

Jeffrey P. Trout

Telephone: 724-838-6621  
Fax: 234-678-2370

March 27, 2013

**VIA FEDEX NEXT DAY**

David J. Collins, Executive Secretary  
Public Service Commission of Maryland  
William Donald Schaefer Tower  
6 St. Paul Street, 16<sup>th</sup> Floor  
Baltimore, MD 21202

**Re: The Potomac Edison Company 2012 Annual Report as required by  
The Memorandum of Understanding dated February 6, 2009 (PC 16)**

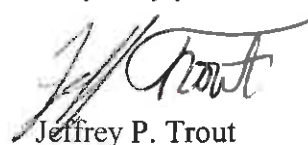
Dear Mr. Collins:

In accordance with the Memorandum of Understanding dated February 6, 2009, between the Commission and The Potomac Edison Company ("Potomac Edison" or Company"), enclosed please find the original and seventeen (17) copies of Potomac Edison's Annual Report covering the Calendar Year 2012 with respect to Minority, Women and Service Disabled Veteran-Owned Business Enterprises.

As Attachment B and Attachment D contain CONFIDENTIAL information, these attachments will be sent directly to the Commission under separate cover.

Should there be questions, please contact me.

Very truly yours,



Jeffrey P. Trout  
Senior Corporate Counsel

Enclosures

**The Potomac Edison Company  
Annual Report for Calendar Year 2012**

**Minority, Women and Service Disabled Veteran-Owned Business Enterprises  
January 1 – December 31, 2012**

This Annual Report prepared pursuant to the State of Maryland Public Service Commission Memorandum of Understanding (MOU), signed on February 6, 2009, is submitted for the consideration of the Maryland Public Service Commission by FirstEnergy Corp. ("FirstEnergy") on behalf of The Potomac Edison Company ("Potomac Edison").

FirstEnergy Corp. President and CEO Anthony J. Alexander has stated that "Diversity initiatives are integrated at FirstEnergy in its strategic vision and core values. Supplier Diversity is a major component of Supply Chain's business objectives and long-range strategies."

This report summarizes the Supplier Diversity program for the period of January 1, 2012 through December 31, 2012 for the Maryland business segment of Potomac Edison.

FirstEnergy and its affiliates and subsidiaries (collectively the "Company") engaged in the activities identified below. Some work conducted, such as outreach and internal activities, are performed on a Company-wide basis. However, all diversity expenditures reported in the Attachments hereto are specific only to Potomac Edison's Maryland operations.

The following information summarizes the Company's 2012 Supplier Diversity program:

1. Staff members participated in the following internal and external activities (MOU §6.2.1).

**A. INTERNAL EFFORTS**

In 2012, Supplier Diversity at FirstEnergy was led by Gary Benz (Vice President & Chief Procurement Officer) and Joseph Loboda (Director, Supply Chain Support Services). FirstEnergy has a dedicated Supplier Diversity Coordinator who reports to the Manager Supplier Planning & Diversity. Our Supplier Diversity Coordinator provides full-time guidance and assistance to Supply Chain leadership in developing supplier diversity program overview, direction, and goal setting. The Coordinator oversees preparation of reports to management and those organizations, including federal and state governmental agencies, that have a need to know FirstEnergy's program achievements. The Coordinator is responsible for the day-to-day administration of the Supplier Diversity Program, attends department staff meetings, shares information with Supply Chain buyers, introduces new suppliers, provides training and program orientation, reviews goal attainments, and solicits feedback from FirstEnergy personnel for help in identifying suppliers for future sourcing opportunities.

The objective of our Supplier Diversity Program in Maryland is to provide and encourage business opportunities with Minority Business Enterprises (MBE), Women-owned Business Enterprises (WBE), Service Disabled Veteran Business Enterprises (SDVOB) and Not for Profit Workshops, herein collectively called Diverse Suppliers. Specifically, our goals are to increase participation by Diverse Suppliers in our supplier base and bid opportunity process, and to increase dollars spent with Diverse Suppliers on materials and services.

- Potomac Edison increased Diverse Supplier spend from 15.49% in 2011 to 19.14% in 2012. Potomac Edison is on track to achieve our 2013 five-year long term goal of 25%.
- In 2012 we conducted a Process Improvement Review of our Supplier Diversity Program. Much of our review focused on our internal business processes, communication, best practices, corporate culture, data management, reporting responsibilities and overall company position and philosophy on diversity. The review team then used this data to compile a high level integration plan which was implemented during the 4<sup>th</sup> quarter of 2012.
- We conducted training on our Supplier Diversity initiatives, which included updates on FirstEnergy's Subcontracting Program and Opportunity Tracking Procedure. This training included the role a buyer has in working with Prime Contractors to increase their utilization of Diverse Suppliers as subcontractors, especially when fulfilling our contract requirements, and the Primes' role in providing bid opportunities to Diverse Suppliers.
- Monthly diversity goal progress reports were provided to Supply Chain management and Company leadership.
- A supplier profile recertification review was conducted to verify and document supplier records and request current diversity third-party certifications.

## **B. EXTERNAL EFFORTS**

In 2012, FirstEnergy continued to actively support supplier diversity initiatives throughout our service territory. Supply Chain staff members actively participated in various diversity events and are members of the following advocacy organizations:

- **AFFILIATIONS/MEMBERSHIPS**

National Minority Supplier Development Council Affiliated Council (MSDC's):

- Maryland/District of Columbia MSDC
- MSDC of PA-NJ-DE
- Northern Ohio MSDC
- Western Pennsylvania MSDC

National Association of Regulatory Utility Commissioners – Utility Market Access hosted Councils:

- Public Service Commission of Maryland - FORUM
- New Jersey Board of Public Utilities - Supplier Diversity Development Council
- Public Utility Commission of Ohio – OhioGate Council

Maryland Washington Minority Contractors Association  
 The Elite Service Disabled Veterans Organization – Maryland Chapter  
 BlackPages of Ohio  
 Women's Business Enterprise Council of PA-DE-sNJ  
 Women's Business Development Council of PA-DE-sNJ  
 Edison Electric Institute Supplier Diversity Task Force Committee  
 U.S. General Services Administration

- **SOURCING DATABASES UTILIZED AT FIRSTENERGY**

Buyers utilize our own supplier registration database to identify diverse suppliers to include on their bid opportunities. We also use the following diversity databases when seeking to identify qualified diverse suppliers for inclusion in bid solicitations:

U.S. Small Business Administrations Dynamic Small Business Search Engine  
National Minority Supplier Development Council - MBISYS  
VETBIZ.com  
WBENCLink  
Pennsylvania Dept. of General Services – MBE/WBE Database  
State of Ohio MBE Search

- **NETWORKING / OUTREACH ACTIVITY**

1. Our staff participated in the Maryland Utility Forum meetings. Through these meetings, we identify topics related to Maryland that are relevant to those buyers supporting Potomac Edison. We also continued to promote the Forum’s mission and goals externally with the advocacy organizations we partner with and the diverse suppliers we meet.
2. We are a member of the Maryland Washington Minority Contractors’ Association. The Company participated in several events sponsored by the Association including the Annual Spring Breakfast/Business Showcase Expo and other matchmaking events.
3. FirstEnergy joined The Elite Service Disabled Veterans Organization – Maryland Chapter this year.
4. Our staff participates with the Women’s Business Enterprise Council of PA-DE-sNJ. Participation includes attending meetings, educational sessions and supporting the Council by serving as Co-Chair of the Board of Directors and on the Certification Committee reviewing applications and conducting site visits for women owned businesses seeking third-party certification.
5. FirstEnergy actively participates as a member of the Edison Electric Institute (EEI) Supplier Diversity Task Force Committee. Toby Stanislaw, FirstEnergy’s Supplier Diversity Coordinator, was elected as Chair of this Committee in 2012. Staff members attended the GSA/SBA Federal Subcontracting Best Practices Workshop and participated in the annual EEI Supplier Diversity Conference.
6. Facilitated in-house and off-site meeting opportunities for Company employees to:
  - meet with Diverse Suppliers and discuss procurement opportunities to further increase the diversity of our supplier base.
  - assisted potential Diverse Suppliers in understanding the process for being added to FirstEnergy’s vendor listing.

- assisted Diverse Suppliers in identifying the types of materials and services purchased by FirstEnergy, and helped them interpret Company specifications and industry standards.
2. See Attachment A-1, A-2, A-3 for overall summary of total Diverse Supplier spend, with breakdowns by socially disadvantaged group, compared with total Utility dollars spend of goods and services (MOU §6.2.2).
  3. See Attachment B in the Annual Report, identified as “CONFIDENTIAL,” for the itemization of the Diverse Supplier program expenses including salaries, outreach, etc., compared with total utility dollars spent on general and administrative expenses (MOU §6.2.3).
  4. In order to meet or exceed our goals, the Company continually strives to increase our Diverse Supplier base. Every person or supplier desiring to sell goods or services to the Company, regardless of size or diversity, must complete a registration form for consideration and placement on the Company’s supplier list. Included on the registration form is the request for Third Party Certification and a business self-certification section with required signatures. Third-party certified Service Disabled Veterans continue to be difficult to identify (MOU §6.2.4).
  5. FirstEnergy’s E-Sourcing tool, Request for Proposal, and Request for Quotations contain language incorporating the Federal Acquisition Regulation (FAR) flow down provisions. In addition, we have incorporated the following statement in our Terms & Conditions, Rev. 26 - Compliance With Laws, Regulations & Permits section:  
  
“If this Agreement is a subcontract under a government contract or a federally-funded project, Supplier shall comply with subcontractor flow down requirements under the Federal Acquisition Regulations (48 CFR Chapter 1), as amended from time to time, which are specified in supplemental terms to this Agreement.”  
  
Large Suppliers meeting the dollar threshold for 2<sup>nd</sup> Tier reporting will be requested to submit a Plan as required in FAR 52.219-9. Our intent is to enhance, not replace, our own efforts to increase meaningful opportunities for small, minority and women-owned businesses that do not have the capacity to supply FirstEnergy directly. These same large suppliers are asked to share similar values regarding utilization of small diverse businesses, especially when fulfilling work requirements on behalf of FirstEnergy. (MOU §6.2.5).
  6. There were no Diverse Supplier procurement-related complaints reported directly to Potomac Edison during the 2012 reporting year. See Attachment C (MOU §6.2.6).
  7. In the event Potomac Edison were to receive a complaint regarding Diverse Supplier procurement-related issue or concern, the Director, Supply Chain & Contracts would be notified to follow up and address the complaint (MOU §6.2.7).
  8. See Attachment D, identified as “CONFIDENTIAL,” for list of Diverse Suppliers that received payment for 2012 contract services, the NAICS Code(s) for the services provided, and the dollar amount paid to the suppliers (MOU §6.2.8).
  9. Further description of efforts made to recruit Diverse Suppliers of products or services in NAICS Code Categories where Diverse Supplier utilization has been low (MOU §6.2.9).

- To help us identify these suppliers, we are now entering commodity code and NAICS codes on the vendor master record when creating or updating vendor master data records.
- In addition, we now have reports available to collect the vendor data so we can determine the commodity and NAICS code purchases and identify those codes where we are lacking diversity inclusion, and can work with our Advocacy partners to locate diverse suppliers to include on future bid opportunities.

2012 Annual Report - The Potomac Edison Company  
 Annual Spend for Socially Disadvantaged Groups  
 (MOU Sec. 6.2.2)

ATTACHMENT A-1

(A) LINE #	(B) DESCRIPTION	(C) DIRECT (\$)	(D) SUBCONTRACT (\$)	(E) DIVERSE SUPPLIER PROCUREMENT (\$)		(F) PERCENTAGE OF DIVERSE SUPPLIER PROCUREMENT \$/ Total Col. (E)	(G) TOTAL UTILITY PROCUREMENT (\$)	(H) PERCENTAGE (% OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT Col. (E) / Col. G
				Col. (C) + (D)				
1	MINORITY BUSINESS ENTERPRISE							
2	African American	\$1,659,313		\$1,659,313		16.03%		3.07%
3	Native American Indian	\$54,060		\$54,060		0.52%		0.10%
4	Asian Indian American	\$213		\$213		0.00%		0.00%
5	Asian Pacific American	\$1,334,214						
6	Hispanic American	\$166,219		\$166,219		1.61%		0.31%
7	Total Minority Business Enterprise Spend:	\$3,214,019	\$1,114,072	\$4,328,091		41.82%		8.00%
8	WOMEN BUSINESS ENTERPRISE	\$4,693,514	\$1,326,316	\$6,019,830		58.17%		11.13%
9	SERVICE DISABLED VETERAN BE	\$260	\$25	\$285		0.00%		0.00%
10	NOT FOR PROFIT WORKSHOPS	\$0	\$0	\$0		0.00%		0.00%
11	GRAND TOTAL by DOLLARS:	\$7,907,793	\$2,440,412	\$10,348,205		100.00%	\$54,074,439	19.14%
12	PERCENTAGE of DOLLARS:	14.62%	4.51%					

2012 Annual Report - The Potomac Edison Company  
 Results by Product Descriptions / NAICS Codes  
 (MOU Sec. 6.2.2)

ATTACHMENT A-2

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
LINE #	NAICS #	PRODUCT/SERVICE DESCRIPTIONS BY NAICS CODE 1, 2	MINORITY BUSINESS ENTERPRISE	WOMEN BUSINESS ENTERPRISE	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	NOT FOR PROFIT WORK SHOPS	TOTAL DIVERSE SUPPLIER (\$) BY NAICS CODE	% TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS	TOTAL UTILITY SPEND	% OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY SPEND
							COLS. (D), (E), (F), and (G)	\$/ TOTAL COL. (H)		COL. (H) \$ / TOTAL COL. (J)
1	236	Construction of Buildings	\$39,351	\$0			39,351	0.3803%		0.0728%
2	237	Heavy and Civil Engineering Construction	\$11,136	\$329,221			340,357	3.2890%		0.6294%
3	238	Specialty Trade Contractors	\$1,654,048	\$1,419,028			3,073,076	29.6967%		5.6830%
4	322	Stationery Products	\$0	\$304			304			
5	323	Printing and Related Support Activities	\$0	\$58,402			58,402	0.5644%		0.1080%
6	332	Fabricated Metal Product Manufacturing	\$1,849	\$112,222	\$260		114,331	1.1048%		0.2114%
7	334	Computer and Electronic Product Manufacturing	\$214,004	\$880			214,884	2.0765%		0.3974%
8	335	Electrical Equipment, Appliance, and Component Manufacturing	\$1,276,184	\$2,343,998	\$25		3,620,207	34.9839%		6.6949%
9	339	Miscellaneous Manufacturing	\$0	\$1,372			1,372	0.0133%		0.0025%
10	423	Merchant Wholesalers, Durable Goods	\$35,161	\$22,758			57,919	0.5597%		0.1071%
11	424	Merchant Wholesalers, Nondurable Goods	\$0	\$1,023			1,023	0.0099%		0.0019%
12	442	Furniture and Home Furnishings Stores	\$0	\$13,696			13,696	0.1324%		0.0253%
13	448	Clothing and Clothing Accessories Stores	\$414	\$0			414	0.0040%		0.0008%
14	453	Office Supplies	\$11,528	\$40,788			52,316	0.5056%		0.0967%
15	484	Freight/Transportation	\$64,280	\$900			65,180	0.6299%		0.1205%
16	518	Data Processing Services	\$0	\$1,782			1,782	0.0172%		0.0033%
17	532	Vehicles		\$143,119			143,119			



2012 Annual Report - The Potomac Edison Company  
 Results by Product Descriptions / NAICS Codes  
 (MOU Sec. 6.2.2)

ATTACHMENT A-2

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
LINE #	NAICS #	PRODUCT/SERVICE DESCRIPTIONS BY NAICS CODE 1, 2	MINORITY BUSINESS ENTERPRISE	WOMEN BUSINESS ENTERPRISE	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	NOT FOR PROFIT WORK SHOPS	TOTAL DIVERSE SUPPLIER BY NAICS CODE	% TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS	TOTAL UTILITY SPEND	% OF DIVERSE SUPPLIER (\$ TO TOTAL UTILITY SPEND
							COLS. (D), (E), (F), and (G)	\$ / TOTAL COL. (H)		COL. (H) \$ / TOTAL COL. (J)
18	541	Professional, Scientific, and Technical Services	\$643,331	\$758,761			1,402,092	13.5491%		2.5929%
19	561	Administrative and Support Services	\$376,806	\$771,211			1,148,017	11.0939%		2.1230%
20	722	Food Services and Drinking Places	\$0	\$363			363	0.0035%		0.0007%
21		Totals:	\$4,328,092	\$6,019,828	\$285	\$0	\$10,348,205	98.61%	\$54,074,439	19.14%

Footnotes:

- 1 NAICS Codes listed are subject to change
- 2 To the extent that disclosure of the contract dollars applies to only one vendor, the Utility may confidentially report data for columns (D) through (K).

2012 Annual Report - The Potomac Edison Company  
 Goal Comparison  
 (MOU Sec. 6.2.2.)

ATTACHMENT A-3

(A)	(B)	(C)	(D)
LINE #	DESCRIPTION	CURRENT YEAR RESULTS (%)	CURRENT YEAR GOALS (%)
1	MINORITY BUSINESS ENTERPRISE	8.00%	12.25%
2	WOMEN OWNED BUSINESS ENTERPRISE	11.14%	5.25%
3	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	0.00%	1.50%
4	NOT FOR PROFIT WORKSHOPS	0.00%	0.00%
5	TOTAL	19.14%	19.00%

2012 Annual Report - The Potomac Edison Company  
 Complaints  
 (MOU Sec. 6.2.5)

ATTACHMENT - C

(A) LINE #	(B) NAME OF COMPANY	(C) FILING DATE OF COMPLAINT	(D) NATURE OF COMPLAINT	(E) RESOLVED YES OR NO	(F) IF NO, PLEASE PROVIDE CURRENT STATUS
1	The Potomac Edison Company		received ( 0 ) Diverse Supplier procurement-related complaints during the 2012 calendar year.		
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