FIRSTENERGY PENNSYLVANIA ELECTRIC COMPANY

Statement of Reasons

FirstEnergy Pennsylvania Electric Company
2024 Base Rate Case
Docket No. R-2024-3047068

Statement of Reasons

For the Proposed Rate Increase

I. Introduction

FirstEnergy Pennsylvania Electric Company ("FE PA" or the "Company")[1] has filed a tariff supplement and accompanying supporting data setting forth a proposed distribution base rate increase and other proposed tariff revisions to become effective June 1, 2024. The proposed rates set forth herein, if approved by the Pennsylvania Public Utility Commission ("PUC" or the "Commission"), would increase FE PA's annual jurisdictional distribution revenues by approximately $502 million or 34% based on a fully projected future test year ending December 31, 2025 ("FPFTY"). On a Rate District basis, if approved by the Commission, the rates proposed herein would increase annual jurisdictional distribution revenues as follows: Met-Ed Rate District – proposed increase of $146 million or 31%; Penelec Rate District – proposed increase of $132 million or 28%; Penn Power Rate District – proposed increase of $55 million or 43%; and West Penn Rate District – proposed increase of $169 million or 40%.

The following rate impact analysis applies to FE PA's customers. It assumes that the Company's proposals for full rate relief in each Rate District are accepted by the PUC. In addition, while the average Rate Districts' percentage bill increases under the proposed rates may

[1] On January 1, 2024, Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company (collectively, the "Predecessor Companies") merged into FE PA pursuant to the Commission's Order at Docket Nos. A-2023-3038771, *et al* ("PA Consolidation"). As part of PA Consolidation, the tariffs of the Predecessor Companies were combined into a single tariff for FE PA, which consists of the Met-Ed, Penelec, Penn Power, West Penn and Pennsylvania State University ("PSU") rate districts (individually a "Rate District" and in any combination the "Rate Districts"). FE PA also has the Waverly Rate District, which is not discussed directly as it relates to FE PA's New York jurisdictional rates. The PSU Rate District is encompassed within the West Penn Rate District.

vary by class of customers, and the approximate average monthly bill increase applicable to each class are as follows:

Revenue Class	Average Usage	Met-Ed %	Penelec %	Penn Power %	West Penn %
Residential	1,000 kWh	9.2%	9.8%	11.8%	10.6%
Small Commercial	300 kWh	13.4%	15.8%	18.3%	18.3%
Medium Commercial	40 kw, 250 hours	3.9%	4.4%	4.1%	4.6%
Industrial	20,000 kw, 474 hours	0.5%	1.8%	0.7%	0.3%
Streetlighting	Total Class Basis	14.0%	25.3%	31.2%	28.0%
Outdoor Area Lighting	Total Class Basis	12.5%	17.8%	23.5%	28.0%
Penn State	Total Class Basis				2.6%

The monthly bill of a typical FE PA residential customer receiving default service from the Company and using 1,000 kilowatt-hours ("kWh") per month would increase as follows:

Rate Districts	Met-Ed	Penelec	Penn Power	West Penn
Current Rate	$ 187.70	$ 200.96	$ 180.59	$ 156.36
Proposed Rate	$ 205.00	$ 220.75	$ 201.88	$ 172.98

The current rates for each of FE PA's Rate Districts, established in 2017, do not provide FE PA with a reasonable opportunity to earn a fair rate of return on its investments made to provide safe and reliable electric distribution service to the public. Specifically, the Company's operations at present rates are projected to produce an overall rate of return of just 3.45%, which equates to a return on common equity of only 2.49% during the FPFTY. These returns are not adequate based on applicable financial data and the risks confronted by FE PA. Without the requested rate relief, FE PA's returns will continue to decline, deny FE PA the opportunity to earn a fair and reasonable rate of return, and risk undermining its ability to attract the capital needed to make the system investments necessary to support and ensure continued system reliability, safety, and customer service performance.

II. Principal Reasons for the Increase

There are many factors contributing to the Company's request for a distribution base rate increase. As an initial matter, since the Predecessor Companies' last base rate cases were approved by the Commission in 2017, significant shifts in the economy have occurred, leading to increases in inflation and interest rates. While the Predecessor Companies, and FE PA, have prudently and effectively managed costs since 2017, these shifts in market dynamics have significantly impacted the Company's capital costs and operating expenses. Among the other factors principally driving the need for rate relief at this time are:

1. Growth in the Company's rate base – In order to continue to provide safe and reliable service, as well as enhance the service it provides by preparing for unexpected events such as major storms, and meet increasing customer service needs, the Company must continue to make investments in new distribution plant as well as replaced aging infrastructure such as those included in each Rate Districts' Commission-approved Long Term Infrastructure Improvement Plans ("LTIIPs"). While the Company has effectively used the Distribution System Improvement Charge ("DSIC") Rider to prudently and efficiently place capital improvement projects into service, it has reached a point where the DSIC Rider alone is insufficient to support necessary capital investments.

2. Vegetation Management – FE PA has a need to expand its vegetation management initiatives. The proposed vegetation management program is designed to fund enhancements intended to address the primary issues impacting the reliability of the Company's service. While the enhanced vegetation management program is estimated to cost approximately $100 million per year over an anticipated ten-year period, it is estimated to significantly improve distribution service reliability for the Company's customers.

3. Storms – The increase in storm related expenses as result of storm and weather events that have impacted FE PA's service territory and given rise to those significant deferred costs are another contributing factor of the requested base rate increase. The number of storms and expenses related to storms have increased since the setting the baseline in the storm deferral. There are three components of the requested increase for storms: (1) the recovery of the storm-related reserve, (2) the recovery of the extraordinary storm damage balance, and (3) an update to the historical five-year average of actual storm expenses included in base rates.

4. Administrative and General ("A&G") – Effective January 1, 2022, FirstEnergy and, likewise, FE PA, adjusted its capitalization rate for A&G overhead costs as a result of a representative labor time study conducted by an independent, third-party entity in response to an audit report from the Federal Energy Regulatory Commission's ("FERC") Division of Audits and Accounting. The effect of the adjustment to A&G capitalization was to reduce amounts that were capitalized and increase amounts that were charged to operations and maintenance ("O&M"). For consideration in this base rate case, FE PA has included these amounts previously capitalized in plant in service as originally capitalized. The Company proposes to continue to recover these prudently incurred costs until they are fully depreciated. This ensures that customer rates are not impacted by this reclassification. Because the proposed recovery treatment of these costs is the same as it has been historically, there is no impact on rate base or revenue requirement, and costs impacted continue to be shown in the appropriately charged plant accounts within this filing. Because O&M expense has a greater effect on customer rates than capital expenditures, the effect of the reduction in capitalization percentages means that these same costs now have a greater impact on customer rates.

5. Additional Staffing – FE PA is increasing staffing levels to accommodate the recent increase in interconnection net metering applications. The Company plans to increase staffing to perform clerical reviews of net metered applications and perform the necessary studies. In 2023, the Company increased the number of employees dedicated to these processes from six to seven full time employees. The Company expects to further increase staffing for this program by adding eight employees to process the increased applications.

6. Energy Assistance Outreach Team ("EAOT") – FE PA is proposing to create the EAOT in an effort to increase awareness and participation in the assistance programs available to low-income customers in the Company's service territory. The new team will be in charge of creating educational resources, tools, and technology to facilitate program participation. The EAOT also will work with local agencies, churches, and local government to increase participation in the Company's assistance programs.

7. COVID-19 - The Company is also proposing recovery of its COVID-19 related deferral. Consistent with the Commission's directive, this base rate case is the first opportunity in which FE PA could claim these deferred expenses. These costs primarily include waived late payment charges, waived reconnect charges, a bill assistance media campaign, two outbound dialing campaigns, customer mailings, uncollectible accounts expenses and postage associated with that customer mailing.

8. Electric Vehicle ("EV") Pilot – The Company is proposing an EV Pilot that is intended to educate customers about EVs and encourage them to adopt EVs by providing incentives and expanding access to EV charging in the FE PA territory.

III. Distribution Riders Roll-in

FE PA is proposing to roll into base distribution rates the following: 1) DSIC Rider, 2) Smart Meter Technologies Charge ("SMT-C") Rider, 3) State Tax Adjustment Surcharge ("STAS") Rider, and 4) Tax Cuts and Jobs Act ("TCJA") Voluntary Surcharge Rider.

1) DSIC - Following the DSIC Customer safeguards, Part C, as described in the Company's Tariff, the "C-Factor" of the DSIC will be reset to zero on the effective date of new base rates, and according to Part G, the "E-Factor" will remain only to true-up prior period DSIC costs and revenues until the Company has exceeded the rate base included in the 2025 FPFTY.

2) SMT-C - In accordance with Act 129 of 2008 ("Act 129"), electric distribution companies ("EDCs") are entitled to full and current recovery of costs associated with deploying smart meter technology throughout their distribution systems. Act 129 allows an EDC to recover those costs either: (1) through base rates; or (2) on a full and current basis through a reconcilable surcharge clause under Section 1307. The Company finds it appropriate to roll into base distribution rates the smart meter program costs and savings as the Company has nearly completed the implementation of the smart meter deployment consistent with approved deployment plan.

3) STAS - The Company will set the STAS surcharge rate to 0% by incorporating the 2025 state tax rate into the proposed rate filing. 52 Pa. Code § 69.53 states that a fixed service utility which has a STAS in place shall roll revenues collected through the surcharge into base rates.

4) TCJA - The Company is including the federal income tax rate change resulting from the TCJA of 2017 into the proposed base rates following the guidance included in the Company TCJA Surcharge tariff language, "[t]he negative surcharge will be reconciled at the

end of each calendar year and will remain in place until the Company files and the Commission approves new base rates for the Company pursuant to Section 1308(d) that include the effects of the TCJA tax rate changes." In addition, the Company is proposing to adjust the final TCJA Surcharge reconciliation period. Because the TCJA Surcharge is calculated on a one-month lag, the 2024 reconciliation period would not include the true-up of the December 2024 estimated amount owed to customers, as the actual amount will be recorded in January 2025. The Company is proposing to reconcile the final 13 months of actuals ending January 31, 2025 by April 30, 2025 (the Company's normal 1307e filing date) and refund or recoup the remaining over/under collection balance from 2023 and 2024 beginning July 1, 2025 for six months.

IV. Conclusion

As set forth in FE PA's filing, the proposed distribution rate increase for FE PA and each of its Rate Districts is necessary for FE PA to continue to provide safe and reliable electric service, to maintain and enhance the integrity of its distribution system, to attract additional capital at reasonable rates, and to have a reasonable opportunity to earn a fair rate of return on its property used and useful in providing electric service across the Commonwealth of Pennsylvania. The requested rate increase reflects the business environment the Company currently faces, particularly its need to make significant capital investments to help ensure that its reliability performance remains strong for customers today and in the future. For all of these reasons, and the reasons set forth in this filing, the rates, rules, and terms and conditions of service set forth in FE PA's proposed tariff supplement is just and reasonable and should be approved by the Commission.