliance Filing 1.9.2023—Confidential.

Table 56: Annual DCR Revenues Vs. Annual Cap through November 30, 2022[342]

Period	Annual Cap	Annual Revenue	Under (Over)	Cum Under (Over)
2012	$ 150,000,000	$ 128,616,253	$ 21,383,747	$ 21,383,747
2013	$ 165,000,000	$ 185,631,927	$ (20,631,927)	$ 751,820
2014	$ 188,750,000	$ 191,709,557	$ (2,959,557)	$ (2,207,737)
2015	$ 203,750,000	$ 207,078,057	$ (3,328,057)	$ (5,535,794)
2016	$ 227,500,000	$ 216,681,105	$ 10,818,895	$ 5,283,100
2017	$ 257,500,000	$ 262,678,121	$ (5,178,121)	$ 104,979
2018	$ 287,500,000	$ 291,199,888	$ (3,699,888)	$ (3,594,909)
2019	$ 311,666,667	$ 309,630,496	$ 2,036,171	$ (1,558,738)
2020	$ 331,666,667	$ 345,638,174	$ (13,971,508)	$ (15,530,246)
2021	$ 351,666,667	$ 343,694,823	$ 7,971,844	$ (7,558,402)
YTD 11/30/2022	$ 368,750,000	$ 326,701,837	$ 42,048,163	$ 34,489,761

In addition to the total cap, the Companies have individual annual caps that limit recovery through the Rider DCR. The following table shows the Companies' revenue to the aggregate annual cap (adjusted for the cumulative under [over] recovery) and the allocated Companies' caps. Blue Ridge confirmed the Actual Revenue through November 30, 2022, included in the Companies' filing.[343] Each of the operating companies' DCR revenues through November 30, 2022, are below the annual cap.

Table 57: 2021 Annual DCR Revenue to Aggregate and Allocated Caps through November 30, 2022[344]

Period	Aggregate Annual Cap	CEI	OE	TE
% of Aggregate Annual Cap		70%	50%	30%
2022 Annual Cap	$ 368,750,000			
2021 Cumulative Under (Over)	$ (7,558,402)			
Adjusted 2021 Annual Cap	$ 361,191,598	$ 252,834,119	$ 180,595,799	$ 108,357,479
Annual Revenue Through 11/30/2022	$ 326,701,837	$ 142,293,778	$ 148,702,306	$ 35,705,753
Under (Over) 2022 Revenue Cap	$ 34,489,761	$ 110,540,341	$ 31,893,493	$ 72,651,727

Conclusion—Rider DCR Calculation

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

The Annual Rider DCR Revenue through November 30, 2022, is under both the aggregate annual cap and the allocated annual cap by company.

342 WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.
343 FirstEnergy's response to audit scope 2022 Data Request 01-DR-042 (Confidential).
344 WP V&V – FE DCR Compliance Filing 1.9.2023—Confidential.

PROJECTIONS

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

The Compliance Filings include projections for the first two months in 2023. To develop the first quarter 2023 estimates, the Companies used estimated plant-in-service and reserve balances as of February 28, 2023, the most recent (December 2022) forecast from PowerPlan. The estimated February 28, 2023, plant and reserve balances were then adjusted to reflect current assumptions (including project additions and delays), to incorporate recommendations from prior Rider DCR Audit Reports, and to remove the pre-2007 impact of a change in pension accounting.[345]

Authority to Use Projected Data

The Opinion and Order and Combined Stipulation from Case No. 10-388-EL-SSO and continued in Case Nos. 12-12-1230-EL-SSO and 14-1297-EL-SSO provide the authority to include estimated balances in Rider DCR. The Combined Stipulation includes this direction in Section B.2:

> 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.[346]

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 requirement calculations. Blue Ridge reviewed the estimated February 28, 2023, schedules while performing specific tasks in each of the previous subsections. Specific observations and findings are discussed in the appropriate subsections.

Conclusion—Projections

Blue Ridge found that the projected amounts included through February 2023 are not unreasonable. In addition, the Companies will reconcile the projected amounts to the actual amounts and will adjust the Rider DCR revenue requirement to actual in the next quarter's Rider DCR Compliance Filings.

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[345] FirstEnergy's response to audit scope 2022 Data Request 01-DR-001, Attachment 3 (Confidential).
[346] Case No. 12-1230-EL-SSO Stipulation and Recommendation April 13, 2012, page 22.

OVERALL IMPACT OF FINDINGS ON RIDER DCR REVENUE REQUIREMENTS

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

Blue Ridge summarizes the impact of its recommendations in the following table.

Table 58: Impact of Blue Ridge's Findings on Rider DCR Revenue Requirement[347]

Adj #	Description	CEI	OE	TE	Total
	As Filed	**$ 166,976,528**	**$ 180,368,751**	**$ 40,505,898**	**$ 387,851,176**
1	Charged to TECO instead of ATSI - COR - WO #16898512	-	-	(11,983)	(11,983)
2	Charged to TECO instead of ATSI - Gross Plant - WO #17079576	-	-	(117,231)	(117,231)
3	FERC Account Switched - CECO - WO #PA213627410	(184)	-	-	(184)
4	AFUDC Over Accrued - CECO - WO #14857555	(6,336)	-	-	(6,336)
5	AFUDC Over Accrued - CECO - WO #16527415	(8,196)	-	-	(8,196)
6	AFUDC Over Accrued - CECO - WO #17031647	(3,149)	-	-	(3,149)
7	AFUDC Over Accrued - OECO - WO #14864962	-	(7,956)	-	(7,956)
8	AFUDC Over Accrued - OECO - WO #16995176	-	(5,231)	-	(5,231)
9	LTIP - Stock	(433,866)	(431,632)	(154,848)	(1,020,346)
10	Delayed Retirement - CECO - WO #14791367	(55,040)	-	-	(55,040)
11	Delayed Retirement & COR - OECO - WO #OE-003923-DF-MSTM	-	35,156	-	35,156
12	Overstated Retirement - TECO - WO #17331167	-	-	273,519	273,519
13	Capitalized Corporate Support Cost (2015-2021)	(6,808,092)	(6,444,769)	(3,498,947)	(16,751,808)
14	Regulatory Liability - TCJA	(926,656)	(1,792,017)	(215,040)	(2,933,713)
	Impact of All Adjustments	**(8,241,521)**	**(8,646,448)**	**(3,724,531)**	**(20,612,500)**
	Recommended Rider DCR Revenue Requirements	**$ 158,735,007**	**$ 171,722,303**	**$ 36,781,366**	**$ 367,238,676**

[347] WP WP ADJ – FE DCR Compliance Filing 1.9.2023.xlsx

APPENDICES

Appendix A: Rider DCR Excerpts within Stipulations and Order
Appendix B: Abbreviations and Acronyms
Appendix C: Data Requests and Information Provided
Appendix D: Workpapers

APPENDIX A: RIDER DCR EXCERPTS WITHIN ORDER AND COMBINED STIPULATION

The following cases are relevant to the Delivery Capital Recovery Riders reviewed and discussed in this report.

- 10-0388-EL-SSO
- 11-5428-EL-RDR (2011 DCR Audit)
- 12-1230-EL-SSO
- 12-2855-EL-RDR (2012 DCR Audit)
- 13-2100-EL-RDR (2013 DCR Audit)
- 14-1297-EL-SSO
- 14-1939-EL-RDR (2014 DCR Audit)
- 15-1739-EL-RDR (2015 DCR Audit)
- 16-2041-EL-RDR (2016 DCR Audit)
- 17-2009-EL-RDR (2017 DCR Audit)
- 18-1542-EL-RDR (2018 DCR Audit)
- 19-1887-EL-RDR (2019 DCR Audit)
- 20-1629-EL-RDR (2020 DCR Audit and Expanded Scope reviewing payments and Stadium Naming Rights) – No Commission Finding and Order
- 21-1038-EL-RDR (2021 DCR Audit) – No Commission Finding and Order
- 22-892-EL-RDR (2022 DCR Audit-current)

Excerpts from Commission Opinions and Orders and Stipulations specifically related to Rider DCR in the above cases are provided below.

Case No. 10-388-EL-SSO

Combined Stipulation

The Combined Stipulation are comprised of the following documents:

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

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

B. Distribution
Section 2 Effective January 1, 2012, a new rider, hereinafter referred to as Rider DCR ("Delivery Capital Recovery"), will be established to provide the Companies with the opportunity to recover property taxes, Commercial Activity Tax and associated income taxes and earn a return on and of plant in service associated with distribution, subtransmission, and general and intangible plants including allocated general plant from FirstEnergy Service Company that supports the Companies, which was not included in the rate base determined in the Opinion and Order of January 21, 2009 in

Case No. 07-551-EL-AIR et al. ("last distribution rate case"). The return earned on such plant will be based on the cost of debt of 6.54% and a return on equity of 10.5% determined in the last distribution rate case utilizing a 51% debt and 49% equity capital structure. The net capital additions included for recognition under Rider DCR will reflect gross plant in service not approved in the Companies' last distribution rate case less growth in accumulated depreciation reserve and accumulated deferred income taxes associated with plant in service since the Companies' last distribution rate case. Rider DCR shall be adjusted quarterly to reflect in-service net capital additions and encourage investment in the delivery system. For the first 12 months Rider DCR is in effect, the revenue collected by the Companies under Rider DCR shall be capped at $150 million; for the following 12 months the revenue collected by the Companies under Rider DCR shall be capped at $165 million, and for the following five months the revenue collected by the Companies under Rider DCR shall be capped at $75 million. Consistent with the time periods for the revenue caps established above, each individual Company will have a cap of 50%, 70% and 30% for Ohio Edison, CEI and Toledo Edison, respectively, of the total aggregate caps as established above. Capital additions recovered through Riders LEX, EDR, and AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions, will be identified and excluded from Rider DCR and the annual cap allowance. Revenue requirements will be derived for each company separately, and on that basis the recovery of the revenue among the classes of each Company will be calculated using the same methodology as the existing DSI Rider. To effect the quarterly adjustments, the Companies will submit a filing that contains the adjustment requested, the resulting rate for each customer class and the bill impact on customers. The filing shall show the Plant in Service account balances and accumulated depreciation reserve balances compared to that approved in the last distribution rate case. The expenditures reflected in the filing shall be broken down by the Plant in Service Account Numbers associated with Account Titles for subtransmission, distribution, general and intangible plant, including allocated general plant from FirstEnergy Service Company that supports the Companies based on allocations used in the Companies' last distribution rate case. Net capital additions for plant in Service for General Plant shall be included in the DCR so long as there are no net job losses at the Companies as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. For each account title the Companies shall provide the plant in service and accumulated depreciation reserve for the period prior to the adjustment period as well as during the adjustment period. The filing shall also include a detailed calculation of the depreciation expense and accumulated depreciation impact as a result of the capital additions. The Companies will provide the information on an individual Company basis.

(Section 2 Second paragraph of original text replaced by Second Supplemental Stipulation) The Signatory Parties agree that the quarterly Rider DCR update filing will not be an application to increase rates within the meaning of R.C. § 4909.18 and each Signatory Party further agrees it will not advocate a position to the contrary in any future proceeding. The first quarterly filing will be made on or about October 31, 2011, based on an estimated balance as of December 31, 2011 with rates effective on January 1, 2012 on a bills rendered basis. Thereafter, quarterly filings will be made on or about January 31, April 30, July 30, and October 31 with rates effective on a bills rendered basis effective April 1, July 1, October 1, and January 1, respectively. The quarterly filings will be based on estimated balances as of March 31, June 30 September 30, and December 31, respectively, with any reconciliations between actual and forecasted information being recognized in the following quarter. The Companies will bear the burden to demonstrate the accuracy of the quarterly filings. Upon the Companies meeting such burden, any party may challenge such expenditures with evidence. Upon a party presenting evidence that an expenditure is unreasonable, it shall be the obligation of the Companies to demonstrate that the expenditure was reasonable by a preponderance of the evidence. An annual audit shall be conducted by an independent auditor. The independent auditor shall be selected by Staff with the consent of the Companies, with such consent not being unreasonably withheld. The expense for the audit shall be paid by the Companies and be fully recoverable through Rider DCR. The audit shall include a review to confirm that the amounts for which recovery is sought are not unreasonable and will be conducted following the Companies' January 31,2012, January 31,2013 and January 31, 2014 filings, and one final audit following the Companies' July 30, 2014 final reconciliation filing. For purposes of such audits and any subsequent proceedings referred to in this paragraph, the determination of whether the amounts for which recovery is sought are not unreasonable shall be determined in light of the facts and circumstances known to the Companies at the time such expenditures were committed. Staff and Signatory Parties shall file their recommendations and/or objections within 120 days after the filing of the application. If no objections are filed within 120 days after the filing of the application, the proposed DCR rate will remain in effect without adjustment, except through the normal quarterly update process or as may be ordered by the Commission as a result of objections filed in a subsequent audit process. If the Companies are unable to resolve any objections within 150 days of the filing of the application, an expedited hearing process will be established in order to allow the parties to present evidence to the Commission regarding the conformance of the application with this Stipulation, and whether the amounts for which recovery is sought are not unreasonable.

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

Section 3: Any charges billed through Rider DSI prior to January 1, 2012 shall not be included as revenue in the return on equity calculation for the Companies for purposes of applying the Significantly Excessive Earnings Test ("SEET"), nor considered as an adjustment eligible for refund. Any charges billed through Rider DCR after January I, 2012 will be included as revenue in the return on equity calculation for purposes of SEET and will be considered an adjustment eligible for refund. For each year during the period of this ESP, adjustments will be made to exclude the impact: (i) of a reduction in equity resulting from any write-off of goodwill, (ii) of deferred carrying charges, and (iii) associated with any additional liability or write-off of regulatory assets due to implementing this ESP. The significantly excessive earnings test applicable to plans greater than three years and set forth in R.C. § 4928.143(E) is not applicable to this three-year ESP.

D. Continuance of Existing Tariff Riders and Deferrals, Section 3
The following new tariff riders are attached as part of Attachment B, with such new tariffs approved as part of this ESP:
Rider DCR Delivery Capital Recovery (Discussed in Section B.2 above)

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

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

Commission Opinion and Order (August 25, 2010)

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:

> 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 35, "Does the settlement, as a package, benefit ratepayers and the public interest?"
b. Commission Decision
The Commission also believes that the Combined Stipulation should be modified with respect to the provision that net capital additions for plant in service for general plant shall be included in Rider DCR so long as there are no net job losses at "the Companies" as a result of involuntary attrition as a result of the merger between FirstEnergy Corp. and Allegheny Energy, Inc. Joint Ex. 1 at 15). According to testimony at the hearing, this provision does not cover employees of FirstEnergy Service Company (Tr. I at 85-86). However, many functions for the Companies are performed by employees of the FirstEnergy Service Company (Co. MRO Ex. 6 at 4-5). Therefore, the Commission will modify the Combined Stipulation to include employees of FirstEnergy Service Company who provide support for distribution services provided by OE, CEI, and TE and are located in Ohio within the meaning of "no net job losses" in the Combined Stipulation.
Further, the Commission will clarify that the second paragraph on page 15 of the original stipulation will be replaced by the new language contained in the second supplemental stipulation joint Ex. 1 at 15; Joint Ex. 3 at 4).

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

<u>Case No. 11-5482-EL-RDR (2011 Audit)</u>

On February 2, 2012, FirstEnergy filed its Rider DCR application. On April 13, 2012, Blue Ridge filed a report on its audit review of Rider DCR. On August 22, 2012, the Commission approved the following recommendation agreed to by Staff and FirstEnergy.

Page 7–9 Finding (22)

(a) Blue Ridge's recommendation for an adjustment to Rider DCR regarding the Companies' property tax expense. FirstEnergy and Staff state that the Companies implemented this recommendation in their third-quarter DCR filing.
(b) Blue Ridge's recommendation that the Companies review and address items that have no direct impact to Rider DCR, but are included in Appendix D to the audit report.
(c) Blue Ridge's recommendation that the Commission consider a review of the Companies' IT project planning and implementation.
(d) Blue Ridge's recommendation that, for future audits, the Companies evaluate the lessons learned from the conduct of this audit and develop information processes that will facilitate the determination that projects in Rider DCR are properly justified, approved, and managed.
(e) Blue Ridge's recommendation that the Companies reduce the utilization backlog before the next audit to reduce the potential for over- or under-accrual of depreciation.

(f) Blue Ridge's recommendation that, as part of the next audit, the Companies provide justification and support for the level of overheads that are added to project and work order costs and provide proper justification and back-up documentation to show overheads are appropriate.
(g) Blue Ridge's recommendation that workpapers supporting Rider DCR's property tax be cleaned up and fully referenced in order to minimize the opportunity for error.
(h) Blue Ridge's recommendation that the actual amount collected under Rider DCR be included as part of the quarterly compliance filing in order to ensure that the $150 million annual cap of collected revenue is not exceeded in 2012. FirstEnergy and Staff note that the Companies implemented this recommendation in their third quarter DCR filing and will maintain the recommendation to ensure the cap is not exceeded in future years.

<u>Case No. 12-1230-EL-SSO</u>

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 regard 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).

Case No. 12-2855-EL-RDR (2012 Audit)

On November 1, 2012, FirstEnergy filed its Rider DCR application. On March 22, 2012, Blue Ridge filed a report on its audit review of Rider DCR. On May 22, 2013, Staff and FirstEnergy filed Joint Comments agreeing that the Commission should adopt the following recommendations. The Commission issued the Finding and Order on April 10, 2019, adopted adopting the following recommendations.

Finding and Order pages 6–7:

(a) Blue Ridge's recommendation that the Companies include quantification of any increase in efficiency and savings within its IT project justification (Audit Report 14.)

(b) Blue Ridge's recommendation for a reduction in the Rider DCR revenue requirement of $470,614. FirstEnergy and Staff state that the Companies implemented this recommendation in Rider DCR effective July 1, 2013 (Audit Report at 14.)

(c) Blue Ridge's recommendation that the Commission consider an updated depreciation study be conducted (Audit Report at 16). Staff recommends that the Commission direct the Companies to submit this study to Staff no later than June 1, 2015.

(d) Blue Ridge's recommendation that the Companies continue to review IT project planning and implementation (Audit Report at 25).

(e) Blue Ridge's recommendation that the Companies continue their efforts to reduce unitization backlog before the next audit to reduce the potential for over or under accrual of depreciation (Audit Report at 25).

(f) Blue Ridge's recommendation that the sample of December 2012 work orders be included in the test sample for the 2013 compliance audit (Audit Report at 46).

Case No. 13-2100-EL-RDR (2013 Audit)

On November 1, 2013, FirstEnergy filed its Rider DCR application. On April 9, 2014, Blue Ridge filed a report on its audit review of Rider DCR. On May 28, 2014, Staff and FirstEnergy filed a stipulation and recommendation that the Commission adopted on July 13, 2016.

The list of recommendations approved by the Commission are listed below:

(a) Blue Ridge's recommendation that the Companies carefully monitor the current manual process used by Accounting Policy and Control to move contributions in aid of construction (CIACs) to ensure that the CIACs are applied to the correct work orders and Federal Energy Regulatory Commission (FERC) accounts (Audit Report at 11).

(b) Blue Ridge's recommendation that the resolution to issues identified in Sarbanes-Oxley compliance tests during 2013 related to allowance for funds used during construction (AFUDC) rates in PowerPlant be reviewed in the next audit (Audit Report at 11).
(c) Blue Ridge's recommendation that the American Transmission Systems, Inc. (ATSI) Land Lease calculation methodology should revert to the previous methodology for future filings and a reconciliation calculation should be included in the next filing. Rider DCR effective June 1, 2014 incorporates this recommendation (Audit Report at 12.)
(d) Blue Ridge's recommendation that an adjustment be made to the next Rider DCR filing to remove the cumulative impact of advanced meter infrastructure (AMI) projects from the Rider DCR plant balances. Rider DCR effective June 1, 2014, incorporates this recommendation (Audit Report at 13.)
(e) Blue Ridge's recommendation that the Companies correct errors identified as part of its work order transactional testing and adjust Rider DCR accordingly. Rider DCR effective June 1, 2014, incorporates this recommendation (Audit Report at 15.)
(f) Blue Ridge's recommendation that certain costs associated with building improvements should be removed from Rider DCR. Rider DCR effective June 1, 2014, incorporates this recommendation (Audit Report at 15.)
(g) Blue Ridge's recommendation that the Companies complete a process revision to ensure that AFUDC is not accrued on projects that are not eligible. Further, Blue Ridge's recommendation that the Companies review the entire population of utility plant included in Rider DCR to ensure other similar fees have not accrued AFUDC (Audit Report at 15.)
(h) Blue Ridge's recommendation that the Commission consider an updated depreciation study be conducted as the last approved study was based on balances as of May 31, 2007. Additionally, Staff's recommendation that the Commission direct the Companies to submit this study to Staff no later than June 1, 2015 (Audit Report at 17.)
(i) Blue Ridge's recommendation that the Companies include in Rider DCR filings a comparison of the annual Rider DCR revenue to the adjusted annual cap taking into account prior years' under- and over-collections. Rider DCR effective June 1, 2014, incorporates this comparison (Audit Report at 19.)
(j) Blue Ridge's recommendation that the Companies include quantification of any increase in efficiency and savings within its information technology project justifications for projects justified on the basis of an increase in efficiency and savings (Audit Report at 24).

Case No. 14-1297-EL-SSO

On August 4, 2014, FirstEnergy filed an application pursuant to provide for a standard service offer (SSO) to establish generation pricing for the period of June 1, 2016, through May 31, 2019. The application is for an electric security plan (ESP), and the application includes four stipulations and recommendations agreed to by various parties regarding the terms of the proposed ESP (ESP IV). The parties agreed through stipulation to extend Rider DCR. The following items within the Order are relevant to Rider DCR.

Commission Opinion and Order (March 31, 2016)

Order, page 25, (11) Third Supplemental of the Stipulation:

The revenue caps for the Delivery Capital Recovery Rider (Rider DCR)[348] will increase annually to $30 million for the period of June 1, 2016, through May 31, 2019; $20 million for the period of June 1, 2019, through May 31, 2022; and $15 million for the period of June 1, 2022, through May 31, 2024. Further, the audit schedule set forth in the Application shall be amended to provide audits for the entire term of the Stipulated ESP IV, and the amended language shall read: "The independent auditor shall be selected by Staff. 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' December 31 filing during the term of the Companies' ESP IV, and one final audit following the Companies' final June 30 reconciliation filing." (Co. Ex. 154 at 13.)

Order, page 111, Commission Decision

With respect to Rider DCR, the Commission is not persuaded by claims by OCC/NOAC and others that costs under Rider DCR fail to receive proper scrutiny. As we have stated previously, Rider DCR is subjected to annual audits which require the Companies to demonstrate what they spent and why the recovery sought is unreasonable. ESP III Case, Opinion and Order at 34. The Commission has been conducting such audits annually since the inception of Rider DCR. Thus, OCC/NOAC and any other party have had, and will continue to have, a full and fair opportunity to raise any issues regarding distribution investments to be recovered under Rider DCR during the audit process.

Case No. 14-1929-EL-RDR (2014 Audit)

On December 31, 2014, FirstEnergy filed its Rider DCR application. On April 22, 2015, Blue Ridge filed a report on its audit review of Rider DCR. On May 18, 2015, Staff and FirstEnergy filed a stipulation and recommendation that the Commission adopted on April 10, 2019. The list of recommendations approved by the Commission are listed below:

(a) Blue Ridge's recommendation that the American Transmission Systems, Inc. (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 (Audit Report at 13).

(b) Blue Ridge's recommendation that the Companies review their information technology (IT) project planning to ensure that the methodology allows for projects to be fully scoped prior to execution. Further, Blue Ridge's recommendation 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 Staff agree

[348] Rider DCR allows the Companies to earn a return of and on plant-in-service associated with distribution, transmission, general, and intangible plant, which was not included in the rate base from the Companies' last distribution rate case.

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. FirstEnergy was required to complete this audit by December 31,2015. (Audit Report at 15.)

(c) Blue Ridge's recommendation 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 15,2015.

(d) Blue Ridge's recommendation that the Companies continue to work toward a reduction in the utilization backlog of work orders. The Companies were ordered to commit to decreasing the utilization backlog in 2015 with a goal of returning to 2013 levels. (Audit Report at 22.)

(e) Blue Ridge's recommendation that future audits shall include testing steps to confirm that allowance for funds used during construction (AFUDC) is correctly applied (Audit Report at 27).

(f) Blue Ridge's recommendation that the Rider DCR preparation process shall continue using the established methodology to recognize the impact of both past and future adjustments on Rider DCR (Audit Report at 27).

(g) Blue Ridge's reiterated recommendation from its 2013 review of Rider DCR that the Commission order an updated depreciation study be conducted, as the last approved study was based on balances as of May 31,2007. In re Ohio Edison Co., The Cleveland Elec. Ilium. Co., and The Toledo Edison Co., Case No. 13-2100-EL-RDR, Finding and Order (July 13, 2016) at 4-5. The Companies were required to submit this study to Staff no later than June 1,2015. (Audit Report at 29.)

(h) Blue Ridge's recommendation that the 2015 aggregate annual cap be decreased by an amount equal to $2,207,737. Rider DCR effective June 1, 2015, incorporates this recommendation. (Audit Report at 83-87.)

<u>Case No. 15-1739-EL-RDR (2015 Audit)</u>

On December 31, 2015, FirstEnergy filed its Rider DCR application. On April 22, 2016, Blue Ridge filed a report on its audit review of Rider DCR. On July 17, 2019, the Commission adopted Blue Ridge and supplemental recommendation by Staff. The list of recommendations approved by the Commission are listed below:

(a) Blue Ridge recommends that the overstatements regarding the Toledo Edison Company account be corrected in future Rider DCR filings (Audit Report at 21, 43-45).

(b) 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 (Audit Report at 21, 51).

(c) 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 AMI-related charge been appropriately excluded (Audit Report at 21, 52).
(d) Blue Ridge recommends that a reconciliation of the Rider DCR 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 plant balances (Audit Report at 21, 54).
(e) 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 that should have been excluded from Rider DCR (Audit Report at 21, 58).
(f) Blue Ridge recommends that a reconciliation calculation be included in the next Rider DCR filing to reflect the cumulative revenue requirement impact that results from the inclusion of the pension adjustments that did not have retirements recorded (Audit Report at 21, 59-60).
(g) Blue Ridge recommends that FirstEnergy move the residual pension asset balances associated with the Federal Energy Regulatory Commission that were residing in unspecified locations as of September 2015 to specified locations (Audit Report at 21, 60).
(h) 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 (Audit Report at 21, 65).
(i) 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 as the same time (Audit report at 21, 67).
(j) Blue Ridge recommends that the formulas in the estimated first quarter intangible depreciation expense net calculation be adjusted to ensure that depreciation expense is calculated or not calculated depending on whether the assets are fully amortized (Audit Report at 21, 74).
[¶ 27] Staff filed initial comments on June 23, 2017. In addition to agreeing with recommendations put forth by Blue Ridge in the Audit Report, Staff recommends that Blue Ridge assess the sufficiency of changes made to FirstEnergy's planning process regarding non-IT-related projects in the Companies' 2017 annual compliance audit for Rider DCR. Staff further recommends that the Commission direct the Companies to take steps to ensure that the recording of retirements takes place at or before plant additions are recorded to plant-in-service.

Case No. 16-2041-EL-RDR (2016 Audit)

On December 31, 2016, FirstEnergy filed its Rider DCR application. On May 1, 2017, Blue Ridge filed a report on its audit review of Rider DCR. The parties filed comments and reply comments. On June 16, 2021, the Commission adopted Blue Ridge's recommendations. The following are Blue Ridge's recommendations:

a) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct Rider EDR(g) balances been incorporated in prior Rider DCR filings, beginning with actual September 30, 2012, and ending with actual August 31, 2016, gross plant and reserve balances (2016 Audit Report at 44).
b) That the amount of the advanced metering infrastructure work order included in Rider DCR for 2016 be included in the reconciliation calculation in a future Rider DCR filing (2016 Audit Report at 44, 50).
c) That a reconciliation be included in the Rider DCR revenue requirements in a future filing that incorporates the effect on revenues had the correct, updated American Transmission Systems, Inc. (ATSI) balances been incorporated beginning with the actual February 29, 2016, plant balances (2016 Audit Report at 47).
d) Due to a lack of detail associated with a single line adjustment of approximately $669,638 related to retirements of unspecified assets, that the Companies determine the impact of the retirements on the depreciation reserve, and specifically on the over accrual of depreciation, relative to the CEI work order HE123, and adjust the subsequent DCR filing accordingly (2016 Audit Report at 52).
e) Due to the inability to determine the nature of certain retired assets or whether those retirements were timely recorded, that the Companies determine the impact of the retirements on the depreciation reserve, and specifically the over accrual of depreciation, relative to the Toledo Edison work order JC607, and adjust the subsequent Rider DCR filing accordingly (2016 Audit Report at 52).
f) That the Companies consider how they review the conditions of infrastructure during the budget cycle to ensure, wherever possible, emergent projects are budgeted and, therefore, part of the approved capital budget (2016 Audit Report at 52-53).
g) That the Companies review their project planning process to ensure that the methodology allows for non-IT projects to be fully scoped prior to execution, consistent with Blue Ridge's recommendations in the Companies' 2015 audit report for Rider DCR (2016 Audit Report at 57). Blue Ridge further suggests that the Companies initiate an internal audit of the non-IT-related budget process as described in their response to the 2015 audit report. (2016 Audit Report at 57.)
h) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the overstatement of allowance for funds used during construction (AFUDC) on FES work order SC-000002-1 not occurred (2016 Audit Report at 59).
i) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the overstatement of AFUDC on Ohio Edison work order OE-700402 not occurred (2016 Audit Report at 59-60).
j) That the Companies place additional emphasis on completing projects timely when they have direct control of the projects and can mitigate delays (2016 Audit Report at 61).
k) That the Companies make a concerted effort to reduce the volume of backlog work orders both in quantity and dollar value (2016 Audit Report at 64).
l) Any insurance recovery reduce plant in service and be recognized in a future Rider DCR filing (2016 Audit Report at 64).

m) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had depreciation expense not been calculated on the FAS109 land assets since the July 1, 2016 Rider DCR filing (2016 Audit Report at 69).
n) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct Ohio Edison personal property tax rate been used in the September 30, 2016, and December 30, 2016, Rider DCR compliance filings (2016 Audit Report at 70).(o) That FirstEnergy review the Toledo Edison real property tax rate in next year's audit to verify a decline based on Toledo Edison no longer paying property taxes on assets removed in plant in service (2016 Audit Report at 71).
o) That the Companies include a reconciliation in the Rider DCR revenue requirement in a future filing that incorporates the effect on revenues had the correct effective income tax rate been used in the Toledo Edison calculation (2016 Audit Report at 74).

<u>Case No. 17-2009-EL-RDR (2017 Audit)</u>

On January 1, 2018, and replaced on December 12, 2018, FirstEnergy filed its Rider DCR application. On May 11, 2018, Blue Ridge filed a report on its audit review of Rider DCR. The parties filed comments and reply comments. On June 16, 2021, the Commission issued its Finding and Order. The Commission noted that there is unanimous consensus on the validity of 15 out of the 17 recommendations proposed by Blue Ridge. The Commission agreed with the parties that these 15 recommendations are reasonable and, thus, should be adopted. The only two recommendations that warrant additional discussion are the recommendations related to the Companies' vegetation management accounting practices and the TCJA [Items j and q in the following list].

The following are Blue Ridge's recommendations:

a) To address Blue Ridge's concerns regarding the Companies' planning process raised in the 2016 Audit Report, the Companies completed an internal audit with an objective to confirm that project management methodology and process design allows for projects to be fully scoped and resulted in several recommendations that are expected to be complete by June 2018. Blue Ridge recommends that, during next year's Rider DCR audit, the auditor reviews whether the recommendations presented in the Distribution Portfolio and Planning Process were implemented. (2017 Audit Report at 42.)
b) That all FirstEnergy affiliated companies that benefit from fleet services, not just the Companies, should be allocated the costs of fleet services since it is a shared services organization (2017 Audit Report at 42).
c) Given the recommendations of internal auditors to design and implement an invoice review process for less significant storms after conducting an internal audit of the Companies' major storm back office review process, Blue Ridge recommends that this process, once implemented, should be reviewed as part of future Rider DCR audits (2017 Audit Report at 42.)
d) That the Companies review their unitization process for work orders to determine whether additional controls can be implemented to ensure more accurate recording in regard to plant additions, retirements, adjustments, and transfers (2017 Audit Report at 46).
e) As acknowledged by the Companies, that a future filing includes a reconciliation in the Rider DCR revenue requirement that incorporates the effect on $58,187 being included in FERC

account 366, rather than appropriately included in FERC account 367 (2017 Audit Report at 51).

f) After noting a significant difference between the incremental change in AMI plant in 2017 and the incremental change in Rider AMI costs excluded through Rider DCR through November 30, 2017, that the Companies provide a reconciliation to document that there is no double recovery of AMI (2017 Audit Report at 53).
g) As acknowledged by the Companies, that the next filing includes a reconciliation in the Rider DCR revenue requirement that incorporates the effect on revenues had costs associated with the Experimental Company Owned LED Lighting Program been properly excluded in the 2016 quarterly Rider DCR compliance filings (2017 Audit Report at 55).
h) That future Rider DCR filings specifically review any distribution plant-related costs recovered through the Government Directives Recovery rider and the Experimental Company Owned LED Lighting Program to ensure that these costs are excluded from Rider DCR (2017 Audit Report at 55).
i) As acknowledged by the Companies, that a reconciliation calculation be included in a future Rider DCR filing to reflect the cumulative revenue requirement impact of removing the $1,192,607 related to the Toledo Edison Plaza Tenant Improvement project (2017 Audit Report at 61).
j) That the Companies' policy Accounting for the Clearing of Transmission and Distribution Corridors be better defined, given the broad discretion the policy affords the Companies to remove vegetation outside the corridor for any reason and treat it as a capital cost. Further, Blue Ridge recommends that FirstEnergy revise its vegetation management policy to be consistent with FERC 365[349] and FERC 593[350] regarding what vegetation management costs should be capitalized versus treated as maintenance expenses. Finally, Blue Ridge recommends that three vegetation management work orders discovered in the sample taken be excluded from Rider DCR. (2017 Audit Report at 62-65.) [***See paragraphs 40–41 for Commission decision***]
k) As acknowledged by the Companies, that all necessary adjustments to the Rider DCR revenue requirement associated with improper ATSI expenditures being recovered through Rider DCR be reflected in the reconciliation included in the next Rider DCR filing (2017 Audit Report at 65-66).
l) As acknowledged by the Companies, that a reconciliation be included in a future Rider DCR filing to reflect the cumulative revenue requirement impact had certain assert retirements not been delayed (2017 Audit Report at 71-72).
m) That certain adjustments be made to remove excess AFUDC costs through a reconciliation in the Rider DCR revenue requirement in a future filing (2017 Audit Report at 76).
n) That a reconciliation be included in the next Rider DCR that incorporates the effect on Rider DCR revenue requirements had the depreciation expense for FERC account 390.3 been

[349] FERC 365 permits utilities to capitalize various costs related to the installation of overhead conductors and other devices used for distribution purposes, including the initial cost of tree trimming

[350] FERC 593 includes the cost of labor, materials used and expenses incurred in the maintenance of overhead distribution line facilities, including trimming trees, clearing brush, and chemical treatment of right of way area when occurring subsequent to construction of the line

calculated on net plant in service, rather than gross plant in service (2017 Audit Report at 87).

o) Although making progress in reducing the unitization backlog, that the Companies continue to make a concerted effort to reduce the volume of backlog work orders in both quantity and dollar value (2017 Audit Report at 79-80).
p) As acknowledged by the Companies, that any impacts associated with bonus depreciation resulting from the federal income tax reform will be reconciled in the Companies' next Rider DCR filing (2017 Audit Report at 96).
q) Regarding the TCJA, that the amount by which the ADIT balance is revalued is also the amount by which the Companies must set up a regulatory liability to refund the excess deferred taxes to ratepayers, or, in the alternative, demonstrate that it has been reflected in another filing. Further, Blue Ridge suggests that the Companies apply the average rate assumption method to update the regulatory liability. Finally, Blue Ridge recommends reconciliation of the Companies' reported annual TCJA savings reflected in all riders. (2017 Audit Report at 97-98.) [***See paragraph 39 for Commission decision***]

{¶ 39} While the comments submitted in this proceeding were made when the stipulation in Case No. 18-1604-EL-UNC was pending before the Commission, we subsequently approved the stipulation to resolve a number of proceedings before us. In re Ohio Edison Co., The Cleveland Elec. Illum. Co., and The Toledo Edison Co., Case No. 16-481-ELUNC, et al., Opinion and Order (July 17, 2019) (TCJA Resolution Order). By the terms of the stipulation, the Companies agreed to refund all tax savings associated with the TCJA including riders, tax savings not reflected in riders, and the return over time of all of the normalized and non-normalized excess ADIT from January 1, 2018. In fact, OCC noted that the allocation of the rate reduction in refunds related to the excess ADIT being returned to residential customers was a just and reasonable credit to those customers' monthly bills. TCJA Resolution Order at ¶¶ 25-27, 66-67. Furthermore, the approval of the stipulation was consistent with the Commission's earlier determination that customers should receive the savings derived from the TCJA. See In re the Commission's Investigation of the Financial Impact of the TCJA on Regulated Ohio Utility Companies, Case No. 18-47-AU-COI, Finding and Order (Oct. 24, 2018) at ¶ 30. Accordingly, we agree with FirstEnergy and Staff in that Blue Ridge's recommendations involving the TCJA were addressed by the Commission in the TCJA Resolution Order.

{¶ 40} Addressing capitalization of tree-trimming costs, we similarly find that Blue Ridge's recommendations are reasonable and should be adopted on a going forward basis. Although OCC argues that Blue Ridge found that there is a possibility that FirstEnergy is charging customers multiple times for certain tree-trimming costs, Blue Ridge made no such finding. Rather, Blue Ridge determined that, because it disagrees with the Companies' vegetation management policy with respect to clearing the corridor, Blue Ridge was unable to determine whether some costs included in Rider DCR as capital should have instead been treated as expense, according to Blue Ridge's interpretation of the FERC definitions. Blue Ridge, therefore, recommended that the Companies better define capital and expense work associated with clearing the corridor to conform to the FERC USoA definitions. We agree with these recommendations and find that they are consistent with the ultimate treatment of such costs in similar audit proceedings. See, e.g., In re Ohio Power Co., Case Nos. 17-38-EL-RDR and 18-230-EL-RDR, Opinion and Order (June 20, 2019) at ¶ 50. The Companies' reliance on the 2011 DCR Review is misplaced. In that case, the Commission specifically acknowledged Staff and the Companies' agreement that the treatment of ADIT in Rider DCR was intended to be the same methodology approved in the last distribution rate case, further noting that Blue Ridge had subsequently removed the applicable recommendation. The circumstances of this case are clearly different.

{¶ 41} We further note that FirstEnergy has failed to demonstrate any reasonable justification for deviating from the USoA. Moreover, while this Commission does have the power to modify the USoA prescribed by the FERC, if it so chooses, as it applies to utilities operating within this state, we have historically approved such requests when evaluating applications to modify accounting procedures, rather than as a result of an annually conducted rider audit. Even then, however, we are not obligated to approve the request simply because we hold the authority to do so. See, e.g., In re Vectren Energy Delivery of Ohio, Inc., Case No. 15-1238-GA-AAM, Finding and Order (July 6, 2016); In re Cincinnati Gas & Elec. Co., Case No. 93-696-EL-AAM, Entry (Aug. 19, 1993); In re Dayton Power and Light Co., Case No. 91-200-EL-AAM, Entry (Mar. 14, 1991). Thus, we instruct the Companies to implement the recommendations set forth in the 2017 Audit Report as they relate to its current accounting policy for the capitalization of certain clearing activities. However, consistent with Staff's comments, tree removal during the initial clearing of the corridor or an expansion of the existing corridor may continue to be capitalized, which appears to also comply with the FERC USoA. While we are adopting this recommendation on a going forward basis, the Companies are further directed to remove the $3,678,742 attributable to the vegetation management work orders identified by Blue Ridge from the Rider DCR revenue requirement. We find that this guidance is sufficient for the Companies and that no specific audit of the vegetation management activities, as proposed by Blue Ridge, is necessary at this time.

<u>Case No. 18-1542-EL-RDR (2018 DCR Audit)</u>

On January 2, 2019, FirstEnergy filed its Rider DCR application. On April 30, 2019, Blue Ridge filed a report on its audit review of the 2018 Rider DCR. On September 29, 2020, Case No. 18-1542-EL-RDR was consolidated with Case No. 19-1887-EL-RDR. On March 8, 2023, the Commission issued its Finding and Order approving Blue Ridge's and Staff's supplemental recommendations. The follow are excerpts from the Finding and Order.

B. Summary of 2018 Audit Report

{¶ 39} Blue Ridge's 2018 Audit Report assessed 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 FirstEnergy's last Rider DCR compliance audit. The 2018 Audit Report also identified capital additions recovered through Rider LEX, Rider EDR, Rider AMI, or any other subsequent rider authorized by the Commission to recover delivery-related capital additions to ensure they are excluded from Rider DCR. The purpose of the 2018 Audit Report is to identify, quantify, and explain any significant net plant increase within individual accounts. (2018 Audit Report at 8.)

{¶ 40} Blue Ridge examined the overall impact of its findings on the Rider DCR revenue requirement and noted that it found several impactful items, including adjustments for plant recovered through other riders that were not excluded in the Companies' consolidated unitization process, vegetation management expenditures that should not be charged to plant, overstated plant balances due to delays or incorrect in-service dates or retirements not recorded timely, and failure to record a regulatory liability to reflect a refund of the excess deferred taxes owed to ratepayers because the Companies historically collected federal tax expense at 35% but will later pay the deferred portion to the federal government at 21%. Considering all recommended adjustments, the cumulative impact to the Rider DCR revenue requirement amounted to a reduction of $54,006,048. (2018 Audit Report at 8-9.)

{¶ 41} Blue Ridge stated that, upon review of the Companies' processes and controls affecting each of the categories within the Rider DCR, it was satisfied with actions taken regarding internal audits and the process and control of prior Rider DCR recommendations. Blue Ridge concluded that, except for the recommendations regarding vegetation management, the controls were adequate and not unreasonable. Blue Ridge believes that the Companies' vegetation management policy is in conflict with the FERC USoA. Blue Ridge recommends that the Commission address and define vegetation management capital and expense activity on a global basis for all electric utilities in Ohio to eliminate any bias on how vegetation management costs should be recorded (capital versus expense) that is created based on how those costs are recovered. Absent a Commission policy determination, Blue Ridge recommends that Staff undertake a periodic audit of the Companies' vegetation management activities. (Audit Report at 9.)

C. Summary of 2018 Audit Report Recommendations

{¶ 42} Blue Ridge filed its compliance audit of the Rider DCR of the Companies on April 30, 2019. The following are Blue Ridge's recommendations:

1. That the vegetation management costs charged to the Rider DCR associated with activity codes 05, 36, 14, and 30, be excluded from the Rider DCR (2018 Audit Report at 18, 46, 67).

2. That that the Commission address and define vegetation management capital and expense activity on a global basis for all electric utilities in Ohio to eliminate any bias on how vegetation management costs should be recorded (capital versus expense) that may be created based on how those costs are recovered (2018 Audit Report at 18, 46).

3. That the Companies revise their vegetation policy to be consistent with the FERC USoA (2018 Audit Report at 18, 46).

4. That, in the absence of a Commission policy on the determination of capital and expense vegetation management activity, Staff undertake a periodic audit of the Companies' vegetation management activities (2018 Audit Report at 18, 46).

5. That the results of the three internal audits in progress in 2018 be reviewed in next year's Rider DCR audit (2018 Audit Report at 18, 47).

6. That that the Companies include a reconciliation for the work order that was recovered in rider EDR(g) and was not excluded from Rider DCR in a subsequent filing (2018 Audit Report at 18, 53).

7. That the Companies modify the reported summary of exclusions to reflect the total amount of Rider AMI plant that is actually excluded (2018 Audit Report at 18, 55-56).

8. That that the Companies review the charges reflected in the consolidated unitization to ensure that all plant recovered through the Rider AMI are properly identified and excluded from the Rider DCR (2018 Audit Report at 18, 56-57).

9. That the Companies include a reconciliation for the experimental company-owned LED light program work orders in a subsequent filing (2018 Audit Report at 19, 58).

10. That the Companies review the charges reflected in the consolidated unitization to ensure that all plant recovered through the experimental company-owned LED light program (and any other associated plant recovered through other riders) is properly identified and excluded from the Rider DCR (2018 Audit Report at 19, 58-59, 61, 86).

11. That that the percentage of projects over budget be revisited in the next Rider DCR audit to determine whether those 2018-implemented recommendations were successful in reducing the percentage of projects coming in over budget (2018 Audit Report at 19, 73-74).

12. That the Companies include a reconciliation for the two work orders with over-accrued AFUDC and incorrect in-service days in a subsequent filing (2018 Audit Report at 19, 74).

13. As to the work orders that had been completed but are still awaiting retirement to be charged, Blue Ridge recommends that once the retirement is recorded, the Companies calculate the impact on depreciation and on the Rider DCR (2018 Audit Report at 19, 76).

14. That the Companies include a reconciliation in the Rider DCR revenue requirement in a subsequent filing for the two work orders in which retirement was charged after November 30, 2018 (2018 Audit Report at 19, 76-77).

15. That adjustments be made to change the in-service dates and that the Companies include a reconciliation in the Rider DCR revenue requirement in a subsequent filing for the two work orders that had delays of in-service dates resulting in over-accrued AFUDC and overstatement of depreciation expense (2018 Audit Report at 19, 79-80).

16. That a depreciation study be performed, as the last depreciation study was performed using December 31, 2013 balances (2018 Audit Report at 20, 86, 91-92).

17. That the ADIT balances be reflected within the Rider DCR and the overcollection due to the delay in recording the ADIT in the Rider DCR be adjusted within the next Rider DCR filing (2018 Audit Report at 20, 99).

D. Discussion

{¶ 43} In its initial comments, FirstEnergy agrees to most of the 2018 Audit Report's recommendations. The Companies dispute only two of the recommendations, both of which involve vegetation management. The Companies dispute recommendation one, in which Blue Ridge suggests that the vegetation management costs charged to certain activity codes be excluded from Rider DCR. FirstEnergy also disputes recommendation three, in which Blue Ridge recommends that the Companies revise the specified policy to be consistent with the FERC USoA. FirstEnergy asserts that the policy appropriately allows for capitalization as the work removes the threat of vegetation falling into and damaging circuit conductors, thus shortening the useful life of the conductors. FirstEnergy adds that this policy conforms to GAAP and has been in place since 2004, predating the Companies' last base rate case and the existence of Rider DCR. Moreover, the Companies argue that Blue Ridge's reliance on the definitions in the FERC USoA is misplaced because the Commission maintains the full discretion and authority to interpret the FERC USoA definitions as it deems appropriate, citing R.C. 4905.13. According to FirstEnergy, the Commission is within its authority to modify the USoA as it applies to utilities operating within Ohio. See In re the Application of The Columbus S. Power Co., Case No. 94-1812-EL-AAM, Entry (Apr. 13, 1995). Accordingly, FirstEnergy agrees with the recommendations made in the 2018 Audit Report and requests that the Commission adopt Blue Ridge's recommendations, with the exception of the recommendations related to modification of the Companies' vegetation management practices and capitalization policy.

{¶ 44} In their initial comments, Staff adopts their comments filed in the 2019 audit as their comments for the 2018 audit. In short, Staff states that it fully supports the auditor's recommendations. In its comments filed in the 2019 audit, Staff recommends that the expenses related to vegetation management should not be capitalized.

{¶ 45} OCTA filed a letter on October 30, 2020, stating that it reaffirms its position and arguments set forth in its comments filed in the 2019 audit.

{¶ 46} In its comments, OCC recommends that the Commission adopt Blue Ridge's recommendations, although OCC offers additional recommendations of its own. OCC agrees with the audit recommendation that the Rider DCR rate base should be adjusted to remove the vegetation management costs that were improperly capitalized. OCC explains that tree clearing during the initial construction should be capitalized, but that vegetation management not a part of initial construction should be a part of operation and maintenance costs. Citing Ohio Adm. Code 4901:1-9-05(A), OCC also contends that the Commission should order FirstEnergy, as well as all other utilities in the state, to conform with FERC accounting standards. OCC agrees with the auditor recommendation that, if the Commission does not issue a policy on capital and expense vegetation management activity, Staff undertake periodic reviews of each of the Companies' vegetation management policies, practices, and accounting activities. As to its additional recommendations, OCC recommends that the Commission should also reduce approximately $18 million in rate base because of vegetation management expenses that should not have been capitalized. OCC also argues that the Commission should require FirstEnergy to file a report that includes the total amount of vegetation management costs that were improperly charged to consumers since 2017.

{¶ 47} In response, the Companies reiterate that they agree with or have already implemented most of the audit recommendations but disagree with the vegetation management recommendations. The Companies argue that OCC's proposal for additional Staff oversight of the vegetation management activities would be duplicative because the annual Rider DCR audits will serve the same purpose. The Companies also state that the capitalization of those expenses is consistent with their longstanding accounting policy since 2004, so the policy should not be rejected by the Commission now for consistency with the last base rate case. FirstEnergy opposes OCC's recommendations that the Companies be required to file a report of vegetation management costs since 2017.

{¶ 48} In its reply comments, Staff once again agrees with Blue Ridge that the vegetation management costs not associated with establishing a ROW or expanding a ROW should be expensed rather than capitalized. Staff argues that the height of the vegetation is entirely within the Companies' control, and Companies should not be allowed to manipulate the height to change how an activity is treated for accounting purposes. Staff further states that if the Commission allows FirstEnergy to continue capitalizing its vegetation management costs, it should require FirstEnergy to photograph the tree or limb before removal to verify that it met the conditions for capitalization.

{¶ 49} In its reply, OCC reiterates its support of Blue Ridge's recommendations, while conceding that adoption of the auditor's recommendations, adjustments, and OCC suggested modifications might not necessarily result in refunds to customers in this proceeding because of the annual Rider DCR revenue caps currently in place. OCC contends that FirstEnergy improperly capitalized vegetation management costs, which should be excluded from Rider DCR. OCC explains that by capitalizing these expenses, FirstEnergy is able to charge customers a return on and of the expenses, as though the expenses were a rate base item, which increases the rates that customers pay.2 OCC also continues to argue that Staff should more actively review FirstEnergy's capitalization policies until it conforms to FERC accounting standards, as Ohio Adm. Code 4901:1-09-05 requires FirstEnergy to follow FERC accounting standards. OCC also argues that it would be inappropriate for the Commission to establish alternative accounting rules retroactively and that the Commission should order FirstEnergy and other utilities to conform to FERC accounting standards.

{¶ 50} As an initial matter, the Commission notes that there is unanimous consensus on the validity of 15 out of the 17 recommendations proposed by Blue Ridge. We agree with the parties that these 15 recommendations are reasonable and, thus, should be adopted. The only two recommendations that warrant additional discussion are the recommendations related to the Companies' vegetation management accounting practices.

{¶ 51} Blue Ridge recommends that the Companies include a reconciliation for a number of work orders in a subsequent filing, including the work order that was recovered in Rider EDR, the experimental company-owned LED light program work orders, the two work orders with over-accrued AFUDC and incorrect in-service days, the two work orders in which retirement was charged after November 30, 2018, and the two work orders that had delays of in-service dates resulting in over-accrued AFUDC and overstatement of depreciation expense. As to the work orders had been completed but are still awaiting retirement to be charged, Blue Ridge recommends that once the retirement is recorded, the Companies calculate the impact on depreciation and on the Rider DCR.

{¶ 52} Consistent with our earlier findings, the Commission agrees with the recommendations of Blue Ridge and directs the Companies to make all of the necessary changes, including excluding the vegetation management costs associated with activity codes 05, 36, 14, and 30 from Rider DCR, as recommended by Blue Ridge. Finally, as the disputed issues regarding the 2018 Audit Report have been addressed, and no parties have indicated that a hearing would be beneficial in this proceeding, the Commission finds that it is unnecessary to hold a hearing in this matter, as well.

V. CONCLUSION

{¶ 53} Having considered each audit report, the comments filed in each case submitted by FirstEnergy, OCC, OCTA, and Staff, the Commission finds that the recommendations set forth in the 2018 Audit Report and the 2019 Audit Report, and the supplemental recommendations by Staff, are reasonable and should be adopted and that the Companies should fully comply with those recommendations as discussed in this Finding and Order.

VI. ORDER

{¶ 54} It is, therefore,

{¶ 55} ORDERED, That the recommendations of Blue Ridge set forth in the 2018 Audit Report and the 2019 Audit Report, as well as Staff's supplemental recommendations, be adopted, consistent with this Finding and Order. It is, further,

{¶ 56} ORDERED, That FirstEnergy comply with the recommendations set forth in this Finding and Order.

<u>Case No. 19-1887-EL-RDR (2019 DCR Audit)</u>

On January 2, 2020, FirstEnergy filed its Rider DCR application. On June 12, 2020, Blue Ridge filed a report on its audit review of Rider DCR. The parties filed comments and reply comments. On September 29, 2020, Case No. 18-1542-EL-RDR was consolidated with Case No. 19-1887-EL-RDR and additional comments and reply comments were filed. On July 20, 2020, the Companies filed comments stating that they agree with or have already implemented the majority of the 2019 Audit Report's recommendations as specified below. However, the Companies disagree with two of Blue Ridge's recommendation regarding: 1) the proper excess deferred income tax ("EDIT") amounts to reflect in Rider DCR revenue requirements; and 2) exclusion from Rider DCR of the costs for the initial trimming of vegetation which was outside a corridor, or "off-corridor." On March 8, 2023, the Commission issued its Finding and Order approving Blue Ridge's and Staff's supplemental recommendations. The follow are excerpts from the Finding and Order.

B. Summary of 2019 Audit Report

{¶ 12} Blue Ridge's 2019 Audit Report assessed 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 FirstEnergy's last Rider DCR compliance audit. The 2019 Audit Report also identified capital additions recovered through the Line Extension Recovery Rider (Rider LEX), Economic Development Rider (Rider EDR), and the Advanced Metering Infrastructure Rider (Rider AMI), or any other subsequent rider authorized by the Commission to recover delivery-related capital additions to ensure they are excluded from Rider DCR. The purpose of the 2019 Audit Report was to identify, quantify, and explain any significant net plant increase within individual accounts. (2019 Audit Report at 8-9.)

{¶ 13} Blue Ridge examined the overall impact of its findings on the Rider DCR revenue requirement and noted that it found several impactful items, including a project that was cancelled and should not have been in plant-in-service, two work orders with over-accrued allowance for funds used during construction (AFUDC) due to incorrect service dates, over-accrual of AFUDC during inactive periods, work orders in service but not unitized with no associated retirement recorded, a project that was incorrectly recorded in-service while still in progress, vegetation management expenditures that should not be charged to plant, and regulatory liabilities that reflect the refund of the excess deferred taxes owed to ratepayers was different from the amount approved in the Commission-approved stipulation. Considering all recommended adjustments, the cumulative impact to the Rider DCR revenue requirement amounted to a reduction of $6,532,887. (2019 Audit Report at 9.)

{¶ 14} Blue Ridge stated that, upon review of the Companies' processes and controls affecting each of the categories within the Rider DCR, it was satisfied with actions taken regarding internal audits. Blue Ridge concluded that, except for the recommendations regarding vegetation management, the controls were adequate and not unreasonable. Blue Ridge believes that the Companies' vegetation management policy is in conflict with the FERC Uniform System of Accounts (USoA). Blue Ridge recommends that the Commission address and define vegetation management capital and expense activity on a global basis for all electric utilities in Ohio to eliminate any bias on how vegetation management costs should be recorded (capital versus expense) that is created based on how those costs are recovered. Absent a Commission policy determination, Blue Ridge recommends that Staff undertake a periodic audit of the Companies' vegetation management activities. (2019 Audit Report at 10.)

{¶ 15} Blue Ridge found a high percentage of work that was over budget by more than 15 percent. While Blue Ridge did not recommend an adjustment to these projects specifically, it did recommend that the Companies further enhance and refine their project estimating process. Further, Blue Ridge found that the Companies have experienced a significant increase in the unitization backlog. Blue Ridge recommends that the Companies make a concerted effort to reduce the volume of backlog work orders. (Audit Report at 11-12.)

{¶ 16} Blue Ridge also reviewed the Tax Cuts and Jobs Act (TCJA) effect. Blue Ridge recommends reversing all accumulated deferred income taxes (ADIT) adjustments, except for reclasses between normalized and non-normalized property, so that the total property ADIT reflected in Rider DCR matches the total property ADIT as of December 31, 2017, per the Stipulation. In re the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company to Implement Matters Relating to the Tax Cuts and Jobs Act of 2017, Case No. 18-1604-EL-UNC, Supplemental Stipulation and Recommendation (TCJA Stipulation) (Jan. 25, 2019), Supplemental Attachment A. Blue Ridge notes that there are no true-up provisions in the TCJA Stipulation that would allow the Companies to adjust those balances. Blue Ridge states that it has not and cannot validate whether the reclass from property to non-property was appropriately reflected in the new credit mechanism. (Audit Report at 14-15.)

C. Summary of 2019 Audit Report Recommendations

{¶ 17} Blue Ridge filed its compliance audit of the Rider DCR of the Companies on April 30, 2019. The following are Blue Ridge's recommendations:

1. That FirstEnergy's Customer Request Work Scheduling System modernization pre-implementation internal audit results be reviewed by the Rider DCR auditors when they become available (2019 Audit Report at 16, 24-25).

2. That the Companies did not provide sufficient detailed vegetation management documentation to support the inclusion of capital charges in Rider DCR or to support verification of work according to current vegetation policies. Blue Ridge recommends that:

a. The Companies supplement their vegetation management policies and procedures to provide more detail in support of the timesheet task codes used by contractors;

b. The Commission address and define vegetation management capital and expense activity on a global basis for all electric utilities in Ohio to eliminate any bias on how vegetation management costs should be recorded (capital versus expense) that is created based on how those costs are recovered; and

c. Absent a Commission policy on the determination of capital and expense vegetation management activity, the Companies revise their vegetation management accounting policy to be consistent with the FERC USoA. (2019 Audit Report at 16-17, 40-41, 42, 62).

3. That the Companies further enhance and refine their project estimating process. (2019 Audit Report at 17, 66).

4. That because the software capitalization process, by which fees between capital and maintenance are split, is activated by a vendor, internal audit should review the process to determine that the split of charges between capital and expense is not unreasonable (2019 Audit Report at 17, 81).

5. That the Companies include a reconciliation for the five work orders that were in-service, but not unitized in a subsequent filing (2019 Audit Report at 17, 82).

6. That the Companies make a concerted effort to reduce the volume of backlog work orders both in quantity and dollar value (2019 Audit Report at 17, 89).

7. That that the Companies rectify the inconsistent formula in the depreciation estimates in FERC account 390.3 between actual and estimated calculation by the next filing date (2019 Audit Report at 17-18, 94).

8. That all ADIT adjustments be reversed, except for reclasses between normalized and non-normalized property, so that the Total Property ADIT reflected in Rider DCR matches the Total Property ADIT as of December 31, 2017, in the stipulation (2019 Audit Report at 18, 104).

D. Discussion

{¶ 18} In their initial comments, the Companies agree with most of the conclusions and recommendations in the 2019 Audit Report and request that the Commission adopt the recommendations, noting that most of which have already been implemented. However, FirstEnergy disagrees with two of the recommendations. First, the Companies disagree with the recommendation to reverse the ADIT adjustments the Companies made after the TCJA Stipulation was filed. The Companies contend that the balances in the TCJA Stipulation were preliminary, as the best available balances at the time, and were labeled as "illustrative" because they were not the actual final balances. FirstEnergy argues that even though the TCJA Stipulation doesn't include a "true-up reconciliation" provision, the TCJA Stipulation does require the use of actual final balances, which require a true-up. Second, FirstEnergy disputes recommendation number two, that off-corridor vegetation management costs the Companies capitalized should instead be recorded as maintenance expenses. The Companies argue that the work removes the threat of trees falling into the circuit conductors, which extend the in-service life of the conductors. FirstEnergy adds that this policy conforms to Generally Accepted Accounting Practices (GAAP) and has been in place since 2004, predating the Companies' last base rate case and the existence of Rider DCR. Moreover, the Companies argue that Blue Ridge's reliance on the definitions in the FERC USoA is misplaced because the Commission maintains the full discretion and authority to interpret the FERC USoA definitions as it deems appropriate, citing R.C. 4905.13. According to FirstEnergy, the Commission is within its authority to modify the USoA as it applies to utilities operating within Ohio. See In re the Application of The Columbus S. Power Co., Case No. 94-1812-EL-AAM, Entry (Apr. 13, 1995). Also, in recommendation number two, FirstEnergy disagrees that it should require more detail in support of timesheet task codes used by contractors and that twelve work orders be removed from Rider DCR because of insufficient documentation. FirstEnergy emphasizes that there are multiple levels of approval for the internal processing of invoices and field verification for accuracy of recorded timesheets. FirstEnergy also argues that it would be expensive to require additional support for contractor timesheet task codes. {¶ 19} In its initial comments, Staff supports the recommendations put forth by Blue Ridge in the 2019 Audit Report. Staff also recommends that the Commission establish a concrete goal for FirstEnergy to reduce the current backlog work orders and that the Companies provide a process improvement plan that would reduce the high volume of budget variances. Staff also notes that it compared the results of the compliance review conducted in Case Nos. 17-2009-EL-RDR and 18-1542-EL-RDR with the recommendations proposed in the 2019 Audit Report and confirms all the recommendations proposed by Blue Ridge have been implemented except for two: the TCJA-related recommendations, which have been addressed in the stipulation in Case No. 18-1604-EL-UNC, and the accounting treatment of the expenses related to vegetation management. Staff adds that it supports Blue Ridge's recommendation regarding the accounting treatment of these expenses. However, Staff adds the additional recommendation that the Companies be required to document the capitalized vegetation management activity with photographs rather than schematics or drawings.

{¶ 20} In its comments, OCC agrees with Blue Ridge's recommendations in the 2019 Audit Report. OCC supports the recommendations of Blue Ridge related to the vegetation management costs of FirstEnergy and argues that the Commission should direct FirstEnergy to require more supportive documentation for vegetation management expenses and to revise its vegetation management accounting policies to be consistent with the FERC USoA. OCC also opposes FirstEnergy's adjustment to the ADIT balances because the parties agreed to the balances and the Commission approved the balances in the TCJA Stipulation. OCC emphasizes that the balances in the TCJA Stipulation were based on "final, audited balances." However, OCC agrees with the audit recommendation that the Companies' "reclass" adjustments to the TCJA Stipulation balances be retained.

{¶ 21} In response, the Companies reassert that the ADIT balances in the TCJA Stipulation were merely illustrative and the adjusted amounts are based on better information. The Companies also argue that it would be inappropriate to accept only the Companies' "reclass" adjustments to the TCJA Stipulation balances, pointing out that would lead to some information being final and other information subject to revision. The Companies also reiterate that their vegetation management accounting practices should be allowed. They noted that no party has challenged the prudence of the vegetation management policies, so photographic evidence of vegetation management should not be required. FirstEnergy also states that it does not object to establishing a concrete goal for reducing the unitization backlog but advocates for a goal based on dollar amount rather than age, which would yield more accurate depreciation expenses. Although Staff recommended that the Companies refine their budget estimating process, the Companies note that focusing on the number of projects that exceed estimates is not a representative measure. Specifically, FirstEnergy notes that their total actual-to-budget variance from December 2018 to November 2019 was less than three percent.

{¶ 22} In its reply comments, Staff once again agrees with Blue Ridge's recommendations related to the accounting policy for the capitalization of initial vegetation management practices. Staff notes that it does not believe the Companies have presented a compelling rationale as to why their accounting treatment of this activity, namely the capitalization of certain costs, is appropriate. Staff opposes FirstEnergy's rationale that the vegetation management costs become capitalized after FirstEnergy refrains from vegetation management for an extended period of time, which allows the trees inside the right-of-way (ROW) to grow taller than the allowed height. Staff argues that the height of the vegetation is entirely within the Companies' control, and the Companies should not be allowed to manipulate the height to change how the activity is treated for accounting purposes. Staff reiterates its recommendation that a photograph of the tree (or limb) that demonstrates its horizontal and vertical distance from the corridor prior to treatment should be required before cutting to verify it met the conditions for removal and capitalization. Staff states that as to the ADIT findings, it continues to recommend reversing the ADIT adjustments, with the exception of reclasses between normalized and non-normalized property, so that the numbers match the TCJA Stipulation.
{¶ 23} OCC argues that the Commission should follow the recommendations from Blue Ridge, Staff, and OCC and base the ADIT on the TCJA Stipulation rather than the adjusted numbers used by FirstEnergy. OCC also argues that the off-corridor vegetation management costs should be recorded as operation and maintenance expenses rather than capitalized, per Blue Ridge's recommendation. While recognizing that the initial ROW clearing could be capitalized, OCC asserts all subsequent ROW clearing costs should be expensed as maintenance activity, consistent with FERC USoA guidance.

{¶ 24} In its comments, OCTA argues that the Commission should adopt the auditor's recommendation and reject the adjusted ADIT balances used by FirstEnergy. OCTA notes that the adjusted ADIT balances are inconsistent with the TCJA Stipulation, to which OCTA was a party, and the Commission should not use the adjusted balances for the calculation of Rider DCR or for future pole rates. OCTA also argues that the Commission should instruct its Staff and other auditors to examine the ADIT values in future proceedings, including the pole attachment rate proceedings, to ensure that the appropriate ADIT values are consistently used.

{¶ 25} As an initial matter, the Commission notes that there is unanimous consensus on the validity of six out of the eight recommendations proposed by Blue Ridge. We agree with the parties that these six recommendations are reasonable and, thus, should be adopted. The only two recommendations that warrant additional discussion are the recommendations related to the Companies' vegetation management accounting practices and the TCJA.

{¶ 26} In July 2019, the Commission approved the TCJA Stipulation. In re Ohio Edison Co., The Cleveland Elec. Illum. Co., and The Toledo Edison Co., Case No. 16-481-EL-UNC, et al., Opinion and Order (July 17, 2019) (TCJA Resolution Order). By the terms of the stipulation, the Companies agreed to refund all tax savings associated with the TCJA including riders, tax savings not reflected in riders, and the return over time of all of the normalized and non-normalized excess ADIT from January 1, 2018. TCJA Resolution Order at ¶¶ 25-27, 66-67. Furthermore, the approval of the stipulation was consistent with the Commission's earlier determination that customers should receive the savings derived from the TCJA. See In re the Commission's Investigation of the Financial Impact of the TCJA on Regulated Ohio Utility Companies, Case No. 18-47-AU-COI (TCJA Investigation), Finding and Order (Oct. 24, 2018) at ¶ 30. While the Companies assert that they filed compliance tariffs for the Tax Savings Adjustment Rider (Rider TSA) on July 26, 2019, in Case No. 18-1656-EL-ATA, alleging those tariffs reflect the "final, audited balances," the objections presented in the comments submitted in this proceeding raise questions as to whether those compliance tariffs conform to the directives in the TCJA Resolution Order or the Commission's findings in the TCJA Investigation. Importantly, Staff seems to suggest that the Companies are making adjustments that fundamentally change what amounts should be included in the excess ADIT balances. With these considerations in mind, the Commission finds it appropriate for the Companies to restore the excess ADIT balances to reflect the stipulated amounts and allow the Commission to consider the parties' arguments and the Companies' adjustments, particularly the claim that there is no excess ADIT attributable to AFUDC equity, within the next Rider TSA annual filing. Thus, we find that Blue Ridge's recommendations as to this issue should be adopted in their entirety. Similarly, we also agree with Blue Ridge that the reclass adjustments may remain in place, as they have no impact on the total liability to be refunded to customers and would not interfere with our directives in the TCJA Investigation.

{¶ 27} Addressing capitalization of tree-trimming costs, the Commission has already determined that the Companies should follow the FERC USoA. See In re Ohio Edison Co., The Cleveland Elec. Illum. Co., and The Toledo Edison Co., Case Nos. 16-2041-EL-RDR and 17-2009-EL-RDR, Finding and Order (June 16, 2021) at ¶ 40. Although the Companies argue that their vegetation management removes the threat of trees falling into the circuit conductors, which extend the in-service life of the conductors, the only instance in which clearing activities should be capitalized is during an initial clearing or official expansion of the ROW. The Commission has previously found that initial clearing includes removing vegetation from the ROW when the ROW is first established or when a ROW is permanently expanded beyond the previously established ROW. See In re Ohio Power Co., Case Nos. 17-38-EL-RDR and 18-230-EL-RDR, Opinion and Order (June 17, 2020) at ¶ 25, 50. We instruct the Companies to implement the recommendations set forth in the 2019 Audit Report as they relate to its current accounting policy for the capitalization of certain clearing activities including removing the costs from Rider DCR that were charged to capital task codes 05, 14, 30, and 36, as recommended by Blue Ridge. However, tree removal during the initial clearing of the corridor or an expansion of the existing corridor may continue to be capitalized.

{¶ 28} In terms of requiring additional documentation, FirstEnergy has the burden of proof to demonstrate that the amounts sought for recovery under Rider DCR are not unreasonable in each annual audit. If the Companies are unable to provide sufficient evidence to meet this burden at the time of the audit, the Commission will deny recovery of the disputed costs.

{¶ 29} As to Blue Ridge's recommendation that the Commission define vegetation management capital and expense activity on a global basis for all electric utilities in Ohio, we note that even if we determined this was necessary, an audit proceeding such as this would not be the right proceeding to make such a generalized directive.

{¶ 30} Blue Ridge also recommends that the Companies include a reconciliation for the five work orders that were in-service, but not unitized in a subsequent filing. The Companies agree and have stated that they will make an adjustment to the Rider DCR revenue requirement in a subsequent filing to reflect this recommendation. We find the suggested reconciliation to be appropriate.

{¶ 31} As to the recommendation that the Commission establish a concrete goal for FirstEnergy to reduce the current backlog of work orders, the Companies do not oppose a concrete goal for reducing the unitization backlog but advocate for a goal based on dollar amount rather than age. As to the recommendation that the Companies provide a process improvement plan that would reduce the high volume of budget variances, the Companies argue that focusing on the number of projects that exceed estimates is not a representative measure. The Commission finds that FirstEnergy shall work with Staff to create an appropriate goal, which can be reviewed in the next Rider DCR filing. Although FirstEnergy notes that their total actual-to-budget variance was less than three percent, a process improvement plan would help to decrease the variance.

{¶ 32} Consistent with our earlier findings, the Commission agrees with the recommendations of Blue Ridge and directs the Companies to make all of the necessary changes. Finally, as the disputed issues regarding the 2019 Audit Report have been addressed, and no parties have indicated that a hearing would be beneficial in this proceeding, the Commission finds that it is unnecessary to hold a hearing in this matter.

....

V. CONCLUSION

{¶ 53} Having considered each audit report, the comments filed in each case submitted by FirstEnergy, OCC, OCTA, and Staff, the Commission finds that the recommendations set forth in the 2018 Audit Report and the 2019 Audit Report, and the supplemental recommendations by Staff, are reasonable and should be adopted and that the Companies should fully comply with those recommendations as discussed in this Finding and Order.

VI. ORDER

{¶ 54} It is, therefore,

{¶ 55} ORDERED, That the recommendations of Blue Ridge set forth in the 2018 Audit Report and the 2019 Audit Report, as well as Staff's supplemental recommendations, be adopted, consistent with this Finding and Order. It is, further,

{¶ 56} ORDERED, That FirstEnergy comply with the recommendations set forth in this Finding and Order.

<u>Case No. 20-1629-EL-RDR (2020 DCR Audit and Expanded Scope)</u>

On January 5, 2021, FirstEnergy filed its Rider DCR application. On December 16, 2020, Blue Ridge was selected to conduct the 2020 annual audit of FirstEnergy's DCR. On March 10, 2021, the PUCO directed Blue Ridge to expand the scope of the 2020 annual audit of FirstEnergy's DCR costs to include payments made to a number of vendors, recently disclosed by FirstEnergy Corp. On August 3, 2021, Blue Ridge filed its report on its audit of Rider DCR and its findings and recommendations regarding the review of payments made to a number of vendors.

On October 4, 2021, the Companies filed comments stating that agrees with or have already implemented the majority of Blue Ridge adjustments and recommendation. The Companies stated that that Blue Ridge's recommendation regarding the capitalization of vegetation management costs was adopted by the Commission in Case No. 17-2009-EL-RDER and is thus resolved as set forth in that case. However, the Companies disagree with Blue Ridge's recommendations regarding the proper EDIT amounts to reflect in the Rider DCR revenue requirements. The Companies argued that the 12/31/17 EDIT balances reflect in Rider DCR are consistent with the terms of the Stipulation and Recommendation approved by the Commission on 7/17/19 in Case No. 18-1604-EL-UNC.

For the DCR Year 2020 assessment, Blue Ridge had 24 adjustments and six recommendations. Blue Ridge's adjustments and recommendation are summarized as follows:

Adjustment #1: Blue Ridge recommends that capital costs associated with certain vegetation management capital cost codes be disallowed because they do not conform to FERC accounting. Blue Ridge has estimated the impact to the current DCR revenue requirements for CEI to be $(1,686,259).

Adjustment #2: Blue Ridge recommends that capital costs associated with certain vegetation management capital cost codes be disallowed because they do not conform to FERC accounting. Blue Ridge has estimated the impact to the current DCR revenue requirements for OE to be $(1,025,521).

Adjustment #3: Blue Ridge recommends that capital costs associated with certain vegetation management capital cost codes be disallowed because they do not conform to FERC accounting. Blue Ridge has estimated the impact to the current DCR revenue requirements for TE to be $(402,349).

Adjustment #4: Blue Ridge found OE work order 13300165 was not closed timely after the work was complete. Blue Ridge has estimated the impact to the current DCR revenue requirements to be $(31,007).

Adjustment #5: Blue Ridge found OE work order 14431541 was not closed timely after the work was complete. Blue Ridge has estimated the impact to the current DCR revenue requirements to be $(11,373).

Adjustment #6: Blue Ridge found TE work order IF-TW-000025-1 was not closed timely after the work was complete. Blue Ridge has estimated the impact to the current DCR revenue requirements to be $(1,406).

Adjustment #7: Blue Ridge found that the Companies included LTIP compensation in the DCR. Due to the LTIP's focus on shareholder interest (which can be detrimental to customers), Blue Ridge recommends that all the costs of the LTIP included in Rider DCR be removed. Removing the LTIP costs results in a total DCR revenue requirement impact of $(228,599).

Adjustment #8: Replacement of assets in which retirements had not been recorded. CE work order 15599597 would impact the revenue requirements by $(6).

Adjustment #9: Replacement of assets in which retirements had not been recorded. OE work order 000131-1 would impact the revenue requirements by $(792).

Adjustment #10: Replacement of assets in which retirements had not been recorded. OE work order 000132-1 would impact the revenue requirements by $(29,541).

Adjustment #11: Replacement of assets in which retirements had not been recorded. OE work order 000135-1 would impact the revenue requirements by $2,383.

Adjustment #12: Replacement of assets in which retirements had not been recorded. OE work order 000136-1 would impact the revenue requirements by $(740).

Adjustment #13: Replacement of assets in which retirements had not been recorded. OE work order 000137-1 would impact the revenue requirements by $(429).

Adjustment #14: Replacement of assets in which retirements had not been recorded. OE work order 000247-1 would impact the revenue requirements by $(1,582).

Adjustment #15: Replacement of assets in which retirements had not been recorded. CE work order 14861458 would impact the revenue requirements by $(52,688).

Adjustment #16: Replacement of assets in which retirements had not been recorded. CE work order 001603 would impact the revenue requirements by $(23,726).

Adjustment #17: Replacement of assets in which retirements had not been recorded. OE work order 16616511 would impact the revenue requirements by $(156).

Adjustment #18: Replacement of assets in which retirements had not been recorded. TE work order 15776111 would impact the revenue requirements by $(2,281).

Adjustment #19: Replacement of assets in which retirements had not been recorded. TE work order 15997031 would impact the revenue requirements by $(537).

Adjustment #20: CEI FERC account 398 reflects a zero, as opposed to negative, net book value on an actual basis, which indicates the related assets are to be accounted for as though they have a finite life. This treatment and logic are consistent with the Companies' handling of intangible account FERC 309.3. Blue Ridge recommends (1) an adjustment to reduce CEI's annual depreciation expense by $4,147 and (2) the Companies review and rectify the formulas for all amortizing accounts by the next filing date. The adjustment has an effect on revenue requirements of $(4,158).

Adjustment #21: The treatment of EDIT in Rider DCR from the prior investigations has been resolved per the Stipulation agreed to by the Parties and approved by the Commission in Case No. 18-1604-EL-UNC. The property related EDIT balances, normalized and non-normalized, are accounted for between the Rider DCR and new credit mechanism. Blue Ridge recommends the normalized and non-normalized property EDIT balances under total ADIT be restated. The CE adjustment would impact revenue requirements by $(795,662).

Adjustment #22: The treatment of EDIT in Rider DCR from the prior investigations has been resolved per the Stipulation agreed to by the Parties and approved by the Commission in Case No. 18-1604-EL-UNC. The property related EDIT balances, normalized and non-normalized, are accounted for between the Rider DCR and new credit mechanism. Blue Ridge recommends the normalized and non-normalized property EDIT balances under total ADIT be restated. The OE adjustment would impact revenue requirements by $(1,331,512).

Adjustment #23: The treatment of EDIT in Rider DCR from the prior investigations has been resolved per the Stipulation agreed to by the Parties and approved by the Commission in Case No. 18-1604-EL-UNC. The property related EDIT balances, normalized and non-normalized, are accounted for between the Rider DCR and new credit mechanism. Blue Ridge recommends the normalized and non-normalized property EDIT balances under total ADIT be restated. The TE adjustment would impact revenue requirements by $(158,722).

Adjustment #24: Work Order CE-000827 had an in-service date prior to the scope period. In September 2020 an adjustment was made to reverse charges representing MARCs Radio user fees that had been incorrectly capitalized up until September 2020. The charges were adjusted off the project and into operations expense. The adjustment was $(610,734) offset by invoice charges during the period of $198,063. The MARCs Radio user fees have been capitalized and included in the DCR since May 2018. The Companies adjustment to the Rider DCR revenue requirement will be included in a future Rider DCR filing for the cumulative revenue requirement impact. Blue Ridge has estimated the impact to the current DCR revenue requirement to be $(9,813). The total estimated CE DCR quarterly revenue requirement impact is $(134,947).

Beyond the above adjustments, for the DCR Year 2020 assessment, Blue Ridge summarizes its recommendations as follows:

Recommendation #1: In review of Sarbanes-Oxley audits, Blue Ridge found one audit with a significant finding related to the payment of invoices through the non-purchase order process without valid contracts. The payment authority control was circumvented. Remediation testing on this issue is not yet complete, and this issue could have implications related to the DCR. Blue Ridge recommends that once the remediation testing is complete that the results be reviewed in the next DCR audit.

Recommendation #2: Absent a Commission policy on the determination of capital and expense vegetation management activity, Blue Ridge recommends that the Companies revise their VM Accounting Policy to be consistent with the FERC Uniform System of Accounts.

Recommendation #3: During work order testing, Blue Ridge found 10 work orders, or 29% of the work orders that had estimates and 16% of the total work orders, had incomplete work order unit estimates that resulted in those work orders not being able to close to Completed Construction Not Classified (CCNC). This appears to be incomplete project estimates. The controls in place related to moving dollars from Construction Work in Progress (CWIP) to CCNC properly blocked the work orders from closing. None of the work orders appear to be blankets. They all are specific work orders. Since the work orders are declared in service, over accrual of AFDUC is not an issue. This issue appears to be one of process. Blue Ridge recommends that the Companies determine why the estimates were incomplete and lacked utility accounts and what can be done to mitigate this type of error in the future. Not closing the work orders to CCNC timely also delays the possibility of unitizing the work orders and increases the work order backlog.

Recommendation #4: Blue Ridge found that several work orders within the scope period did not have retirements and/or cost of removal recorded. Blue Ridge recommends that the DCR revenue requirements be adjusted to reflect the retirements and COR that were not recorded on in-serviced work orders as of December 31, 2020. As the delays in recording retirements and cost of removal is a timing issue, we recognize that the effect on the DCR revenue requirements is self-correcting. However, to ensure that the DCR revenue requirements reflects the recording of retirements, we recommend that the Companies demonstrate in the next audit how those retirements and COR included in this report were individually adjusted for the DCR revenue requirement.

Recommendation #5: For several work orders that Blue Ridge found were significantly over budget, the Companies explained their variances as due to competitive bidding and the fact that Overheads and AFUDC were not included in the original budget. While Blue Ridge understands that AFUDC and overheads may or may not be included in the original estimates, which may depend on the nature of the work order, the management of costs resides primarily with each Project Manager. Therefore, Blue Ridge recommends that the project managers make a more concerted effort to monitor total project costs to ensure the project costs remain in line with the total project cost estimate.

Recommendation #6: Blue Ridge recommends that the Companies continue to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level.

Regarding the expanded scope of payments made to a number of vendors, Blue Ridge reconciled the payments to a recovery mechanism and recommends the refunds in the following table.

Recommended Refunds by Recovery Mechanism and Ohio Operating Company

Recovery Mechanism	CE	OE	TE	Total
Base Rates-Refund through non-bypassable rider	$ 1,962,811	$ 311,097	$ 132,580	$ 2,406,488
Rider DSE-Refund through final reconciliation	1,489,640	1,805,510	854,851	$ 4,150,001
Rider DCR	-	-	-	-
Pole Attachment-Adjust in next Pole Attachment rate filing	22,325	47,656	12,869	82,850
Total Recommended Refunds	**$ 3,474,776**	**$ 2,164,263**	**$ 1,000,300**	**$ 6,639,339**

In addition to the refunds, Blue Ridge recommends that the $7,445,573 recorded as capital be identified and excluded from rate base in any future base rate case.

FirstEnergy filed comments on October 4, 2021 and stated it accepted Blue Ridge's recommendations regarding the payments.

On September 29, 2021, PUCO directed Blue Ridge to expand the scope of its Rider DCR audit in Case No. 20-1629-EL-RDR to determine whether FirstEnergy Corp. recovered from Ohio ratepayers any costs related to the Stadium Naming Rights and Sponsorship Agreement ("Agreement") between FirstEnergy Corp. and the Cleveland Browns. On November 19, 2021, Blue Ridge filed its report regarding the ratepayer funding of the Stadium Naming Rights. Based on its review of the accounting records and responses to discovery requests, Blue Ridge found that the expenses related to the Cleveland Browns stadium naming rights were not recovered from Ohio ratepayers.

The parties filed comments and reply comments. As of the date of this report, the Commission has not ruled on the findings and recommendations in the reports.

On August 24, 2022, the Commission, at the request of the United States Attorney, Southern District of Ohio, stayed the proceedings in Case Nos. 17-974-EL-UNC (Corporate Separation Audit), 17-2474-EL-RDR (Rider DMR Audit), 20-1502-EL-UNC (Political and Charitable Spending Audit), and 20-1629-RDR (2020 Rider DCR Audit) for six months.

On March 8, 2023, the Commission, at the request of the United States Attorney, Southern District of Ohio, extended the stay in this proceeding for another six months.

Case No. 21-1038-EL-RDR (2021 DCR Audit)

On May 18, 2022, Blue Ridge filed a report on its audit review of the 2021 Rider DCR.

For the DCR year 2021, Blue Ridge proposes the following adjustments:

Adjustment #1: Delayed Retirement—16080601— Retirements of $82,424.11 were recorded 12/2021. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(4,785).

Adjustment #2: Delayed Retirement—16477291— Retirements of $426.13 were recorded 2/2022. While the $(25) impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included within the total impact calculations.

Adjustment #3: In regard to OE's FERC account 350, incorrect entries were booked in PowerPlant for the sale of property and transfer of easement to FERC 35012 from FERC 31020. The Companies stated that a COR adjustment will occur in 2022 for the $1,393.20 in the correction. While the $139 impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included within the total impact calculations.

Adjustment #4: In regard to adjustments for Vegetation Management, the Companies excluded more than they should have for cost codes 05, 14, 30, and 36. Blue Ridge recommends that the over-excluded capital costs of $118,800 associated with the Companies' actual spend be allowed. Total impact equals $21,307.

Adjustment #5: In regard to FEOH work order ITS-SC-00614-1, the Compliance Filing did not exclude all amounts for this work order. Blue Ridge recommends that an additional $187,508 should be excluded to account for the entire work order activity. Total impact equals $(17,351).

Adjustment #6: In the expanded scope of last year's audit, Blue Ridge had recommended (and FirstEnergy agreed) that $7,445,573 recorded as capital be identified and excluded from rate base in any future base rate case. Of that total amount, $6,941,573 was included in the Rider DCR between 2014 and 2020. In October 2020 and March 2021, the Companies removed the total amount, $6,941,573, from plant in service. Upon further review, the Companies identified that $531,650 of the total adjustment was removed from plant in service associated with Rider AMI. It was determined that instead of removing the $531,650 from Rider AMI, the amount should have been excluded from the Rider DCR. Therefore, the Companies recommend (and Blue Ridge concurs) that an adjustment to the Rider DCR Revenue Requirements to reflect the removal of $531,650. Total impact equals $(67,839).

Adjustment #7: In regard to OECO work order 16471269 in testing step T2A, Blue Ridge recommends (and the Companies agree) that the Companies reclassify $471,374.07 from FERC 353 to FERC 362. OECO Depreciation Accrual Rates for FERC 353 equals 2.2%, and FERC 362 equals 2.55%. They will also need to adjust depreciation expense and accumulated reserve for depreciation for the change in depreciation rates. Blue Ridge estimates the effect on OE DCR revenue requirements to be $6,443.

Adjustment #8: In regard to OECO work order 16685314 in testing step T2A, Blue Ridge recommends (and the Companies agree) that the Companies reclassify $856,140.01 from FERC 353 to FERC 362. OECO Depreciation Accrual Rates for FERC 353 equals 2.2%, and FERC 362 equals 2.55%. They will also need to adjust the depreciation expense and accumulated reserve for depreciation for the change in depreciation rates. Blue Ridge estimates the effect on OE DCR revenue requirements to be $11,777.

Adjustment #9: (Not used)

Adjustment #10: In regard to TECO work order TW-001259-TQ in testing step T2A, Blue Ridge recommends (and the Companies agree) that the Companies reclassify $89,338.23 of user fees from capital recovered through the DCR to O&M expense. Blue Ridge estimates the effect on TE DCR revenue requirements to be $(12,902).

Adjustment #11: In regard to TECO work order TW-001820-F in testing step T2A, Blue Ridge found that the Companies appropriately charged the furniture relocation as O&M expense, and it was not included in the DCR. However, the Companies charged the asbestos remediation as cost of removal rather than to the ARO liability. Blue Ridge recommends (and the Companies agree) that an adjustment should be made to move the charges to the ARO, which is not included in the Rider DCR. Blue Ridge estimates the effect on TE DCR revenue requirements to be $4,286.

Adjustment #12: In regard to OECO work order 14695377 in testing step T5B, Blue Ridge recommends that the Companies adjust AFUDC for $758.11 for September 2015–December 2018 where no construction work was in process. While the $(121) impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included within the total impact calculations.

Adjustment #13: In regard to OECO work order OE-002031-TQ in testing step T7A, Blue Ridge recommends (and the Companies concur) that AFUDC should be reduced by $1,591,043.75. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(223,687).

Adjustment #14: In regard to CECO work order 15475167 in testing step T8C, Blue Ridge recommends that, when the actual retirements and cost of removal are known, they be recorded. Based on the Companies' estimate, Blue Ridge estimates the effect on CE DCR revenue requirements to be $26,897.

Adjustment #15: In regard to CECO work order 15777764 in testing step T8C, Blue Ridge recommends that, when the actual retirements and cost of removal are known, they be recorded. Based on the Companies' estimate, Blue Ridge estimates the effect on CE DCR revenue requirements to be $1,270.

Adjustment #16: In regard to CECO work order 16877986 in testing step T8C, Blue Ridge recommends that, when the actual retirements and cost of removal are known, they be recorded. Based on the Companies' estimate, the $640 impact is immaterial to the Rider DCR revenue requirement calculations, nevertheless, the adjustment has been included within the total impact calculations.

Adjustment #17: In regard to CECO work order CE-001786-DO-MSTM in testing step T8C, Blue Ridge recommends that, when the actual retirements are known, they be recorded. Based on the Companies' estimate, Blue Ridge estimates the effect on CE DCR revenue requirements to be $(2,250)

Adjustment #18: In regard to TECO work order 15965209 in testing step T8C, Blue Ridge recommends that, when the actual retirements and cost of removal are known, they be recorded. Based on the Companies' estimate, the $369 impact is immaterial to the Rider DCR revenue requirement calculations; nevertheless, the adjustment has been included within the total impact calculations.

Adjustment #19: In regard to OECO work order IF-OE-000144-1 in testing step T8C, Blue Ridge recommends that, when the actual retirements and cost of removal are known, they be recorded. Based on the Companies' estimate, Blue Ridge estimates the effect on CE DCR revenue requirements to be $9,723.

Adjustment #20: In regard to OECO work order 14695377 in testing step T8C, Blue Ridge found that the Companies understated cost of removal by $63,805.. Blue Ridge estimates the effect on OE DCR revenue requirements to be $6,367. Blue Ridge recommends that, when the actual retirements are known, they be recorded and that the next audit confirm that the DCR revenue requirements was adjusted.

Adjustment #21: In regard to OECO work order 15523534 in testing step T8C, Blue Ridge found that as a result of the retirements being recorded outside the audit scope period. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(2,401).

Adjustment #22: In regard to OECO work order 16471269 in testing step T8C, Blue Ridge recommends that, when the actual retirements are known, they be recorded and that the next audit confirm that the DCR revenue requirements was adjusted. Blue Ridge estimates the effect on OE DCR revenue requirements to be $(1,325).

Adjustment #23: In regard to OECO work order 16685314 in testing step T8C, Blue Ridge recommends that, when the actual retirements are known, they be recorded and that the next audit confirm that the DCR revenue requirements was adjusted. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(2,166).

Adjustment #24: In regard to OECO work order OE-002031-TQ in testing step T8C, Blue Ridge found that as a result of cost of removal charged in error by $772.50 an adjustment to the revenue requirement is necessary. While the $(77) impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included within the total impact calculations.

Adjustment #25: In regard to TECO work order 16258499 in testing step T8C, Blue Ridge found that the retirements were recorded outside the DCR scope period, which ended November 30, 2021, and an adjustment is necessary. Blue Ridge estimates the effect on TE DCR revenue requirements to be $(3,399).

Adjustment #26: In regard to TECO work order 16933289 in testing step T8C, Blue Ridge found that the retirements were recorded outside the DCR scope period ended November 30, 2021, and therefore, an adjustment is necessary to reduce UPIS and the DCR by $680.92. While the $(61) impact is immaterial to the Rider DCR revenue requirement calculations, the adjustment has been included within the total impact calculations.

Adjustment #27: In regard to TECO work order TW-001894-DO-MSTM in testing step T8C, Blue Ridge recommends that, when the actual retirements are known, they be recorded and that the next audit confirm that the DCR revenue requirements was adjusted. Blue Ridge estimates the effect on CE DCR revenue requirements to be $(10,272).

Adjustment #28: In regard to ADIT, Blue Ridge recommends adjusted ending balances, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2021, and February 28, 2022. The effects in correcting the Normalized EDIT balances are to reduced CE DCR revenue requirements by $(516,934), reduce OE DCR revenue requirements by $(320,461), and reduce TE DCR revenue requirements by $(42,776).

Adjustment #29: In regard to ADIT, Blue Ridge recommends adjusted ending balances, which increase the ADIT offset in rate base by $29,372,513 as of November 30, 2021, and February 28, 2022. The effects in correcting the Non-normalized EDIT balances are to reduced CE DCR revenue requirements by $(409,699), reduce OE DCR revenue requirements by $(1,471,461), and reduce TE DCR revenue requirements by $(172,154).

Adjustment #30: In regard to Depreciation Expense, Blue Ridge found that the calculation of depreciation expense was consistent with the methodology used in the last distribution rate case. But Blue Ridge found CEI account 390.3 was fully amortized as of January 31, 2021. Accordingly, amortization expense should be computed and recovered on new additions only, as opposed to the unretired gross balance or net book value. Upon further investigation, Blue Ridge also found the Companies were amortizing the new leasehold improvement installed in February 2021 at a lower rate than authorized in Rider DCR. Blue Ridge recommends (1) an adjustment to increase the accumulated reserve balance to align with the calculated amortization in the Rider DCR and (2) the Companies review and rectify the formulas for all amortizing accounts by the next filing date. The adjustment increases CEI DCR revenue requirements by $59,951.

Adjustment #31: In regard to Property Tax Expense, Blue Ridge found two instances where the data input did not match source documents. In the first instance, the data input discrepancy was for Personal Property Tax Rate. The adjustment increases OE DCR revenue requirements by $7,951.

Adjustment #32: In regard to Property Tax Expense, the second instance in which the data input did not match source documents related to Real Property Tax Rate. The adjustment modifies CE DCR revenue requirements by $(10), OE DCR revenue requirements by $(12), and TE DCR revenue requirements by $(216).

Beyond the above adjustments, for the DCR Year 2021 assessment, Blue Ridge summarizes its recommendations as follows:

Recommendation #1: In regard to a not-yet-unitized work order (associated with 2020 audit year recommendation #4), Blue Ridge recommends that the Companies demonstrate in the next audit how the retirements and COR for WO 16477291 were individually adjusted for the DCR revenue requirement.

Recommendation #2: In regard to testing step T1B, Blue Ridge recommends that the auditor for the 2022 audit ensure that work orders IF-SC-000336-1 and IF-SC-000337-1 are excluded from the DCR in future DCR filings.

Recommendation #3: In regard to FECO work order ITS-SC-000645-1 cost overrun (associated with testing step T4D), actual cost significantly exceeded budget due to repeated failure of a contractor to meet project milestone dates. Blue Ridge believes that proper management of the contractor could have resulted in a more timely and less costly outcome. Blue Ridge recommends that IT projects be better monitored by the Companies, particularly when involving outside contractors.

Recommendation #4: In regard to testing step T4D, Blue Ridge recommends the Company review their planning processes and procedures to minimize budget overruns in the future.

Recommendation #5: In regard to OECO work order 16096382 cost overrun (associated with testing step T4D), Blue Ridge recommends that when issues that impact the project estimates become known prior to project approval by management, the estimated project cost be amended so management can approve the correct estimate.

Recommendation #6: In regard to several cost overruns (associated with testing step T4D), Blue Ridge recommends that the project managers make a more concerted effort to monitor total project costs to ensure the project costs remain in line with the total project cost estimate.

Recommendation #7: In regard to TECO work order TW-001820-F, whose in-service dates were over 90 days delayed from the estimates (associated with testing step T5A), Blue Ridge recommends that the Companies make a more concerted effort to understand the code requirements in the geographic areas in which the work will be done.

Recommendation #8: In regard to FECO work order ITF-SC-000045-SW20-1 (associated with testing step T7A), Blue Ridge recommends that the Companies' internal auditors perform an independent review of all software project fees where those fees are split between capital and expense.

Recommendation #9: In regard to OECO work order OE-003923-DF-MSTM (associated with testing step T8C), Blue Ridge recommends that, when the actual retirements and cost of removal are known for this work order, they be recorded and that the next audit confirm the DCR revenue requirements was adjusted.

Recommendation #10: In regard to FECO work order RE-000001-1 (associated with testing step T8C), Blue Ridge recommends that, when the actual retirements and cost of removal are known for this work order, they be recorded and that the next audit confirm the DCR revenue requirements was adjusted.

Recommendation #11: In regard to work order backlog, Blue Ridge recommends that the Companies continue to make a concerted effort to reduce the volume of backlog work orders, both in quantity and dollar value, to return to the 2018 level.

Recommendation #12: In regard to Depreciation Expense, Blue Ridge recommends that when amortizing accounts reach zero net book value, the Companies should cease to accrue expense because, unlike depreciating accounts, certain general assets and intangibles are assumed to have a finite life.

As of the date of this report, the Commission has not ruled on the findings and recommendations in Blue Ridge's report.

Case No. 22-0892-EL-RDR (2022 DCR Audit)

On December 14, 2022, Blue Ridge was selected to conduct the 2022 annual audit of FirstEnergy's DCR. The findings and recommendations of that audit is the subject of this report.

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, The
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
DTL	Deferred Tax Liability
EDIT	Excess Deferred Income Tax
ESP	Electric Security Plan
FESC	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
MDT	Metering Data Transceiver
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, The
TCJA	Tax Cuts and Jobs Act
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 USB drive.

1.1. **Priority Data Request—DCR Filings**: For each company, please provide the workpapers and documents that support the information included within the January 9, 2023, Rider DCR Compliance Filing. Please provide the source data in its original electronic format.

1.2. **Priority Data Request—Work orders**: For each company and the Service Company, please provide in a Microsoft Excel spreadsheet a list of work orders by FERC account for 12/1/21 through 11/30/22. Include the description, dollar amount, completion date, and whether the work was an addition or replacement.

1.3. **Priority Data Request—Organization Charts**: For each company and the Service Company, please provide a current organizational chart.

1.4. **Priority Data Request—Organization Chart**: Please confirm that the following individuals were in the same positions for 2022. Please identify any changes.

#	Name	Title
1	Richard Collins	Director, Business Services
2	Amy Patterson	Manager, Property Accounting
3	Randal Coleman	Manager, Distribution Standards
5	Teresa Hogan	Director, Supply Chain Solutions/Standards
6	Peter Nadel	Manager, Insurance
7	Santino Fanelli	Director Rates & Regulatory Affairs
8	Brandon McMillen	OH State Regulatory Analyst V
9	Joseph Loboda	Director, Supply Chain Strategic Category Management
10	James Radeff	Supervisor, Utilities Services and Support
11	Joe Storsin	Vice President, Strategy, LT Planning and Business Performance
12	Mark Golden	Manager, General Accounting

1.5. **Work orders**: Please provide a reconciliation of the list of work orders provided in Data Request 1.2 to the amounts included in the January 9, 2023, DCR filings.

1.6. **FERC Form 1 Reconciliation**: Please provide a reconciliation of the Rider DCR balances under audit to the balances in the FERC Form 1 (as soon as the FERC Form 1 is available).

1.7. **Budget**: Please provide the budget supporting the Compliance Filings under audit. Also, please include the assumptions supporting the budget/projected data.

1.8. **Budget**: 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 the time period under audit.

1.9. **Status of 2021 Recommendations**: Please provide a narrative on how the companies have addressed the adjustments and recommendations listed on pages 17–22 in Blue Ridge's Compliance Audit of the 2021 DCR Riders, dated May 18, 2022.

1.10. **DCR Filings**: Please provide a narrative of any changes made to the development process of the 2022 Rider DCR Compliance Filings.

1.11. **Policies and Procedures**: For each company and the Service Company, please provide any changes for 2022 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. Capital Spares
vii. Unitization process based on the retirement unit catalog
viii. Application of depreciation
ix. Contributions in Aid of Construction (CIAC)
x. Recording of Storm Costs—Capital vs. O&M
xi. Vegetation Management—Capital vs. O&M

b. Purchasing/Procurement
c. Accounts Payable/Disbursements
d. Accounting/Journal Entries
e. Payroll (direct charged and allocated to plant)
f. Taxes (Accumulated Deferred Income Tax, Income Tax, and Commercial Activity Tax)
g. Insurance Recovery
h. Property Taxes
i. Service Company Allocations
j. Budgeting/Projections
k. IT projects

1.12. **Policies and Procedures**: Please specifically explain any changes that have been made in capitalization policies that would transfer costs from operating expenses to capital.

1.13. **Policies and Procedures**: Please explain the Companies' cost containment strategies and practices in relation to use of outside and inside contractors.

1.14. **Processes and Controls**: Please provide a description of the process by which the Companies determine whether to use internal labor or outside contractors. Please also provide any recent analysis performed that evaluates the least cost alternative regarding the use of internal labor vs. contractors.

1.15. **Internal Audits**: For each company and the Service Company, please provide a list of Internal Audits completed or in-progress from December 2021 through the end of 2022. List the name of the audit, scope, objective, and when the work was performed.

1.16. **SOX Compliance Audits**: For each company and the Service Company, please provide a list of SOX compliance work completed or in progress from December 2021 through the end of 2022. List the name of the audit, scope, objective, and when the work was performed.

1.17. **Storm Costs:** Please provide copies of any post-storm assessments that review the detail of the project costs for proper accounting classification.

1.18. **Variance Analysis**: 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) for additions, retirements, transfers, and adjustments for 12/1/21 through 11/30/22.

1.19. **Variance Analysis**: 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 12/1/21 through 11/30/22.

1.20. **Variance Analysis**: For each company and the Service Company, please provide in a Microsoft Excel spreadsheet the beginning and ending period balance of Construction Work in Progress (CWIP) by month from 12/1/21 through 11/30/22.

1.21. **Replacement Programs**: Did the companies have any large construction and/or replacement programs in 2022, such as pole replacement, meters, underground lines, etc.? If so, for each, please identify the program, company, and project or work orders associated with the program.

1.22. **Insurance Recoveries**: For each company and the Service Company, please provide a list of any insurance recoveries charged to capital from 12/1/21 through 11/30/22.

1.23. **Insurance Recoveries**: For each company and the Service Company, please provide a list and explanation of any 2022 pending insurance recoveries not recorded or accrued that would be charged to capital. Indicate the type of recovery, estimated amount, and when receipt is expected.

1.24. **Depreciation**: For each company and the Service Company, please provide the approved depreciation accrual rates by FERC 300 account from 12/1/21 through 11/30/22. Note any changes in rates during the year. Please provide the Commission order that approved the rates for each company and the Service Company.

1.25. **Depreciation**: 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 2022:
   a. FERC 300 account, sub account and company
   b. Depreciation accrual rate used
   c. Analysis supporting the use of the accrual rate
   d. Effective date of the rate
   e. Any filings with the commission for approval

1.26. **Approval Signatures**: Please provide the level of signature authority (LOSA) document that supports the approval of capital projects put in service from 12/1/21 through 11/30/22.

1.27. **Workorders**: Please provide a list of work orders by FERC account used for the following types of work in December 2021 and January through November 2022:
   a. Generation
   b. AMI
   c. EDR(g)
   d. LEX
   e. ASTI Land Lease
   f. Annual blanket/program work orders (include any work that is a carryover from prior years)
   g. IT
   h. Storms
   i. Joint-Owned facilities
   j. Vegetation Management
   k. Government Directive Recovery
   l. Advance Metering Infrastructure/Modern Grid Rider
   m. Experimental Company-Owned LED Lighting
   n. Automated Meter Opt Out
   o. Solar Generation Fund
   p. Consumer Rate Credit

1.28. **Rider GDR**: The Government Directive Recovery Rider has the potential to impact the Rider DCR.
   a. Please provide a list of the costs by FERC account included in the Rider GDR.
   b. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR.

1.29. **Advance Metering Infrastructure/Modern Grid Rider:** The Distribution Modernization Platform has the potential to impact the Rider DCR.

a. Please provide a list of the costs by FERC account included in the Advance Metering Infrastructure/Modern Grid Rider.
b. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR.

1.30. **Other Riders: Automated Meter Opt Out**.
a. Please provide a list of the costs by FERC account included in the Automated Meter Opt Out Rider.
b. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR.

1.31. **Other Riders: Solar Generation Fund**.
a. Please provide a list of the costs by FERC account included in the Solar Generation Fund Rider.
b. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR.

1.32. **Other Riders: Consumer Rate Credit**.
a. Please provide a list of the costs by FERC account included in the Consumer Rate Credit Rider.
b. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR.

1.33. **Other Riders**:
a. Has the Company requested and received Commission approval for any riders during the period under audit?
b. Please provide a list of any rider that includes the recovery of any capital additions. Include a description of the rider, case number approving recovery, how the cost recovery is calculated, and how those costs are tracked and excluded from the Rider DCR.
c. For each new rider,
   i. Please provide a list of the costs by FERC account included in the Rider.
   ii. For any costs charged to FERC accounts included in the Rider DCR, please explain how those costs have been excluded from recovery through the DCR

1.34. **Unitization Backlog**: Please provide, by company, information regarding the backlog in the unitization of work orders for 2022. Please provide the number of work orders and the length of time in months by functional area (i.e., Distribution, Transmission, General, and Other).

1.35. **Unitization Backlog**: Please provide the dollar value of the work order backlog by operating company and by work order classification (Distribution, Transmission, General, and Other). For any individual specific work order/project over $250,000, and not a blanket or program, please provide the work order / project number and a short description of the project.

1.36. **Exclusion ATSI Land Lease**: Please provide the supporting documentation for the amounts associated with the ATSI Land Lease for actual 11/30/22 and estimated 2/28/23.

1.37. **Exclusion EDR(g)**: Please provide the supporting documentation for the amounts excluded for EDR(g).

1.38. **AMI Exclusions**: Please provide the supporting documentation underlying exclusions associated with the two AMI exclusion tables for actual 11/30/22 and estimated 2/28/23.

1.39. **LED Exclusions**: Please provide the supporting documentation underlying exclusions associated with the Experimental Company Owned LED Program for actual 11/30/22 and estimated 2/28/23.

1.40. **Vegetation Management Exclusions**: Please provide the supporting documentation for the amounts excluded for Vegetation Management.

1.41. **Service Company Adjustments**. Please provide the supporting documentation for the amounts excluded Service Company Adjustments. Also explain how the balance came to be excluded.

1.42. **Annual DCR Revenue**: Please provide the source documentation used in reporting actual annual revenue through 11/30/2022 for each operating company.

1.43. **Rider DCR Revenue Cap**: Please provide supporting documentation for the reported "actual annual 2021 Rider DCR revenue billed."

1.44. **Tax Rates**: Please provide the supporting documentation and calculations for the tax rate used for actual 11/30/22 and estimated 2/28/23.

1.45. **ADIT Balances**: Provide supporting documentation for the amounts associated with the Normalized and Non-Normalized Property EDIT balances for actual 11/30/22 and estimated 2/28/23. Include a roll-forward schedule reconciling the Company-reported balances at 11/30/21 to the balances at 11/30/2022 and 2/28/23.

1.46. **Vegetation Management**: Please provide the allocation of 2022 spend by operating company between the following item pairs:
   a. Vegetation management charged to expense and charges capitalized
   b. Vegetation management charged to expense by internal labor and outside contractors
   c. Vegetation management capitalized by internal labor and outside contractors

1.47. **Vegetation Management**: Please provide the cost detail for each of the vegetation management work orders from 12/1/2021 through 11/30/22. Include the Company, work order number, month, amount, and cost code.

2.1. **Priority Data Request:** For the attached work order list (FirstEnergy 2022 DCR Audit Data Request Set 2 Sample Final), please provide the following information in Microsoft Excel spreadsheets.
   a. The detail listed under item (i) below for each individual work order in the attached work order list (If the information cannot be provided by individual work order, please provide instead the information in item (ii) below.)
      i. A work order sample summary
         (1) 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
         (2) The individual work order or project estimated and actual in-service dates with explanations for delays > 90 days
         (3) The individual work order or project, budget vs. actual costs, with explanations for cost variances +/- 15%
      ii. A report at a project level with a reference to the sample work order that includes the following information:
         (1) Approval
         (2) Project justification
         (3) Budget and actual costs with explanation for cost variances +/- 15%
         (4) Estimated and actual in-service dates with explanation for delays > 90 days
   b. Estimates for cost of construction (material and labor), AFUDC, overheads, retirements, cost of removal, salvage, and CIACs
   c. Supporting detail for assets (units and dollars by FERC account for all FERC accounts within the work order) added to utility plant from the Fixed Asset System
   d. Supporting detail for retirements, cost of removal, and salvage, if applicable, charged or credited to plant (units and dollars) for replacement work orders from the Fixed Asset System
   e. An updated list of cost elements
   f. Cost element detail that shows the individual work order, FERC account, and amount as selected in the sample (Considering that a work order 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.)

3.1. **Status of 2021 Recommendations**: Follow-up to BRC Set 1-DR-009: In its response, the Companies did not provide status for 2021 audit recommendation #6: "In regard to several cost overruns (associated with testing step T4D), Blue Ridge recommends that the project managers make a more concerted effort to monitor total project costs to ensure the project costs remain in line with the total project cost estimate." Please provide a narrative on how the Companies have addressed this recommendation.

3.2. **Variance Analysis**: Follow-up to BRC Set 1-DR-018 Attachment 1. Please provide detailed explanations along with supporting documentation for the following items.

a. Regarding Gross Plant Additions, Retirements, and Transfers/Adjustments for FECO:
    i. FERC account 390 transfer of $(285,052)
    ii. FERC account 391 retirements greater than additions (Additions = $13,737,381; Retirements = $(14,540,386))
    iii. FERC account 391 transfer of $(3,293,458)
    iv. FERC account 397 significant retirements (retirements = $(5,816,729))
    v. FERC account 303 transfer of $780,574

b. Regarding Gross Plant Additions, Retirements, and Transfers/Adjustments for CECO:
    i. FERC account 369 retirements greater than additions (additions = $2,692,516; retirements = $(2,713,281))
    ii. FERC account 370 retirements significantly greater than additions (additions = $4,724,222; retirements = $(41,833,522)
    iii. FERC account 373 retirements greater than additions (additions = $2,015,627; retirements = $(2,382,425))
    iv. FERC account 391 retirements greater than additions (additions = $2,531,160; retirements = $(2,680.012))
    v. FERC account 393 negative additions (additions = $(2,835))
    vi. FERC account 394 retirements significantly greater than additions (additions = $364,762; retirements = $(521,471))
    vii. FERC account 395 retirements significantly greater than additions (additions = $18,422; retirements = $(105,730))
    viii. FERC account 398 retirements without additions (additions = $0; retirements = $(10,761))

c. Regarding Gross Plant Additions, Retirements, and Transfers/Adjustments for OECO:
    i. FERC account 355 negative additions (additions = $(19,856))
    ii. FERC account 362 transfer of $(432,343)
    iii. FERC account 370 retirements significantly greater than additions (additions = $8,003,479; retirements = $(28,470,527))
    iv. FERC account 373 retirements large percentage compared to additions (additions = $4,050,753; retirements = $(1,759,999))
    v. FERC account 390 transfer of $248,818
    vi. FERC account 394 negative additions (additions = $(4,282,565))
    vii. FERC account 395 retirements without additions (additions = $0; retirements = $(260,505))
    viii. FERC account 398 retirements significantly greater than additions (additions = $104; retirements = $(30,031))

d. Regarding Gross Plant Additions, Retirements, and Transfers/Adjustments for TECO:
    i. FERC account 362 transfer of $(220,719)
    ii. FERC account 368 retirements greater than additions (additions = $5,342,887; retirements = $(6,100,694))

iii. FERC account 370 retirements significantly greater than additions (additions = $1,949,266; retirements = $(14,495,553))
iv. FERC account 373 retirements significantly greater than additions (additions = $1,098,799; retirements $(4,242,578))
v. FERC account 391 retirements significantly greater than additions (additions = $90,087; retirements = $(431,149)
vi. FERC account 393 retirements without additions (additions = $0; retirements = $(20,206))
vii. FERC account 395 retirements without additions (additions = $0; retirements = $(60,469))
viii. FERC account 397 negative additions, and retirements significantly greater than additions (additions = $(3,558); retirements = $(136,079))
ix. FERC account 398 retirements without additions (additions = $0; retirements = $(12,877))

3.3. Follow-up to Data Request response BRC Set 1-DR-016 SOX Compliance Audits, attachment 1 (Confidential). Please provide a summary of any significant control deficiencies for the following SOX audit line items along with how those deficiencies were corrected or mitigated.
a. Accounts Payable—CS
b. Compensation and Payroll—CS
c. Corporate PP&E—CS
d. Financial Reporting & Disclosures—CS
e. General Accounting—CS
f. IT Infrastructure—CS
g. IT Systems—CS
h. Material & Services—CS
i. Regulated Billing—CS
j. Regulated PP&E—CS
k. Regulated Settlements—CS
l. Regulated Accounting—CS
m. Tax—CS

3.4. Follow-up to Data Request response BRC Set 1-DR-015, attachment 1 (Confidential). For the following audits, please provide the executive summary of findings and recommendations. For projects that are in progress, please provide the same information when it becomes available.
a. Travel & Entertainment Reimbursement Audit—12/22/2021
b. Revenew's 2020 Payment Recovery Audit for Accounts Payable—RTF
c. Purchase Order Process Design Assessment—1/19/2022
d. Pre-Implementation Audit of 2021 Smart Meter Releases interim Report—2/1/2022
e. FE Forward Project Management Controls Assessment—2/10/2022
f. Audit of Accounts Payable for the Year-Ended December 31, 2021 – PricewaterhouseCoopers Support—9/10/2022
g. Sarbanes-Oxley 404 Assessment of Internal Controls over Financial Reporting—2/18/2022
h. Payroll Data Analytics July 2, 2021 through December 31, 2021–RTF—3/30/2022
i. Transmission Project Lifecycel Management Process-Permitting—4/09/2022
j. Q1 2022 Sarbanes-Oxley Assessment of internal Controls Over Financial Reporting—4/21/2022
k. Travel & Entertainment Analytics Review July 1, 2021 through December 31, 2021—6/13/2022
l. Q2 2022 Sarbanes-Oxley Assessment of internal Controls Over Financial Reporting—7/26/2022
m. McKinley Management Fee—8/4/2022

n. Pre-Implementation Review of 2022 Smart Meter Releases – Interim Report—8/5/2022
o. Travel & Entertainment Data Analytics Review January 1, 2022 through June 30, 2022 – RTF—10/5/2022
p. Q3 Sarbanes-Oxley Assessment of Internal Controls over Financial Reporting—10/25/2022
q. Ohio Cost Allocation & Cost Allocation Manual Audit—11/23/2022
r. Accounting for Capital & Maintenance Costs—12/9/2022
s. Travel & Entertainment Reimbursement Audit —12/9/2022
t. Cost Allocation manual & Agreements Update – Phase I—1/11/2023
u. Accounts Payable Enhancement Review—In-Process
v. Vendor Management Review—In-Process
w. IT Asset Management—In process
x. Pre-Implementation of 2022 Smart Meter Releases—In Process
y. FERC Audit Recommendation Implementation—In Process
z. Vegetation Management System Redesign—In Process

3.5. **LTIP**: Follow-up to Data Request response BRC-Set 1-DR-002. Please provide the cost detail and project description for the following three work orders.
   a. CECO Work Order CE-900477-CCOH-ADJ—Capital Related Payroll Overhead Adjust—$1,624,192.17
   b. OECO Work Order OE-900477-CCOH-ADJ—Total Non-Billable Distribution Project— $2,573,579.06
   c. TECO Work Order TW-900477-CCOH-ADJ—Total Non-Billable Distribution Project— $637,331.10

4.1. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab CEI. The CEI FERC account 391 balance shown in attachment 1 to DR 1-5 is $23,267,326. However, the filing balance (CEI Sch B2.1) plus exclusions noted in DR 1-1, attachment 3 total $23,178,300, for a difference of $89,026. Please explain the difference.

Acct 391 (DR 1-5, att 1, tab CEI):			$23,267,326
Acct 391.1 (CEI Sch B2.1):		$ 3,071,819	
Acct 391.2 (CEI Sch B2.1):		$15,910,392	
Exclusions (CEI Sch B2.1):		$ 4,196,089	
[AMI-nonSGMI:	$4,196,089]		
Total CEI Sch B2.1:			$23,178,300
Difference:			$ 89,026

4.2. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab CEI. The CEI FERC account 393 balance shown in attachment 1 to DR 1-5 is $523,005. However, the filing balance (CEI Sch B2.1) reflects $612,030, for a difference of $(89,025). Please explain the difference.

Acct 393 (DR 1-5, att 1, tab CEI):	$ 523,005
Acct 393 (CEI Sch B2.1):	$ 612,030
Difference:	$ (89,025)

4.3. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab TE. The TE FERC account 365 balance shown in attachment 1 to DR 1-5 is $253,164,272. However, the filing balance (TE Sch B2.1) plus exclusions total $248,501,146, for a difference of $4,663,126. Please explain the difference.

Acct 365 (DR 1-5, att 1):	$253,164,272

Acct 365 (TE Sch B2.1):		$241,228,659	
Exclusions (DR 1-1, attach 3):		$ 7,272,487	
[Pre-Date Pension:	$ 2,251,233]		
[LED:	$ 70,215]		
[VM:	$ 4,951,039]		
Total TE Sch B2.1:			$248,501,146
Difference:			$ 4,663,126

4.4. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab OE. In the current ***2022*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 364 balance shown as of 12/1/2021 is $578,831,678. However, in the prior ***2021*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 364 balance shown as of 11/30/2021 is $578,829,822, for a difference of $1,856. Please explain the difference.

4.5. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab OE. In the current ***2022*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 365 balance shown as of 12/1/2021 is $854,335,289. However, in the prior ***2021*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 365 balance shown as of 11/30/2021 is $854,334,620, for a difference of $669. Please explain the difference.

4.6. **Variance Analysis**: Follow-up to DR 1-5, attachment 1, tab OE. In the current ***2022*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 368 balance shown as of 12/1/2021 is $559,737,047. However, in the prior ***2021*** Audit DR response to 1-5, attachment 1, tab OE, the OE FERC account 368 balance shown as of 11/30/2021 is $559,735,496, for a difference of $1,551. Please explain the difference.

4.7. **Variance Analysis**: According to the filing, two FERC accounts increased dramatically over the scope year. Please provide a detailed explanation along with supporting documentation for each of these increases:
   d. OE FERC account 391.2 increased from $6,745, 708 in 2021 to $9,914,332 in 2022, or 47%
   e. OE FERC account 301 increased from $271,559 in 2021 to $987,786 in 2022, or 263.7%

~~5.1. **Status of 2021 Recommendations**: Follow-up to BRC Set 1-DR-009. Please provide a narrative on how the companies have addressed recommendations #6 listed on page 21 of the Blue Ridge's Compliance Audit of the 2021 DCR Riders, dated May 18, 2022.~~

5.2. **SOX Compliance Audits**: Follow-up to DR 3-003, item i. Did the one significant control deficiency identified impact the DCR in any way? If yes, please provide a narrative explanation.

5.3. **Internal Audits**: Follow-up to DR 3-004, items g, l, p, y.
   a. Did the significant deficiencies identified in the SOX assessments of items g, l, and p impact the DCR in any way? If yes, please provide a narrative explanation.
   b. Did the findings noted in the FERC audit of item y significantly impact the DCR? If yes, please provide a narrative explanation.

5.4. **Variance Analysis**: Follow-up to DR 3-002, a, iii, attachment 1, tab FECO 391 Transfer. Please respond to the following regarding work order LA096 transfer of $2,784,323 from FERC account 391 to 303:
   a. Was a depreciation adjustment recorded when the transfer was made? If so, please provide the accounting entries for the adjustment. If not, why not?
   b. Please provide the year and month that the original charges were closed to plant account 391.

5.5. **Variance Analysis**: Follow-up to DR 3-002, a, v, attachment 1, tab FECO 303. Please respond to the following for the transfers to non-utility plant:
   a. Please indicate the year and month the original charges were recorded to plant.

  b. Were depreciation adjustments recorded when the transfers were made from Plant to Non-Utility Property? If so, please provide the accounting entries for the adjustments. If not, why not?

5.6. **Variance Analysis**: Follow-up to DR 3-002, c, vi, attachment 1, tab OECO 394. For work order OE-002031-TQ, please explain why an addition to account 106 of $1,460,746 is a negative amount.

5.7. **Variance Analysis**: Follow-up to DR 3-002, d, ii, attachment 1, tab TECO 368. Please confirm whether the data provided represents mostly conversions and the retirement of associated assets.

6.1. **Interview Questionnaire:** Follow up to Data Request response BRC Set 1-DR-004. The Company response stated that the position of Director, Supply Chain Solutions/Standards has changed from Teresa Hogan to Mary Bowers.
Please complete the attached interview questionnaires for Supply Chain.
Should you have questions contact Joe Freedman at jfreedman@blueridgecs.com or at 607-280-3737

7.1. **Variance Analysis**: Follow-up to DR 3-002, d, ii, attachment 1, tab TECO 368. Please provide the primary reason for the significant retirements. For example, was TE in the middle of a program of single-phase conversions of line transformers and, if so, why were they converting single-phase transformers. If not, please provide the primary reason for the significant retirements.

8.1. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order TECO 16514434, Equip Investigate/Repair - Transformer O—$(895,260.58). This project appears to be a transfer of a transformer from OECO to TECO.
  a. Please provide the associated OECO Work Order.
  b. If the transfer was from OECO to TECO, why is this work order a credit?

8.2. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. For the following list of work orders please provide additional, or more detailed, information relative to project descriptions, justifications, need date, and reason for delay.
  a. CECO Work Order 17143332—Equip Investigate/Repair - Transformer O
  b. CECO Work Order CE-000172-S-1—Total Substation
  c. OECO Work Order 13564107—SPARE 11/14 MVA 69kv 12.47kvTRANSF
  d. OECO Work Order OE-005999-OMSCAP-ADMS—ADMS Upgrade Capital
  e. TECO Work Order 17079576—DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV

8.3. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001 Attachment 1. CECO Work Order 14857555—Newell - Replace Westinghouse MFB Lineba. The Benefits of Recommended Solution column of the Attachment indicates “Replaces Obsolete and Unreliable equipment Reduces future maintenance on circuit switchers Reduces failure rate from 5% to 0.025% Replace during Planned outage verses unplanned emergency outage ***Improve integrity of 138kV transmission system***.” (Emphasis added.) Charges for this work order landed in FERC 362. Should the charges have been booked to FERC 353 instead of FERC 362?

8.4. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. CECO Work Order 15854703—Capital Replacement Program-Circuit.
  a. Please explain the transfer/adjustments.
  b. Why are the FERC 353 charges included in the DCR?

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Other Company Overhead	$49,273	($43,420)	$5,852
Stock Materials	$44,717	($8,793)	$35,925
Total Activity			**$41,777**

8.5. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. CECO Work Order 17026370—CEI Inventory to Capital Spare.
  a. Please explain the transfer/adjustments.

Cost Element	FERC 362 Activity	FERC 365 Activity	FERC 368 Activity	Activity
Stock Materials	($981,717)	$243,150	$881,084	$142,516

b. Please explain why, if this substation transformer was removed from stock and charged to capital, the accounting entry credited FERC 362—station equipment and debited FERC 365—overhead conductors and 368—line transformers.

c. What criteria did the Company use to determine that this transformer qualified as a capital spare?

d. Please provide a list of all M&S that was transferred to capital during the period December 2021 through November 2022.

8.6. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order 13564107—OE Spare 11/14 MVA 69KV 12.47 TRNSF and TECO Work Order 16258499—Equip Investigate/Repair-Transformer O.

a. Please explain the transfer/adjustments

	OECO Work Order 13564107		TECO Work Order 16258499		
Cost Element	FERC 362 Activity	FERC 361.1 Activity	FERC 362 Activity	FERC 361.1 Activity	Activity
AFUDC-Debt	($4,089)		$3,820	$269	$0
AFUDC-Equity	($4,097)		$3,563	$535	$0
Company Labor	($7,063)		$5,143	$1,920	$0
Contract Cost			($2,782)	$2,782	$0
Other Company Overheads	($66,157)		$61,977	$4,180	$0
Other Direct Costs	($1,800)		$1,045	$755	$0
Stock Materials	($579,531)		$578,799	$743	$0

b. Please provide a description of each item issued out of Inventory, including original cost.

c. Please provide the journal entries that support those transfers, including the FERC 300 account that the inventory items were charged to.

d. Please provide the criteria, including company policies supply chain used to determine an item qualified as a capital spare.

e. This work order appears to be a transfer of a transformer from OECO to TECO in August 2021. Why did the Company record $46,906 of retirements in December 2021 if the assets were transferred in August 2021?

8.7. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. CECO Work Order PA213627410—PO FW: UG Access Pt MH-4424-89 TO TEST F. This work order had charges to both FERC 358 Transmission-Underground Conductor, Devices and FERC 367 Distribution- Underground Conductor, Devices.

a. Please explain the transfer/adjustment

b. Why are the FERC 358 charges included in the DCR?

Cost Element	FERC 358 Activity	FERC 367 Activity	Activity
Total	$127,114	$23,535	$150,648

8.8. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order 16471269—Bowman Sub transformer #1 repair.

a. Please explain the transfer/adjustments

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Other Company Overhead	($140,845)	$140,958	$123
Stock Materials	($13,314)	$14,792	$1,478
Total Activity			**$1,601**

b. Please provide a description of each item issued out of Inventory, including original cost.
c. Please provide the journal entries that support those transfers, including the FERC 300 account that the inventory items were charged to.
d. Please provide the criteria, including company policies supply chain used to determine an item qualified as a capital spare.

8.9. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order 17026398—OE Inventory to Capital Spare.

a. Please explain the transfer/adjustments

Cost Element	FERC 362 Activity	FERC 368 Activity	Activity
Stock Materials	($205,497)	$205,497	$0

b. Was this transformer transferred from M&S Inventory to Utility Plant?
c. If the response to “a” is affirmative, why is the accounting a credit to FERC 362 (Substation) and a Debit to FERC 368 (Line Transformer) for $205,497?
d. If this transformer was reclassified from one FERC account to another, please explain why that was done.

8.10. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order 16080601—Equip Investigate/Repair – Circuit Break. This work order had charges to both FERC 353 Transmission-Station Equipment and FERC 362 Distribution-Station Equipment.

a. Please explain the transfer/adjustment
b. Why are the FERC 353 charges included in the DCR?

Cost Element	FERC 353 Activity	FERC 362 Activity	Activity
Total	$419,923	($419,923)	$0

8.11. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. TECO Work Order 17079575—DIXIE-JEEP 69kv/DISIE-LOCUST 69kv. Why are the FERC 355 and FERC 356.1 Transmission charges included in the DCR?

Cost Element	FERC 355 Activity	FERC 356.1 Activity	Activity
Total Activity	$353,696	$304,569	$658,264

8.12. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001 Attachment 1. Each of the following work orders had capital spares used in the course of completing the work.

a. CECO Work Order 17031647—Equip Investigate/Repair – Transformer O
b. OECO Work Order 16080601—Equip Investigate/Repair – Circuit Break
c. TECO Work Order 16258499—Equip Investigate/Repair – Transformer O
d. TECO Work Order 16514434—Equip Investigate/Repair – Transformer O
e. TECO Work Order 16622904—Equip Investigate/Repair – Transformer O

Please respond to the following for each of the above work orders:

a. Please provide a description of each capital spare issued out of Inventory, including original cost.
b. Please provide the journal entries that support those transfers, including the FERC 300 account that the inventory items were charged to.

c. Please provide the criteria, including company policies supply chain, used to determine an item qualified as a capital spare.

8.13. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order IF-OE-00016601—OE – Mansfield Service Center B01 Rf01. Please provide an explanation for the -26% variance of Actual Costs to Budget.

8.14. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Please explain why the following work orders had in-service dates outside the audit scope period of 12/1/21–11/30/22.

Company	Work Order	Work Order Description	In-Service Date
CECO	14791367	Industrial Upgrade	10/2/20
CECO	14857555	Newell - Replace Westinghouse MFB Lineba	7/1/20
CECO	15777764	Equip Investigate/Repair - Transformer O	9/1/20
CECO	15854703	Capital Replacement Program - Circuit	9/17/19
CECO	CE-000172-S-1	Total Substation	4/12/10
OECO	13564107	OE SPARE 11/14 MVA 69KV 12.47 KV TRNSF	3/31/13
OECO	16080601	Equip Investigate/Repair - Circuit Break	10/13/20
OECO	16471269	Bowman Sub transformer #1 repair	5/1/21
OECO	OE-003702-DO-MSTM	OE MSTM 11 - 7/27/2020	7/31/20
TECO	16258499	Equip Investigate/Repair - Transformer O	8/20/21
TECO	16514434	Equip Investigate/Repair - Transformer O	7/29/21

8.15. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. For each of the work orders in the following chart, please respond to these items:

a. Please explain why the work order closing was delayed and also calculate any over accrual of AFUDC.
b. If the Company determines that AFUDC was not over accrued for the project, please explain why.
c. Please provide the AFUDC by month from project inception to in-service date.

Company	Work Order	Work Order Description
CECO	16527415	Equip Investigate/Repair - Transformer O
CECO	17031647	Equip Investigate/Repair - Transformer O
OECO	14864962	Equip Investigate / Repair - Regulator
OECO	15298831	Akron Main Street Rehabilitation
OECO	16057717	INSTALL MH 3-D
OECO	16759481	OE- Greenfield Substation- Breaker Failu
OECO	16995176	Perm repairs to 4 Chestnut CKTs & Duct
TECO	16258499	Equip Investigate/Repair - Transformer O
TECO	16514434	Equip Investigate/Repair - Transformer O
TECO	16622904	Equip Investigate/Repair - Transformer O
TECO	16898512	Equip Investigate/Repair - Transformer O

8.16. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO 14791367 – Industrial Upgrade—$(627,220.05). The activity detail shows that these charges were for retirements. It appears that the assets were placed in-service in 2019.

a. Please confirm the original in-service dates for this project.
b. Please explain, if the in-service date was October 2020, why the retirements were recorded in July and August 2022.

c. Please calculate the impact on the DCR for the delay in retiring the replaced assets.
d. The Reason for delay indicated that the work in 2019 was not related to customer needs. Please explain this statement.
e. Please explain why the work order detail does not show any cost of removal recorded.

8.17. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO 14857555 -Newell - Replace Westinghouse MFB Lineba—$(211,923.88). According to the Company, this project was placed in service prematurely in Sep 2021 (or in error), and the placement was reversed in May 2022 and, instead, put in suspended status as work is no longer ongoing.

a. Please explain what the $(211,923.88) represents.
b. If the project was in service in September 2021 and reversed in May 2022, was depreciation also reversed? If so, please provide the amount of the adjustment and when it was booked.
c. Please provide the actual in-service date
d. Was either retirements or cost of removal charged to the project? If so, was that reversed? If yes, please provide the amount of the adjustment; if not, why not?
e. If the project in service was reversed, to what FERC account were the charges that came out of plant booked?
f. Please provide any accounting entries associated with this work order.
g. If the project remains in CWIP, was AFUDC suspended? If not, why not?

8.18. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. CECO Work Order 15777764- Equip investigate/Repair – Transformer O—$(64,342.51). It appears from the detail that retirements and cost of removal created the credit.

a. Please explain the reason(s) for the credit.
b. When were the original charges booked that created the credit?

8.19. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO 16527415 - Equip Investigate/Repair - Transformer O—$1,225,570.10 (2022 costs). Total actual project cost was $1,368,224.72.

a. Please explain why Other Company Overheads was 37.5% of the total project actual cost.
b. Please explain why assets were retired 120 days after the project was placed in service. How does the delay in retirements impact the DCR?
c. Please explain why no cost of removal was charged to this replacement work order.

8.20. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. The following work orders are labeled as additions, but their scope indicates they may have been replacements. Please answer the questions below.

Company	Work Order	Work Order Description	Scope mentioned in 2-DR-001
CECO	**16348385**	Equip Investigate/Repair - Miscellaneous	Replace 14MVA 138-13kv transformer with 22MVA
CECO	**16629298**	PID 105998 E Cleve Euclid Ave CEI UG	Replacement of equipment due to inability to get parts or outdated equipment
CECO	**17099542**	Oil Sample On Demand - TransLTC	Replacement of failed equipment and devices to correct customer outages
OECO	**14864962**	Equip Investigate / Repair - Regulator	Replace failed 3-phase 4.15kv regulators VR-5
OECO	**16646068**	Equip Investigate/Repair - Miscellaneous	Replace or repair items at substation that were identified during inspections (transformers, brakers, regulators, control switches, bushings, fences, etc)
OECO	**16759481**	OE- Greenfield Substation- Breaker Failu	Replace failed Richland #1 autotransformer

Company	Work Order	Work Order Description	Scope mentioned in 2-DR-001
TECO	**16898512**	Equip Investigate/Repair - Transformer O	Replace failed breaker
TECO	**17079576**	DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV	Replace assets in response to storm

a. Were the items in the scope column above replaced?
b. If the response to "a" is affirmative, please provide the retirement units and dollars and the associated cost of removal along with the dates they were booked.
c. If the response to "a" is negative, explain why this project should be considered capital.

8.21. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. For the following work orders, please explain why cost of removal was recorded to the work order and did not have associated retirements recorded.

Company	Work Order	Work Order Description	2022 Activity
OECO	14864962	Equip Investigate / Repair - Regulator	$664,227
OECO	16646068	Equip Investigate/Repair - Miscellaneous	$906,767
OECO	16759481	OE- Greenfield Substation- Breaker Failu	$263,806
OECO	16995176	Perm repairs to 4 Chestnut CKTs & Duct	$414,001
TECO	16514434	Equip Investigate/Repair - Transformer O	($895,261)
TECO	16898512	Equip Investigate/Repair - Transformer O	$1,149,501
TECO	17079576	DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV	$658,264
TECO	17149683	Residential Development	$47,152

8.22. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO 17031647 - Equip Investigate/Repair - Transformer O—Total Cost—$756,114.66. The Company indicated that the equipment was in service in Oct 2021 in Cascade. The work order was not closed until March due to as-builts.
a. If the work order was in service October 2021 in Cascade, does that mean the work order was in Utility Plant (either 106 or 101)?
   i. If so, was AFUDC stopped?
   ii. If not in Utility Plant, why was the work order not moved to utility plant when it was declared in service?
b. If the work order was in service October 2021, why were the retirements not booked until 10 months after the in-service date (July 2022). How does this delay impact the DCR?

8.23. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO 17143332 - Equip Investigate/Repair - Transformer O—$452,237.47. Please explain why Other Company Overheads was 38% of the total project actual cost.

8.24. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order CECO CE-000172-S-1, Total Substation—$(527,509.91)
a. Please explain the credit to Stores (M&S) in the cost detail.
b. The Company indicated that the in-service date of this work order was April 2010. If that is correct, what is the date that the credit was booked, and how does that impact the DCR for the period December 2021 through November 2022?

8.25. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order FECO ITS-SC-000430-2021R1-1 UI Planner Software Enh. 2021R1 – CAP—$1,621,394.19.
a. Please provide by vendor the detail for the Contractor cost of $1,198,991.
b. Of the total cost of the project, how much of it was capital vs. expense?
c. How did the Company determine what costs should be capitalized vs. expensed?

   d. Is this project applicable to any other FirstEnergy entity outside Ohio? If so, what entities, and how were the costs distributed?

8.26. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order FECO ITS-SC-000657-1 - App Development Continuous Improve - CAP—$1,960,434.85.
   a. Of the total cost of the project, how much was capital vs. expense, and how was that determined?
   b. If none of the project cost was expense, please explain why.
   c. Is this project applicable to any other FirstEnergy entity outside Ohio? If so, what entities, and how were the costs distributed?

8.27. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order FECO ITS-SC-000668-1 - 2021 Filenet Cont. Improvement – CAP—$620,048.83. This project appears to have been executed in-house.
   a. Of the total cost of the project, how much was capital vs. expense, and how was that determined?
   b. If none of the project cost was expense, please explain why.
   c. Is this project applicable to any other FirstEnergy entity outside Ohio? If so what entities and how were the cost distributed?

8.28. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order FECO ITS-SC-000675-1-2021-1 – Filenet Cont. Improvement – CAP—$10,876,110.43.
   a. Of the total cost of the project, how much was capital vs. expense, and how was that determined?
   b. If none of the project cost was expense, please explain why.
   c. Is this project applicable to any other FirstEnergy entity outside Ohio? If so what entities and how were the cost distributed?
   d. Was any software or hardware retired as a result of the Company moving from Olik to Power B1? Explain.

8.29. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order OECO 15298831- Akron Main Street Rehabilitation—$9,122,736. Of the total 2022 project cost activity, AFUDC and Other Company Overheads accounted for 40% of the total.
   a. Please explain why AFUDC was 20% ($1,805,629) of the total project cost.
   b. How did project delays and cost overruns contribute to the accrual of AFUDC?
   c. Please explain what was included in the $3,205,072 in Other Company Overheads.

8.30. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order 16080601- Equip Investigate/Repair - Circuit Break—$(82,424.11). This entry appears to be a retirement.
   a. Please explain why a retirement was recorded in December 2021 when the assets were placed in service in October 2020.
   b. What impact does the delayed retirement have on the DCR?

8.31. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order 16471269 – Bowman Sub transformer #1 repair—$(27,950.21) This entry appears to be a retirement.
   a. Please explain why a retirement was recorded in May 2022 when the assets were placed in service in April 2020.
   b. What impact does the delayed retirement have on the DCR?

8.32. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order IF-OE-000166-1 - OE - Mansfield Service Center B01 Rf01—$1,503,546.71.
   a. Please explain why assets were retired 120 days after the project was placed in service. How does this impact the DCR?
   b. Please explain why the retirements did not have associated quantities.
   c. Please explain why the work order did not have cost of removal.
   d. Why were Other Company Overheads 45% of the total project cost?

8.33. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. FECO Work Order LA096 – Accounting Adjustments—$(9,866,751.23). According to the Company response, this work order is primarily used for transfer of assets between companies or for any transaction that is not directly associated with a Project Management work order.

a. Were any transfers made between FE Ohio and any company or affiliate outside Ohio? If so, please describe the transfer and the amount and provide the accounting entries.
b. Were any of the transfers/adjustments between FECO and CECO, OECO, or TECO? If so, please identify to which operating company the adjustments went, describe the adjustments, and include the amounts and when those adjustments were made.
c. Did the adjustments to FERC 391.20 (Data Processing Equipment) result in the retirement of assets? If so, please describe in general terms what was retired, the amount, and the date the assets were retired.

8.34. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. OECO Work Order OECO 14864962 Equip Investigate / Repair - Regulator—$664,226.70. Please explain why AFUDC was 21% of the total work order cost.

8.35. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order OECO OE-003702-DO-MSTM - OE MSTM 11 - 7/27/2020—$(92,551.39). Storm Work Order. If this was a 2020 storm, why are assets being retired in 2022?

8.36. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order OECO OE-005999-OMSCAP-ADMS - ADMS Upgrade Capital—$14,095,872.77.

a. Of the total cost of the project, how much was capital vs. expense, and how was that determined?
b. If none of the project cost was expense, please explain why.
c. What does the Other Direct Cost of $3,988,730 represent?
d. Please define what ADMS means?
e. Please provide a more detailed description of the project.
f. Did this project replace any software and/or hardware? If so, please provide the retirements.
g. Is this project applicable to any other operating company other than OECO? If so, which companies?
h. Is this project applicable to any other FirstEnergy company outside Ohio? If so, which companies, and how were the project costs split between the entities?

8.37. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order OECO OE-7006401-SW20, IT Speech Analytics for Customer Service—$440,320.47.

a. Of the total cost of the project, how much was capital vs. expense, and how was that determined?
b. If none of the project cost was expense, please explain why.
c. Is this project applicable to any other operating company other than OECO? If so, which companies, and how were the total project costs distributed?

8.38. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order TECO 16622904- Equip Investigate/Repair - Transformer O—$(157,241.36). This work order appears to be for the retirement of assets.

a. Please explain why the project was in service October 2020 and the replaced assets were not retired until December 2021.
b. Please explain the impact to the DCR for the 14-month delay in recording the retirements.
c. Please explain why no cost of removal was charged to this work order.

8.39. **Work Order Testing**: Follow-up to response to Data Request 2-DR-001. Work Order TECO 16898512 - Equip Investigate/Repair - Transformer O—$1,149,500.67. Relocate the 138-36 kV 12.5 MVA transformer from York sub to Richland sub. This unit will replace the failed Richland #1 autotransformer. Please cite where in the FERC Code of Accounts (18 CFR) does it allow an existing in-service asset that is relocated to be charged to capital.

8.40. **Work Order Testing:** Follow-up to response to Data Request 2-DR-001. OECO Work Order 16057717. The Explanation for Variance indicates the following:

*"After construction was completed there were a number of close out items around material charges and contractor charges that came in after the construction was completed. **These charges continue to be reconciled to this day**. This project was designated a design build project so the city was essentially designing the project as other pieces were being constructed so identifying a definitive budget was a challenge."* (Emphasis added)

Please explain why the charges are still coming in when the project was placed in service in February.

8.41. **Exclusions**: Refer to the Rider DCR Filing dated January 9, 2023, Summary of Exclusions. Under the section AMI CEI-Pilot, the second table presents **work order activity associated with WBS CE-00400 that are included in Non-SGMI depreciation groups offset by DCR activity in SGMI depreciation groups**. Please provide the supporting documentation for the reported balances shown below:

	Gross	Reserve
Grand Total – 11/30/22	7,458,026	5,861,476
Grand Total – 02/28/23	7,458,026	6,019,256

Note: The Company's response to BRC Set 01-DR-038 provided support for AMI exclusions **determined by specific depreciation groups in PowerPlant and WBS CE-004000** in the first table only.

8.42. **Exclusions**: Refer to the Rider DCR Filing dated January 9, 2023, Summary of Exclusions. Under the section LED, please provide the source document underlying the 11/30/22 and 02/28/23 balances reported for Account 373.3 LED. Note that the response to BRC Set 01-DR-039 omits this data.

8.43. **Grid Mod I Exclusion**. Please explain why the exclusion reflected in the January 9, 2023, filing does not reconcile to the source data provided at 1-DR-0038 Attachment 2.

	Grid Mod I Exclusion					
	1-DR-001 Attachment 3		1-DR-0038 Attachment 2		Difference	
Opco.	**Plant**	**Reserve**	**Plant**	**Reserve**	**Plant**	**Reserve**
OE	283,538,148	26,361,902	283,337,097	26,311,533	(201,051)	(50,368)
CEI	211,189,464	24,967,305	210,917,127	24,852,837	(272,336)	(114,467)
TE	77,822,144	10,812,322	77,697,855	10,782,213	(124,289)	(30,108)
Total	**572,549,756**	**62,141,528**	**571,952,080**	**61,946,584**	**(597,676)**	**(194,944)**

9-1 DESKTOP Virtual/On-Site Field Audit: As a continuation of the audit process, Blue Ridge has selected the attached 14 projects on which to perform a detailed Desktop Virtual/On-Site Field review. The purpose of the desktop review will be to understand the project scope, the installed and replaced/retired assets, risk ranking data used, and other pertinent documentation that the Company deems relevant for us to understand the project.

This review will be completed via video conference. To coordinate the desktop review, a pre-audit call will be scheduled among Blue Ridge, the Ohio PUC staff, and FirstEnergy prior to discuss the process and to select the dates to conduct the virtual field audit.

In support of this effort, please provide this information:

a. Prior to the day the audit commences – for each of the projects selected;

i. Schematics/drawings/and photos or any other visual aids that indicate what was built or installed. Before and after pictures would also be helpful if available.
ii. A list of material and/or equipment installed, along with the major asset serial numbers, if applicable
iii. Project justification statement, including alternatives considered
iv. Direct cost detail (labor, material, transportation, equipment etc.)
v. Risk Ranking score and model inputs that support the decision to go forward with the project if applicable
vi. A list of major equipment removed and retired, including vintage year of the assets removed, cost of removal, and salvage

b. For the days the virtual audit will be conducted
i. An individual who can coordinate the review and sponsor/host the virtual meeting
ii. Representatives from FirstEnergy who can describe each project in detail
iii. If necessary, the Project Manager responsible for the project who can answer questions

Company	Work Order	Work Order Description	In-Service Date	Addition/ Replacement	Actual
CECO	16348385	Equip Investigate/Repair - Miscellaneous	11/1/22	Addition	$2,490,223.59
CECO	16527415	Equip Investigate/Repair - Transformer O	3/10/22	Replacement	$1,368,224.72
CECO	17031647	Equip Investigate/Repair - Transformer O	3/10/22	Replacement	$756,114.66
OECO	14864962	Equip Investigate / Repair - Regulator	3/14/22	Addition	$689,496.37
OECO	15298831	Akron Main Street Rehabilitation	2/1/22	Addition	$24,585,996.19
OECO	16057717	INSTALL MH 3-D	2/23/22	Addition	$24,585,996.19
OECO	16646068	Equip Investigate/Repair - Miscellaneous	10/26/22	Addition	$624,309.52
OECO	16759481	OE- Greenfield Substation- Breaker Failu	11/28/22	Addition	$275,607.88
OECO	16995176	Perm repairs to 4 Chestnut CKTs & Duct	10/27/22	Addition	$464,235.59
OECO	IF-OE-000166-1	OE - Mansfield Service Center B01 Rf01	3/14/22	Roof Replacement	$862,493.00
TECO	16258499	Equip Investigate/Repair - Transformer O	8/20/21	Replacement	$2,778,527.65
TECO	16898512	Equip Investigate/Repair - Transformer O	1/20/22	Addition	$1,320,728.76
TECO	17007080	LUC-Brint/Kilburn Roundabout	7/19/22	Replacement	$581,747.10
TECO	17079576	DIXIE-JEEP 69KV/DIXIE-LOCUST 69KV	5/31/22	Addition	$1,475,345.46

10.1. **Status of 2021 Recommendations**: Follow-up to DR 1-009, response to Recommendation 8. Please provide the summary findings and recommendations for the Accounting for Capital & Maintenance Costs Audit specified in the response that was performed by Internal Audit and issued on December 9, 2022.

11.1. **Variance Analysis**: Follow-up to DR 5-007. The response mentions that retirements of $(3,609,428) for WO# 17331167 were recorded in error, that the retirements transactions were reversed in February 2023, and the correct quantity was retired.
a. Please provide the correct retirement amount that was recorded in February 2023.
b. Please provide the date when the original $(3,609,428) retirement was recorded.

~~11.2. **Variance Analysis—Reserves**: Follow-up to 01-DR-019, Attachment 1-Reserve. Please fully explain the reasons that each of the following reserve accounts decreased from 2021 to 2022, considering the addition of depreciation expense:~~
~~a. CE Acct 353 decreased (331,985)~~
~~b. CE Acct 369 decreased (272,792)~~
~~c. CE 370 decreased (37,071,315)~~
~~d. CE 373 decreased (410,580)~~

e. ~~CE 395 decreased (87,308)~~
f. ~~OE 370 decreased (20,467,054)~~
g. ~~OE 371 decreased (2,282,164)~~
h. ~~OE 391 decreased (95,226)~~
i. ~~OE 393 decreased (46,063)~~
j. ~~OE 395 decreased (260,505)~~
k. ~~OE 398 decreased (29,927)~~
l. ~~TE 368 decreased (754,961)~~
m. ~~TE 370 decreased (12,546,290)~~
n. ~~TE 373 decreased (3,219,507)~~
o. ~~TE 395 decreased (60,469)~~
p. ~~TE 398 decreased (12,877)~~

11.3. Variance Analysis—Reserves: Follow-up to 01-DR-019, Attachment 1-Reserve. Please fully explain why, considering the accrual of depreciation, the CE reserve account 354 increased by only $656 (CE plant account 354 was unchanged from 2021 to 2022).

11.4. Variance Analysis—Reserves: Follow-up to 01-DR-019, Attachment 1-Reserve. Please fully explain why TE reserve account 396 did not change from 2021 to 2022 at minimum for the accrual for depreciation.

12.1. Follow-up to 1-DR-009 Attachment 2. The response states, “OE-003923-DF-MSTM is a WBS for forestry charges for storm that are minor added over the assets from the restoration work order, OE-003923-DO-MSTM. The COR and Retirements are recorded on that WBS/Work Order. COR of $484,635.814 recorded between August 21-September 22 and Retirements of $(222,244.86) recorded September 2022. The Companies made an adjustment to the DCR revenue requirement calculation in the January 9, 2023, Rider DCR filing. See BRC Set 1-INT- 009 Attachment 2 for support.”
There does not appear to be an adjustment for OE-003923-DF-MSTM (Recommendation #9) within BRC Set 1-INT-009 Attachment 2 tabs Nov 2020 through Aug 2022. Please provide the adjustment that was made to the DCR revenue requirement calculation in the January 9, 2023, Rider DCR filing.

12.2. Follow-up to 2-DR-001—OECO Work Order OE-002031-TQ—OE MDT Purchase and Installations—$(1,409,593.11). The Company stated that the work order activity is a result of the corrections per findings from the 2021 DCR audit to reverse AFUDC and reclass charges to O&M. Please explain why the 2021 Adjustment #13 removes $(1,591,044) from gross plant, while the population indicates that $(1,409,593) was removed.

13-1. **Variance—Reserves**: Follow-up to 01-DR-019, Attachment 1-Reserve. Please fully explain the reasons that each of the following reserve accounts decreased from 2021 to 2022, considering the addition of depreciation expense:

a. CE Acct 353 decreased (331,985)
b. CE Acct 369 decreased (272,792)
c. CE 370 decreased (32,497,491)
d. ~~CE 373 decreased (38,728,792)~~
e. CE 395 decreased (16,319)
f. OE 370 decreased (22,359,632)
g. OE 371 decreased (1,222,955)
h. OE 391 decreased (280,368)
i. OE 393 decreased (19,026)
j. OE 395 decreased (107,323)
k. OE 398 decreased (20,332)
l. TE 368 decreased (1,905,133)
m. TE 370 decreased (12,862.941)
n. TE 373 decreased (2.649,526)
o. TE 395 decreased (23,723)
p. TE 398 decreased (1,159)

14-1. Follow-up to Data Request response BRC Set 08-DR-001, b. Reference BRC Set 02-INT-001 Attachment 1, tab = All Other.
Regarding work order 16514434, the Company explained that the transfer was from TECO to a PA affiliate company in December 2021. If that was the case, please explain the following Project Description (below), taking particular note of the highlighted portion. If the explanation is that the Transformer belonged to OECO but was sold by TECO, why is the credit to TECO and not OECO?
02-INT-01, Attachment 1, tab "All Other" Description for WO 16514434: "REPLACE FAILED IRONVILLE #3 69 12.5KV TRANSFORMER, ALONG WITH FOUNDATIONS, UNDERGROUND CONDUITS AND CABLES, NEW RECLOSER TO REPLACE CIRCUIT SWITCHER. OE HAS A USED UNIT THAT WILL WORK, **TE WILL NEED TO PURCHASE A NEW UNIT FOR OE**. A CONTRACTOR WILL BE REQUIRED FOR THE REMOVAL OF THE OLD FOUNDATION, NEW STONE BASE AND INSTALLATION OF A NEWFOUNDATION WORK, TRANSPORTING THE OE UNIT TO TE, AND TO INSTALL NEW CONDUITS AND TO GPS LOCATE UNDERGROUND FACILITIES." (Emphasis added.)

14-2. Follow-up to Data Request response BRC Set 08-DR-015. For the following work orders, please explain why the completion of the project took longer than expected.
- 15298831
- 16057717
- 16759481
- 16258499
- 16514434
- 16622904
- 16898512

14-3. Follow-up to Data Request response BRC Set 8-DR-029a. Please provide the cost my month by cost category from project inception in March 2017 through in-service in February 2022.

14-4. Follow-up to Data Request Response BRC Set 8-DR-014, Work Order CE-000172-S-I. Please explain how the Transformer was transferred to the Lark Substation in July 2022, yet the work order was in-serviced four months before that in March 2022?

15-1. Work Order Closing:
a. Please explain what types of work orders are auto-unitized and manually unitized.
b. Why is it necessary to manually unitize certain types of work orders?
c. How does the Company prioritize the order in which manual work orders are unitized?

15-2. **Work Order Testing**: Follow-up to Data Request response BRC-Set 2-INT-Attachment 4 –Retirements and BRC-Set 2-INT-Attachment 5 – Cost of Removal - CONFIDENTIAL. For the following replacement work orders, explain why no Retirements or Cost of Removal were recorded on the projects.

Work order	Description	Replacements
16348385	Equip Investigate/Repair - Miscellaneous	$458,438.87
16629298	PID 105998 E Cleve Euclid Ave CEI UG	$696,954.45
17099542	Oil Sample On Demand – Trans LTC	$233,546.89
CE-000172-S-1	Total Substation	$0.00

16.1. Follow-up to Data Request response 2.1 (Work Order Sample) and 9.1(Desk Top/Field Audit): Work Order 16995176—Perm repairs to 4 Chestnut CKTs & Duct. The Company indicated, "Repairs required to return the network system to normal. The four network cables are the source of supply for the entire Warren underground network in downtown Warren. Claims Department is involved in the project with the contractor that caused the outage."
a. Has the Company filed a claim with the contractor? If so, when was the claim filed, what is the amount of the claim, and what is the status of collection?
b. If a claim has not been filed or will not be filed, please explain why.

17.1. Desktop Review: Follow-up to Data Request response BRC-Set 9-DR-001 / April 4, 2023, virtual field audit. Please provide the following two pictures discussed.
   a. SAP order # 15298831 Akron Main Street Rehabilitation—picture of inside of vault 4-H
   b. SAP order # 16057717 Install MH-3D—picture of inside of manhole 5G

17.2. LTIP: Follow-up to Data Request response to BRC-Set 3-DR-005. What percentage of incentive comp is related to earnings?

17.3. Work Order Testing: Follow-up to Data Request response BRC-Set 1-DR-009 Attachment 2 (Tab Sheet1). With regard to Recommendation #9, Work Order OE-003923-DR-MSTM, the Action Required column (cell Y30) shows a COR total of $484,635.814 (decimal is potentially in the wrong place). Should this number be $484k or $484m of COR charges?

APPENDIX D: WORK PAPERS

Blue Ridge's workpapers were delivered to the PUCO Staff per the RFP requirements.

- FE Ohio Virtual Audit April 4 6 2023 final.docx
- WP ADJ - FE DCR Compliance Filing 1.9.2023 Final.xlsx
- WP BRC Set 1-DR-001 Att 1 year over year against pop and adjustments.xlsx
- WP BRC Set 1-DR-002 Attachment 1 2022 Sample Selection.xlsx
- WP BRC Set 01-DR-005 Attachment 1 RECONCILIATION to Population and Last Year's Ending Balance.xlsx
- WP BRC Set 1-DR-038-Attachment 2 and DR 8.43.xlsx
- WP BRC Set 8-DR-015 Attachment 1.xlsx
- WP BRCS FE 2022 DCR WO Variance Analysis by FERC.xlsx
- WP BRCS FE 2022 DCR Work Orders and Exclusions.xlsx
- WP FEOH 2021 Sample Size Calculation Work Orders through 11-30-22 - CONFIDENTIAL .xlsx
- WP FEOH 2022 Pre-Date Certain Pension Impact Analysis 2012-2021 - CONFIDENTIAL.xlsx
- WP FirstEnergy 2022 DCR Audit Matrix 220501.xlsx
- WP V&V - FE DCR Compliance Filing 1.9.2023 – BRC Set 1-DR-001 Attachment 1.xlsx