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March 30, 2012

**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 2011 Annual Report as required by  
The Memorandum of Understanding dated February 6, 2009 (PC 16)**

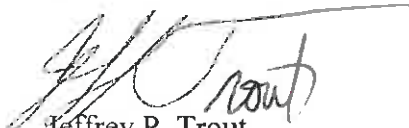
Dear Mr. Collins:

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 2011 with respect to Minority, Women and Service Disabled Veteran-Owned Business Enterprises. Among the highlights of the report are that in 2011, Potomac Edison increased direct spend with Diverse Suppliers by 88%; increased subcontracting spend with Diverse Suppliers by 21%; and overall increased its Diverse Supplier spend from 11.51% of all expenditures in 2010 to 15.49% in 2011, thus exceeding the Company's 2011 goal of reaching 15%.

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

cc: Terry Czarski - OPC

The Potomac Edison Company  
Annual Report for Calendar Year 2011

Minority, Women and Service Disabled Veteran-Owned  
Business Enterprises  
January 1, 2011 – December 31, 2011

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).

This report summarizes the Diverse Supplier program for the period of January 1, 2011 through December 31, 2011 and covers the Maryland business segment of Potomac Edison.

FirstEnergy and its affiliates and subsidiaries including Potomac Edison (collectively the Company) engaged in the activities identified below. Some of the work conducted, such as outreach and internal activities, were performed on a Company basis. However, all numerical reporting in the Attachments hereto are specific to Potomac Edison's Maryland operations.

FirstEnergy is committed to its continued development of a successful Supplier Diversity Program. It is the policy of FirstEnergy to continually increase the diversity of our supplier base in the procurement of materials, equipment, and services. FirstEnergy is committed to providing equitable opportunity to all suppliers to compete for such contracts.

The objective of FirstEnergy's Supplier Diversity Program is to provide and encourage business opportunities with small businesses (SB) and 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, the goals are to increase participation by Diverse Suppliers in our supplier base; increase bid participation by Diverse Suppliers in the bid process; and increase dollars spent on materials, equipment, and services with Diverse Suppliers. To accomplish these goals, FirstEnergy actively seeks to identify and maintain qualified Diverse Suppliers in areas where there is limited or no participation by Diverse Suppliers, and to promote open lines of communication between FirstEnergy and our suppliers and organizations.

The Manager, Supplier Diversity & Contracts in FirstEnergy's Supply Chain is responsible for the Supplier Diversity Program, working with Supply Chain staff and employees involved in the Procurement process to ensure results. The Manager, Supplier Diversity & Contracts reports directly to the Director, Supply Chain Planning & Contracts. The Director, Supply Chain Planning and Contracts reports directly to the Vice President of Supply Chain.

FirstEnergy employees are responsible for supporting the objectives of the Supplier Diversity Program. Any employee authorized to spend or commit funds is responsible for adhering to the program.

FirstEnergy is dedicated to providing on-going assistance and guidance in building a strong supplier base that provides opportunities to Diverse Suppliers.

As a result of the merger between FirstEnergy and Allegheny Energy in 2011, best practices from each respective company were identified and implemented. In second quarter 2012, the FirstEnergy and Allegheny Energy supplier diversity data information systems will be combined to create one robust system that will allow FirstEnergy to implement monthly performance tracking, which will help enhance accountability of purchasing personnel and Prime Contractors, and to further encourage Diverse Supplier outreach and opportunities.

1. The Company participated in the following internal and external activities (MOU §6.2.1).

- INTERNAL EFFORTS

Much of the efforts in 2011 involved merging the FirstEnergy and Allegheny Energy Supplier Diversity programs together, utilizing the best practices from each respective company. Potomac Edison increased Diverse Supplier spend from 11.51% in 2010 to 15.49% in 2011, exceeding its three-year mid term goal of 15%. Potomac Edison is thus on track to ultimately achieve our five-year long term goal of 25% by 2013.

Potomac Edison also:

- Achieved an 88% increase in direct spend with Diverse Suppliers and a 21% increase in reported subcontracting spend.
- In 2011, developed and implemented a new Subcontracting Tier II process to: track suppliers by purchase order number; determine whether a supplier will or will not be subcontracting any portion of the work; and, when a supplier is subcontracting, track the date the plan was received and the total planned subcontracting percentage goals.
- Implemented an Opportunity Tracking Procedure to identify list of suppliers given opportunity to bid on request for quotation, request for proposal or E-Sourcing events. For suppliers not awarded the order, this new procedure also identifies and tracks the reason, (e.g. evaluation of price variance, incomplete bid, no bid received, etc).
- Provided training to Supply Chain personnel on FirstEnergy's Subcontracting Program and Opportunity Tracking Procedure, explaining: their role in working with Prime Contractors to increase the utilization of Diverse Suppliers as subcontractors, especially when fulfilling our contract requirements; and their role in providing bid opportunities to Diverse Suppliers.

- Provided Supply Chain management and corporate management with updates of the Supplier Diversity Program goals and progress.
  - Updated several FirstEnergy Supply Chain business practices, and created two new guideline documents outlining the procedure and tracking process implemented for subcontracting Tier II and bid opportunity tracking.
  - Implemented a FirstEnergy recertification process to maintain and update vendor information, self-certification and request for third party certification.
- EXTERNAL EFFORTS  
 In 2011, FirstEnergy continued to actively support supplier diversity initiatives through participation in various diversity events and advocacy organizations as follows:
    - Joined and participated in the MD/DC Minority Supplier Development Council; attended the Utility Summit event. Also continued to participate in the Western Pennsylvania Minority Supplier Development Council (WPMSDC), PA-NJ-DE regional council and Northern Ohio regional council, attending meetings, participating in educational sessions, annual business fairs and matchmaking sessions.
    - Participated in all Maryland Utility Forum meetings. In 2011, the Forum finalized the groups rules, roles, and operating procedures; continued to share and update information to the Forum's master list of third party certified companies; collaborated on common processes i.e., obtaining third-party certifications, collecting and reporting of subcontract dollars, etc.; and worked with new signers of the MOU.
    - As a new member of the Maryland Washington Minority Contractors' Association, the Company participated in several events sponsored by the Association including the Eighth Annual 2011 Spring Breakfast/Business Showcase Expo.
    - Participated in the Women's Business Enterprise Council of PA-DE-NJ by attending meetings, educational sessions, and supported the Council by serving on the Board of Directors and the Certification Committee, reviewing applications, and conducting site visits for women owned businesses seeking third-party certification.
    - Served as an active member of Edison Electric Institute (EEI) Supplier Diversity Task Force Committee; attended the GSA/SBA Federal Subcontracting Best Practices Workshop and participated in the annual EEI Supplier Diversity Conference.

- Met and spoke with numerous Diverse Suppliers, encouraging their increased interaction with Company employees involved in the Procurement process so as to further increase the diversity of our supplier base.
  - Promoted in-house and off-site meeting opportunities for Company employees to meet with Diverse Suppliers and to discuss procurement opportunities.
  - 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, when applicable.
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 Confidential Attachment B 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 recruit; however, in spite of this we achieved our 2011 SDVOB goals (MOU §6.2.4).
  5. FirstEnergy Terms & Conditions contain language incorporating the Federal Acquisition Regulation (FAR) flow down provisions. In addition, E-Sourcings events that may potentially be greater than \$550K include subcontracting standard language informing the bidder of the requirement for Subcontracting Plan submittal and lists questions to be completed by the bidder to determine if a Subcontracting Plan is required (MOU §6.2.5).
  6. There were no Diverse Supplier procurement-related complaints reported directly to Potomac Edison during the 2011 reporting year; see Attachment C (MOU §6.2.6).

7. In the event Potomac Edison were to receive a complaint regarding a Diverse Supplier procurement-related issue or concern, the Manager, Supplier Diversity & Contracts would be notified, and would follow-up and address the complaint (MOU §6.2.7).
8. See Confidential Attachment D for list of Diverse Suppliers that received payment for 2011 contract services, the NAICS Code(s) for the services provided, and the dollar amount paid to the suppliers (MOU §6.2.8).
9. FirstEnergy is engaged in further efforts to facilitate recruiting Diverse Suppliers of products or services in NAICS Code Categories where Diverse Supplier utilization has been low (MOU §6.2.9).
  - Adopted an Allegheny Energy best practice of entering commodity code and NAICS code on the vendor master record when creating or updating vendor master data.
  - Following completion of the FirstEnergy and Allegheny Energy vendor master-supplier diversity data integration, will develop reports to extract data from the vendor master to identify Diverse Suppliers and by commodity code and NAICS code.

Public Service Commission of Maryland  
 Supplier Diversity Annual Report of  
 Socially Disadvantaged Groups  
 (MOU Sec. 6.2.2)

ATTACHMENT A-1		UTILITY NAME: The Potomac Edison Company		FOR THE REPORTING YEAR: 2011 Annual Report			
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
LINE #	DESCRIPTION	DIRECT (\$)	SUB CONTRACT (\$)	DIVERSE SUPPLIER PROCUREMENT (\$) COLS. (C) + (D)	PERCENTAGE (%) OF DIVERSE SUPPLIER PROCUREMENT \$/ TOTAL COL. (E)	TOTAL UTILITY PROCUREMENT (\$)	PERCENTAGE (%) OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT Col. (E) / Col. G
<b>MINORITY BUSINESS ENTERPRISE</b>							
1	AFRICAN-AMERICAN	\$160,911		\$160,911	2.38%		0.37%
2	AMERICAN INDIAN/NATIVE AMERICAN	\$318,631		\$318,631	4.70%		0.73%
3	ASIAN	\$750,936		\$750,936	11.09%		1.72%
4	HISPANIC	\$902,953		\$902,953	13.33%		2.06%
5	TOTAL MINORITY BUSINESS ENTERPRISE	\$2,133,431	\$719,267	\$2,852,698	42.11%		6.52%
6							
7							
<b>WOMEN BUSINESS ENTERPRISE</b>							
8	WOMEN BUSINESS ENTERPRISE	\$2,831,979	\$1,049,443	\$3,881,422	57.30%		8.88%
9							
10	SERVICE DISABLED VETERAN BE	\$39,670	\$5	\$39,675	0.59%		0.09%
11							
12	NOT FOR PROFIT WORKSHOPS	\$0	\$0	\$0	0.00%		0.00%
13							
14	GRAND TOTAL	\$5,005,060	\$1,768,715	\$6,773,795	100.00%	\$43,731,395	15.49%
		11.45%	4.04%				

Public Service Commission of Maryland  
 Supplier Diversity Annual Report of  
 NAICS Codes  
 (MOU Sec. 6.2.2)

ATTACHMENT A-2														
UTILITY NAME: The Potomac Edison Company														
FOR THE REPORTING YEAR: 2011 Annual Report														
RESULTS BY PRODUCT DESCRIPTIONS / NAICS CODES														
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)				
LINE #	NAICS #	PRODUCT/SERVICE DESCRIPTIONS BY NAICS CODE 1.3	MINORITY BUSINESS ENTERPRISE	WOMEN BUSINESS ENTERPRISE	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	NOT FOR PROFIT WORKSHOP \$	TOTAL DIVERSE SUPPLIER (\$) BY NAICS CODE COLS. (D), (E), (F), and (G)	PERCENTAGE (%) TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS COL. (H) / \$ TOTAL COL. (I)	TOTAL UTILITY PROCUREMENT COL. (J) / \$ TOTAL COL. (K)	PERCENTAGE OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT COL. (I) / \$ TOTAL COL. (K)				
1	236	Construction of Buildings	\$ 356,694	\$ 247,015	\$	\$	603,709	8.9124%	\$	1.3805%				
2	237	Heavy and Civil Engineering												
3	238	Construction	\$903,084	\$38,286			941,369	13.8972%		2.1526%				
4	323	Specialty Trade Contractors	\$151,845	\$109,296			261,140	3.8552%		0.5971%				
5	331	Printing and Related Support Activities	\$0	\$19,478			19,478	0.2876%		0.0445%				
6	332	Primary Metal Manufacturing	\$36,789	\$10,858			47,647	0.7034%		0.1090%				
7	334	Fabricated Metal Product Manufacturing	\$0	\$0	\$160		160	0.0024%		0.0004%				
8	335	Computer and Electronic Product Manufacturing	\$692	\$63,622			64,314	0.9495%		0.1471%				
9	339	Electrical Equipment, Appliance, and Component Manufacturing	\$670,680	\$2,308,652	\$5		2,979,337	43.9833%		6.8128%				
10	423	Miscellaneous Manufacturing	\$0	\$375			375	0.0055%		0.0009%				
11	424	Merchant Wholesalers, Durable Goods	\$116,234	\$250,333			366,567	5.4115%		0.8382%				
12	442	Merchant Wholesalers, Nondurable Goods	\$0	\$892			892	0.0132%		0.0020%				
13	444	Furniture and Home Furnishings	\$0	\$519,497			519,497	7.6692%		1.1879%				
14	448	Stores	\$0	\$85			85	0.0013%		0.0002%				
		Building Material and Garden Equipment and Supplies Dealers	\$14,452	\$0			14,452	0.2134%		0.0330%				
		Clothing and Clothing Accessories												



Public Service Commission of Maryland  
Supplier Diversity Annual Report of  
NAICS Codes  
(MOU Sec. 6.2.2)

ATTACHMENT A-2													
UTILITY NAME: The Potomac Edison Company													
FOR THE REPORTING YEAR: 2011 Annual Report													
RESULTS BY PRODUCT DESCRIPTIONS / NAICS CODES													
(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 WORKSHOP	TOTAL DIVERSE SUPPLIER (\$) BY NAICS CODE	PERCENTAGE (%) TO TOTAL DIVERSE SUPPLIER (\$) BY NAICS	TOTAL UTILITY PROCUREMENT	PERCENTAGE OF DIVERSE SUPPLIER (\$) TO TOTAL UTILITY PROCUREMENT			
			\$	\$	\$	\$	COLS. (D), (E), (F), and (G)	BY TOTAL COL. (H)	\$	COL. (I) / COL. (J)			
15	454	Nonstore Retailers	\$23,140	\$165	\$	\$	23,306	0.3441%		0.0533%			
16	484	Truck Transportation	\$35,376	\$884			36,260	0.5353%		0.0829%			
17	532	Rental and Leasing Services	\$271,177	\$0			271,177	4.0033%		0.6201%			
18	541	Professional, Scientific, and Technical Services	\$4,820	\$114,071	\$39,510		158,402	2.3385%		0.3822%			
19	561	Administrative and Support Services	\$267,714	\$192,772			460,486	6.7980%		1.0530%			
20	562	Waste Management and Remediation Services	\$0	\$56			56	0.0008%		0.0001%			
21	722	Food Services and Drinking Places	\$0	\$5,085			5,085	0.0751%		0.0116%			
Totals			\$2,852,697	\$3,881,422	\$39,675	\$0	\$6,773,795	100.00%	\$43,731,395	15.4895%			
Footnotes:													
1 NAICS Codes listed are subject to change													
2 To the extent that disclosure of the contract amount dollars applies to only one vendor, the Utility may confidentially report data for columns (D) through (K).													

Public Service Commission of Maryland  
 Supplier Diversity Annual Report of  
 Goal Comparison  
 (MOU Sec. 6.2.2)

ATTACHMENT A-3		UTILITY NAME: The Potomac Edison Company	
		FOR THE REPORTING YEAR: 2011 Annual Report	
(A)	(B)	(C)	(D)
LINE #	DESCRIPTION	CURRENT YEAR RESULTS (%)	CURRENT YEAR GOALS (%)
1	MINORITY BUSINESS ENTERPRISE	6.52%	11.00%
2			
3	WOMEN OWNED BUSINESS ENTERPRISE	8.88%	4.00%
4			
5	SERVICE DISABLED VETERAN BUSINESS ENTERPRISE	0.09%	0.08%
6			
7	NOT FOR PROFIT WORKSHOPS	0.00%	0.00%
8			
9	TOTAL	15.49%	15.08%

Public Service Commission of Maryland  
 Supplier Diversity Annual Report of  
 Complaints  
 (MOU Sec. 6.2.5)

ATTACHMENT-C					
UTILITY NAME: The Potomac Edison Company					
FOR THE REPORTING YEAR: 2011 Annual Reports					
(A)	(B)	(C)	(D)	(E)	(F)
LINE #	NAME OF COMPANY	FILING DATE OF COMPLAINT	NATURE OF COMPLAINT	RESOLVED YES OR NO	IF NO, PLEASE PROVIDE CURRENT STATUS
1	The Potomac Edison Company received no Diverse Supplier procurement-related complaints during the 2011 calendar year.				
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					