

Tier II Subcontracting Guidelines



POLICY

Various state and federal agencies require FirstEnergy to flow-down the Small Business Subcontracting Plan requirements to their large Prime Contractors. These requirements require any Prime Contractor receiving a FirstEnergy single (one-time) contract with a dollar value in excess of \$750,000 (or \$1,500,000 for construction) to submit a subcontracting plan that complies with the requirements of FAR Clause 52.219-9. The subcontracting plan is to address its efforts to subcontract work to the following small business concerns: small business, minority-owned business, small disadvantaged, woman-owned, veteran-owned, service-disabled veteran-owned, HUB Zone small business, and physically challenged concerns (herein referred to as diverse businesses) as referenced in the FirstEnergy Service Company – General Terms and Conditions: Article - Compliance with Laws, Regulation, and Permits.

PARTNERSHIP

FirstEnergy's Supplier Diversity Program provides contracting opportunities in a competitive environment for diverse businesses. Various state public service commissions, customer choices, and continued improvements in customer service are requiring us to look at new and innovative approaches to gaining a competitive advantage.

Tier II reporting requirements have been implemented to enhance, not replace, our own efforts to increase meaningful business opportunities for diverse businesses. We look to our Prime Contractors to partner with us and share similar values regarding the utilization of diverse businesses, especially when fulfilling our contract requirements.

SUBCONTRACTING PLANS

Federal Small Business Subcontracting Plan

FirstEnergy is required to file a Commercial Products Plan annually with the U.S. General Services Administration as the designated Agent on behalf of:

- Jersey Central Power & Light (GS-00P-17-BSD-1229)
- Metropolitan Edison Company (n/k/a FirstEnergy Pennsylvania Electric Company) (47PA0419D0025)
- Monongahela Power (47PA0418D0034)
- Ohio Edison Company (47PA0420D0010)
- Pennsylvania Electric Company (n/k/a FirstEnergy Pennsylvania Electric Company) (47PA0419D0024)
- Pennsylvania Power Company (n/k/a FirstEnergy Pennsylvania Electric Company) (47PA0419D0028)
- The Cleveland Electric Illuminating Company (47PA0419D0023)
- The Potomac Edison (47PA0418D0035)
- The Toledo Edison Company (47PA0419D0029)
- West Penn Power (n/k/a FirstEnergy Pennsylvania Electric Company) (47PA0418D0033)

This Plan is submitted for the consideration of the Public Utilities Division – Public Buildings Service, General Services Administration (Contracting Activity). Pursuant to Chapter 2, Section 211. Section

8(d) of the Small Business Act, this Plan (as defined in FAR 19.701) is filed on a calendar year basis (January 1 through December 31). The Plan covers all FirstEnergy regulated company planned subcontracting on a company-wide basis.

State Plans

FirstEnergy's Tier II requirements extend to the state level.

Pennsylvania

FirstEnergy is obligated to develop an annual plan and report Tier II subcontracting results under PA Public Utility Commission Chapter 69 – General Orders, Policy Statements and Guidelines on Fixed Utilities, specifically Policy 69.807.

New Jersey

FirstEnergy submits our plans and report Tier II attainment results annually to the New Jersey Board of Public Utilities Supplier Diversity Development Council (SDDC).

Maryland

FirstEnergy is a signatory to the Memorandum of Understanding (MOU) with the Public Service Commission of Maryland to annually develop, implement and report Tier II accomplishments.

TIER II REPORTING – FLOW DOWN

FirstEnergy's standard Terms & Conditions and Bid Proposal language outline the State and Federal subcontracting guidelines FirstEnergy must obtain from its Prime Contractors. A Prime Contractor meeting the dollar threshold for Tier II reporting is required to provide the following information to FirstEnergy during the bid proposal process:

- Develop and submit a Subcontracting Plan which will include:
 - Subcontractor names(s), contact information and applicable third-party certification(s)
 - Provide specific planned subcontracting spend targets for each small business classification
 - Provide the contact information for their Plan Administrator, and
- Report Direct and Indirect payment reports to subcontractors monthly to FirstEnergy

REPORT FREQUENCY

Prime Contractors are required to document payments made to diverse subcontractors on a monthly basis. The Prime Contractor's Direct and Indirect spend must be entered into PowerAdvocate by the 15th of each month.

DIRECT & INDIRECT SPEND REPORTING

FirstEnergy utilizes the following methods for capturing and reporting Prime Contractor subcontracting payments.

Direct

A Prime Contractor can directly link payments made for subcontracting a portion of a FirstEnergy contract/Purchase Order to a small diverse subcontractor.

Example: the Prime Contractor will be providing general construction services to FirstEnergy and will be subcontracting earthmoving and painting to small diverse businesses. In this instance, 100 percent of the earthmoving and painting payments to the small diverse business should be reported to FirstEnergy.

Indirect

A Prime Contractor performs all of the work in-house and cannot directly link any subcontractor expenditure payments for work performed against a specific FirstEnergy contract. However, the Prime Contractor purchases “overhead” items such as paper, computer services, or office maintenance from diverse businesses. These indirect expenditures should be proportionately allocated and reported to FirstEnergy as shown in the following example.

Indirect Allocation Formula:

total monthly sales to FirstEnergy / total monthly supplier sales = Allocation Factor

total monthly MBE¹ Indirect expenditures x Allocation Factor = FirstEnergy's MBE portion of supplier's MBE spend

¹Minority Business Enterprise

Example: ABC Company's total monthly sales are \$5 million and total monthly sales to FirstEnergy are \$300,000. ABC Company is reporting MBE expenditures of \$100,000 for the month.

$$\$300,000 / \$5 \text{ million} = 6\% (0.06)$$

$$\$100,000 \times 6\% = \$6,000$$

\$6,000 is FirstEnergy's MBE allocation

The formula above is provided for informational purposes only. The PowerAdvocate system will automatically calculate and apply the allocation factor to each diversity group of suppliers (i.e. minority, women-owned, etc.) based on your sales inputs. Please note that a minority woman-owned business will be recorded as minority spend only.

REPORT VALIDATION

Contracts awarded by FirstEnergy based on Tier II subcontractor participation are subject to periodic audits. Misrepresenting or falsifying the work or payments awarded to diverse subcontractors may constitute a breach of contract by the Prime Contractor.

All subcontracting activity provided to FirstEnergy is kept confidential and will be used internally to evaluate contract compliance. A subcontractor's information will be used, in aggregate only, to complete required regulatory reports with federal, state and local advocacy organizations, and will not be shared with any other supplier unless expressly requested by your company.

DEFINING A DIVERSE BUSINESS

A diverse business must be at least 51 percent owned, managed or controlled by one or more such individuals. In the case of a publicly owned business, one or more such individuals must own at least 51 percent of the stock. The diverse business owner(s) must be a U.S. citizen or naturalized citizen.

FirstEnergy views a diverse business as one that meets federal and state regulatory certification requirements. A small business must meet the size criteria set forth in the Code of Federal Regulations, Small Business Size Regulations (CFR Title 13, Part 121). A diverse business is considered to be a small business concern when it has been deemed to be a socially and economically disadvantaged business, minority-owned, woman-owned, HUB (Historically Underutilized Business) Zone, service-disabled veteran-owned, veteran-owned or a physically challenged business/sheltered workshop

THIRD-PARTY CERTIFICATION PROVIDERS

FirstEnergy requires third-party certification for minority owned, woman-owned, service-disabled veteran-owned businesses or those businesses located in a federally designated HUB Zone. The business owner of one of these business types is required to provide FirstEnergy with valid certification provided by an accredited third-party provider.

Major third-party certifying agencies:

- National Minority Supplier Development Council (NMSDC)
- Women's Business Enterprise National Council (WBENC)
- National Women Business Owners Corporation (NWBOC)
- National Veteran Business Development Council (NVDBC)
- National Veteran-Owned Business Association (NaVOBA)
- National LGBT Chamber of Commerce (NGLCC)
- United States Hispanic Chamber of Commerce (USHCC)
- Asian Pacific American Chamber of Commerce (APACC)
- Native American Chamber of Commerce (NACC)

For more information on our supplier diversity initiatives visit us at www.firstenergycorp.com.