

**BEFORE THE STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BOARD OF PUBLIC UTILITIES**

**I/M/O THE VERIFIED PETITION OF JERSEY)
CENTRAL POWER & LIGHT COMPANY FOR)
REVIEW AND APPROVAL OF AN) OAL DKT. NO. PUC 1200-06
ADJUSTMENT OF THE NON-UTILITY)
GENERATION CHARGE CLAUSE OF ITS) BPU DKT. NO. ER05121018
FILED TARIFF (“2005 NGC FILING”))**

**TESTIMONY OF DAVID E. PETERSON
ON BEHALF OF THE
NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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Filed: June 7, 2006

PUBLIC VERSION

Direct Testimony of David E. Peterson

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
3 **ADDRESS.**

4 A. My name is David E. Peterson. I am a Senior Consultant employed by
5 Chesapeake Regulatory Consultants, Inc. ("CRC"). Our business address is 1698
6 Saefern Way, Annapolis, Maryland 21401-6529. I maintain an office in Dunkirk,
7 Maryland.

8
9 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE**
10 **IN THE PUBLIC UTILITY FIELD?**

11 A. I graduated with a Bachelor of Science degree in Economics from South Dakota
12 State University in May of 1977. In 1983, I received a Master's degree in
13 Business Administration from the University of South Dakota. My graduate
14 program included accounting and public utility courses at the University of
15 Maryland.

16
17 In September 1977, I joined the Staff of the Fixed Utilities Division of the South
18 Dakota Public Utilities Commission as a rate analyst. My responsibilities at the
19 South Dakota Commission included analyzing and testifying on ratemaking
20 matters arising in rate proceedings involving electric, gas and telephone utilities.

21
22 Since leaving the South Dakota Commission in 1980, I have continued
23 performing cost of service and revenue requirement analyses as a consultant. In
24 December 1980, I joined the public utility consulting firm of Hess & Lim, Inc. I
25 remained with that firm until August 1991, when I joined CRC. Over the years, I
26 have analyzed filings by electric, natural gas, propane, telephone, water,
27 wastewater, and steam utilities in connection with utility rate and certificate
28 proceedings before federal and state regulatory commissions.

29
30 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC**
31 **UTILITY RATE PROCEEDINGS?**

32 A. Yes. I have presented testimony in 99 other proceedings before the state
33 regulatory commissions in Alabama, Arkansas, Colorado, Connecticut, Delaware,
34 Indiana, Kansas, Maine, Maryland, Montana, Nevada, New Jersey, New Mexico,

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1 New York, Pennsylvania, South Dakota, West Virginia, and Wyoming, and
2 before the Energy Subcommittee of the Delaware House of Representatives and
3 the Federal Energy Regulatory Commission.

4
5 Collectively, my testimonies have addressed the following topics: the appropriate
6 test year, rate base, revenues, expenses, depreciation, taxes, capital structure,
7 capital costs, rate of return, cost allocation, rate design, life-cycle analyses,
8 affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

9
10 **II. SUMMARY**

11 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

12 A. My appearance in this proceeding is on behalf of the New Jersey Division of the
13 Ratepayer Advocate (“Ratepayer Advocate”).

14
15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
16 **PROCEEDING?**

17 A. I was asked by the Ratepayer Advocate to analyze Jersey Central Power & Light
18 Company’s (“Jersey Central,” “JCP&L,” or “the Company”) proposed increase in
19 its Non-Utility Generation Charge Clause, the so-called “2005 NGC Filing.” The
20 purpose of my testimony is to present the results of my analysis to the Board and
21 to recommend alternative accounting and ratemaking treatments for several items
22 included in the Company’s deferred balance recovery request.

23
24 **Q. ARE YOU FAMILIAR WITH JERSEY CENTRAL’S “DEFERRED**
25 **BALANCE”?**

26 A. Yes, I am. In its March 7, 2001 Restructuring Order, the Board authorized
27 JCP&L, among other things, to defer for future recovery the costs it incurs under
28 purchase power agreements (“PPAs) with non-utility generating companies
29 (“NUGs”) to the extent that they were not recovered on a current basis through
30 the Company’s capped rates during the Transition Period (August 1, 1999 through

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1 July 31, 2003).¹ The Restructuring Order also allowed deferral treatment to
2 continue following the Transition Period.

3
4 I have been involved in several JCP&L proceedings on behalf of the Ratepayer
5 Advocate where issues relating to JCP&L’s deferred balance were addressed.
6 First, I was a witness for the Ratepayer Advocate in JCP&L’s merger proceeding
7 where FirstEnergy, Inc. acquired GPU and JCP&L. In that proceeding, JCP&L
8 provided a \$300 million credit to the deferred balance as a means to capture
9 upfront merger synergy savings for New Jersey ratepayers. I was a witness for
10 the Ratepayer Advocate in both Phase I and Phase II of Jersey Central’s post-
11 Transition Period base rate cases where different aspects of the Company’s
12 deferred balance were also addressed. Finally, I consulted with the Ratepayer
13 Advocate on several of Jersey Central’s NUG contract renegotiation proceedings
14 and on the Phase II audit of Jersey Central’s deferred balance.

15
16 **Q. WHAT IS JERSEY CENTRAL REQUESTING AT THIS TIME?**

17 **A.** By its 2005 NGC Petition and testimony, Jersey Central seeks Board approval to
18 recover the incremental deferred balance that accumulated between August 1,
19 2003 and December 31, 2005. Specifically, Jersey Central’s December 2, 2005
20 Verified Petition requests the following Board approvals:

- 21
22 (1) approving the reasonableness and prudence of all costs incurred by
23 JCP&L under NUG PPAs from August 1, 2003 through December
24 31, 2005;
25
26 (2) approving an adjustment to JCP&L’s non-utility generation charge
27 clause to provide for recovery of the December 31, 2005 deferred
28 balance, with interest in the amount authorized by the Board to be
29 recovered over one year at a rate equal to the rate on one-year
30 Treasuries plus 30 basis points to be added to JCP&L’s deferred
31 balance for future recovery;
32

¹ I/M/O JCP&L Rate Unbundling, Stranded cost and Restructuring Filings, BPU Dkt Nos. EO97070458, EO97070459 and EO97070460, p.109, Final Decision and Order, March 7, 2001.

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- 1 (3) authorizing the continued deferral by the Petitioner of the NUG
- 2 PPA costs that are not recovered on a current basis, with the
- 3 continuing accrual of interest on the unamortized balance (net of
- 4 deferred taxes) at the rate of 6.87% per annum; and
- 5
- 6 (4) granting such other and further relief as the Board shall deem just,
- 7 lawful and proper.²
- 8

9 **Q. WHAT AMOUNT IS JERSEY CENTRAL SEEKING TO RECOVER**
10 **THOUGH THE PROPOSED ADJUSTMENTS TO ITS TARIFF RIDER**
11 **NGC?**

12 A. As a part of its December 2, 2005 Verified Petition, Jersey Central filed a
13 proposed Tariff Rider NGC rate schedule that was designed to increase the
14 currently effective NGC rate by 7.395 Mills/kWh. This increase was intended to
15 generate \$165,252,591 in 2006, representing the incremental amount deferred by
16 Jersey Central during the period August 1, 2003 and December 31, 2005. Since at
17 the time of the filing final numbers were not yet available for the months of
18 November and December 2005, the Verified Petition contained estimated data for
19 those months.

20
21 On February 23, 2006, Jersey Central filed revised schedules that replaced
22 estimated data for November and December 2005 with actual operating results.
23 Those schedules show that Jersey Central’s deferred balance grew by
24 \$154,446,102, including \$183,155 in interest charges, subsequent to July 31,
25 2003. The actual amount of the incremental deferral is \$10.8 million less than
26 what Jersey Central had estimated only two months earlier. Therefore, Jersey
27 Central now proposes to increase Tariff Rider NGC by 6.912 Mills/kWh. This
28 amount assumes the Board will approve Jersey Central’s request to securitize the
29 unamortized above-market NUG costs incurred during the Transition Period. If
30 securitization is not approved, Jersey Central requests that the \$48,447,998
31 balance of the unamortized above-market NUG costs incurred during the

² Verified Petition, December 2, 2005, pages 8-9.

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1 Transition Period be included in the 2006 NGC Rider by increasing the proposed
2 rider adjustment to 9.080 Mills/kWh.

3
4 **Q. PLEASE SUMMARIZE THE ISSUES THAT YOU ADDRESS IN YOUR**
5 **TESTIMONY.**

6 **A.** Ratepayer Advocate witness Matthew I. Kahal will address the reasonableness of
7 the Company's NUG mitigation efforts; the reasonableness of Forked River and
8 Yards Creek costs recovery; and JCP&L's proposal to earn a full rate base type
9 return on its deferred balance. My testimony addresses the following four issues.

10
11 The first issue that I address concerns the transaction costs that were incurred by
12 Jersey Central when it renegotiated NUG PPAs. During the period August 1,
13 2003 through December 31, 2005, Jersey Central increased the deferred balance
14 by \$4,852,430, before interest, for transaction costs incurred in connection with
15 the renegotiation of NUG PPAs. In orders approving the renegotiated NUG PPA
16 contracts, the Board deferred approving recovery of transaction costs to a
17 proceeding such as this where Jersey Central is given the opportunity to
18 demonstrate the reasonableness and prudence of the transaction costs that were
19 incurred. Neither JCP&L's Verified Petition in this matter, nor the testimonies of
20 its two witnesses, even remotely attempt to establish that the transactions costs
21 were reasonably and prudently incurred. Because the record in this proceeding is
22 devoid of such a demonstration, I recommend that the transaction costs that were
23 included in the deferred balance for recovery in this proceeding be eliminated and
24 the associated interest charges be reversed.

25
26 The second issue that I address in my testimony relates to the Societal Benefits
27 Charge ("SBC") revenues and expenses. Under the SBC tariff currently in effect,
28 net SBC over-recoveries are credited to the deferred balance in December of each
29 year. Yet, there has been no proceeding to systematically review JCP&L's SBC
30 revenues and costs. Therefore, I recommend that the Board direct the Company

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1 to file a petition requesting approval of revenues received and costs incurred
2 under the SBC tariff.

3
4 The third issue addressed in my testimony relates to the amortization of Oyster
5 Creek-related regulatory assets. The amounts currently included in the deferred
6 balance do not match the amount that Jersey Central previously claimed was
7 needed to amortize Oyster Creek nuclear fuel costs and FAS 109/ITC
8 amortization. Jersey Central should either reconcile these two amounts and
9 explain the difference, or reduce the deferral to match its prior claim.

10
11 Finally, the fourth issue that my testimony discusses is the timing of the recovery
12 of the incremental increase in Jersey Central's deferred balance. The Board
13 allows Jersey Central to file annually for increases in the NGC. Jersey Central,
14 however, accumulated twenty-nine months of increases in the deferred balance
15 before it filed for rate relief in this docket. When it finally sought rate relief, it
16 requested that it be able to recover the entire twenty-nine months of increases
17 over a twelve-month period. It is patently unfair to attempt to recover more than
18 two years of cost increases in a single year. Therefore, I recommend that the
19 recovery period be extended to twenty-nine months to match the deferral period.

20 21 22 **III. TRANSACTION COSTS**

23 **Q. PLEASE DEFINE "TRANSACTION COSTS."**

24 A. The Board has encouraged Jersey Central to renegotiate, to the extent possible,
25 existing NUG PPAs that contain pricing provisions that result in above-market
26 energy and capacity charges. Transaction costs, as I use that term throughout the
27 remainder of my testimony, refers to the incremental costs incurred by Jersey
28 Central for outside vendors (i.e., not including internal labor-related charges) in
29 connection with renegotiating NUG PPAs.

30

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1 **Q. WHAT LEVEL OF TRANSACTION COSTS WAS REFLECTED IN**
2 **JERSEY CENTRAL'S 2005 NGC FILING?**

3 A. Attached to my testimony as Exhibit___(DEP-1) is a schedule provided by Jersey
4 Central in response to a Ratepayer Advocate Discovery request showing that
5 NUG PPA restructuring prepayment credits (\$97,893,413) were reduced by
6 transaction costs totaling \$4,852,430 during the period August 1, 2003 through
7 December 31, 2005.³

8
9 **Q. WAS APPROVAL GRANTED FOR THE RECOVERY OF THESE**
10 **TRANSACTION COSTS IN THE BOARD ORDERS APPROVING THE**
11 **RESTRUCTURING OF THE NUG PPAS?**

12 A. No, it was not. During the period August 1, 2003 through December 31, 2005,
13 Jersey Central closed on three NUG contract restructurings. The three contracts
14 that were renegotiated were with NJEA (Sayreville/South River), Calpine (Parlin)
15 and Prime (Marcal). In the Order approving the NJEA PPA, the Board stated the
16 following concerning recovery of the related transaction costs:

17 JCP&L has sought recovery of certain transaction expenses related to the
18 restructuring of the Existing PPA and the entering into of the Amended
19 PPA. JCP&L asserted that the transaction expenses are comprised of
20 financial advisor fees, legal fees and associated expenses, which the
21 Company proposed to net against the amount of total restructuring savings
22 that will be used to reduce the MTC deferred balance. The Board FINDS
23 that it is neither necessary nor appropriate to consider the recovery of
24 transaction expenses at this time. The Board therefore DEFERS
25 consideration of the Company's request for recovery until such time as the
26 Company provides information supporting said transaction expenses in its
27 annual post-transition MTC deferred balance submission, as directed by
28 the Board in its Final Order.⁴

29
30 Clearly, the Board contemplated that Jersey Central would be required to make a
31 specific showing in a post-transition MTC deferred balance proceeding such as

³ Jersey Central's response to Data Request RAR-15, Attachment A.

⁴ *I/M/O the Application of JCP&L for the Approval of an Amendment and Restatement of the PPA Currently Existing between it and NJEA*, BPU Dkt No. EM03060438, Order of Approval, p. 11 (Nov. 5, 2003).

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1 this prior to receiving authorization to recover transaction costs incurred in
2 connection with the NJEA restructuring.

3
4 **Q. WAS SIMILAR LANGUAGE REGARDING RECOVERABILITY OF**
5 **TRANSACTION COSTS INCLUDED IN THE BOARD ORDERS**
6 **RELATING TO THE CALPINE AND THE PRIME PPA**
7 **RESTRUCTURINGS?**

8 A. The Board's Orders approving the PPA restructurings in those two proceedings
9 were even more specific about the type of showing that was required for Jersey
10 Central to recover its transaction costs. For example, in the Order approving the
11 restructured Calpine (Parlin) PPA, the Board stated the following with regard to
12 Jersey Central's recovery of transaction costs:

13 JCP&L is seeking recovery of certain transaction expenses related to the
14 restructuring of the Existing PPAs and the entering into of the New PPA.
15 JCP&L proposes to net said transaction expenses against the amount of
16 total restructuring savings that will be used to reduce the MTC Deferred
17 Balance. The Board FINDS that the recovery of reasonable and prudent
18 NUG restructuring transaction expenses is appropriate, and JCP&L shall
19 be afforded an opportunity to seek recovery of such transaction expenses
20 in connection with JCP&L's annual post-transition MTC Deferred
21 Balance submission, as directed by the Board in its Final Order.⁵
22

23 The Board entered an identical finding with respect to transaction costs incurred
24 in connection with the restructuring of the Prime (Marcal) PPA.⁶
25
26

27 **Q. IS THIS PROCEEDING AN "ANNUAL POST-TRANSITION MTC**
28 **DEFERRED BALANCE SUBMISSION" THAT WAS CONTEMPLATED**

⁵ *I/M/O the App. of JCP&L for the Approval of the Termination of the PPA Currently Existing between it and Calpine and Execution of a New PPA with CES Marketing*, BPU Dkt No. EM04010045, Order of Approval, p. 12 (March 24, 2004).

⁶ *I/M/O the App. of JCP&L for the Approval of the Termination of the PPA Currently Existing between it and Prime Energy and Execution of a New PPA with Prime Power Sales*, BPU Dkt No. EM05040314, Order of Approval, p. 9 (May 25, 2005).

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1 **IN THE PREVIOUSLY MENTIONED BOARD ORDERS ON NUG PPA**
2 **RESTRUCTURINGS?**

3 A. Yes, it is. The Market Transition Charge (“MTC”) provided for in the Board’s
4 Restructuring Order, however, was renamed the Non-utility Generation Charge
5 (“NGC”) effective September 1, 2004. Thus, this 2005 NGC proceeding is
6 precisely the type of proceeding envisioned by the Board for determining the
7 reasonableness and prudence of Jersey Central’s NUG restructuring transaction
8 costs.

9
10 **Q. DID JERSEY CENTRAL ADDRESS THE REASONABLENESS AND**
11 **PRUDENCE OF ITS NUG RESTRUCTURING TRANSACTION COSTS**
12 **IN ITS VERIFIED PETITION IN THIS MATTER?**

13 A. No, it did not.

14
15 **Q. DID EITHER OF JERSEY CENTRAL’S WITNESSES WHO FILED**
16 **TESTIMONY IN THIS PROCEEDING ADDRESS THE**
17 **REASONABLENESS AND PRUDENCE OF THE COMPANY’S NUG**
18 **RESTRUCTURING TRANSACTION COSTS IN THEIR TESTIMONIES?**

19 A. No, they did not.

20
21 **Q. WHAT TYPES OF TRANSACTION COSTS DID JERSEY CENTRAL**
22 **INCUR DURING THE PERIOD AUGUST 1, 2003 THROUGH**
23 **DECEMBER 31, 2005?**

24 A. The schedule presented in Exhibit___(DEP-1) shows that the majority of Jersey
25 Central’s transaction expenses, amounting to \$4,823,073 or 99 percent of the total
26 \$4.85 million in transaction costs, were paid to Jersey Central’s financial advisor
27 McManus & Miles. For the period August 1, 2002 through July 31, 2003, Jersey

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Central paid McManus & Miles fees totaling **(Begin Confidential)** [REDACTED]
(End Confidential).⁷

Q. WHAT TYPE OF ARRANGEMENT DOES JERSEY CENTRAL HAVE WITH MCMANUS & MILES?

A. Exhibit__(DEP-2) is a copy of a February 15, 2001 confidential retainer agreement written by McManus & Miles to FirstEnergy setting forth the conditions for payment for financial advisory services. This retainer agreement was received in response to a request for information by the Ratepayer Advocate in connection with Jersey Central's Phase II audit in Docket Nos. EX02060363 and EA02060365. Under that agreement, **(Begin Confidential)** [REDACTED]

[REDACTED]

⁷ Jersey Central's response to Data Request RAR-14 in Docket Nos. EX02060363 and EA02060365 (Phase II Audit).

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[REDACTED] (End Confidential)

Q. IS THERE ANY INDICATION THAT JERSEY CENTRAL USED COMPETITIVE BIDS TO SELECT A FINANCIAL ADVISOR TO ASSIST IN RESTRUCTURING ITS NUG CONTRACTS?

A. No, there is not. It appears that FirstEnergy selected McManus & Miles for Jersey Central without seeking competitive bids.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE TRANSACTION COSTS THAT JERSEY CENTRAL HAS INCURRED RELATING TO RESTRUCTURING ITS NUG CONTRACTS?

A. The Board orders approving the three restructured contracts during the period August 1, 2003 and December 31, 2005 clearly require Jersey Central to come forward in this proceeding and establish the reasonableness and prudence of the \$4.85 million of transaction costs that were incurred during that period. Jersey Central’s Verified Petition and testimonies in this proceeding, however, are silent on its transaction costs. Thus, there is no basis for the Board to conclude that Jersey Central’s transaction costs were reasonably and prudently incurred. Therefore, I recommend that the \$4.85 million in transaction costs, plus accumulated interest thereon, included in Jersey Central’s deferred balance as of December 31, 2005 be excluded from recoverable costs under the Company’s Tariff Rider NGC.

IV. SOCIETAL BENEFITS CHARGE

Q. WHAT IS THE SOCIETAL BENEFITS CHARGE?

A. Jersey Central’s Societal Benefits Charge (“SBC”) is a collection of tariff riders assessed against all kWh usage of any Full Service Customer or Delivery Service Customer. The Company’s currently effective SBC includes separately established tariff riders for demand side management costs, nuclear plant

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1 decommissioning costs, manufactured gas plant remediation costs, uncollectible
2 costs, consumer education costs and universal service fund costs.

3
4 **Q. HOW MUCH REVENUE IS COLLECTED ANNUALLY UNDER JERSEY
5 CENTRAL'S SBC?**

6 A. Jersey Central collects over \$75 million annually under the SBC riders. This
7 amount does not include the Universal Service Fund rider which is excluded from
8 the deferred balance calculation.

9
10 **Q. HOW DOES THE SBC RELATE TO JERSEY CENTRAL'S 2005 NGC
11 FILING?**

12 A. The Company's Tariff Rider SBC provides the following:

13 ...with the exception of universal service fund costs component, all over-
14 or under-recoveries of individual SBC components are to be applied to
15 under- or over-recoveries of other SBC components, with any net overall
16 SBC over-recoveries to be applied annually to reduce the MTC deferred
17 balance as of each December 31.

18
19 **Q. DID JERSEY CENTRAL APPLY ANY NET SBC OVER-RECOVERIES
20 TO REDUCE ITS MTC/NGC DEFERRED BALANCE?**

21 A. Yes. On December 31, 2004, Jersey Central applied a \$20,892,483 credit to its
22 deferred balance representing the annual net SBC over-recovery for that year. On
23 December 31, 2005, Jersey Central applied an additional \$18,539,347 credit to the
24 deferred balance representing the net SBC over-recovery for the year 2005.

25
26 **Q. HAS THE BOARD ESTABLISHED SYSTEMATIC REVIEW
27 PROCEDURES TO EXAMINE REVENUES COLLECTED AND COSTS
28 INCURRED UNDER JERSEY CENTRAL'S SBC TARIFFS?**

29 A. My understanding is that Jersey Central makes an annual filing documenting its
30 manufactured gas plant remediation activities and costs. For the remaining SBC
31 elements, however, there is no systematic review of the reasonableness and
32 prudence of the costs incurred.

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1 **Q. DID YOUR INVESTIGATION IN THIS PROCEEDING INCLUDE ANY**
2 **FINDINGS AS TO THE REASONABLENESS AND PRUDENCE OF**
3 **JERSEY CENTRAL'S SBC EXPENDITURES?**

4 A. No, it did not. While the Ratepayer Advocate requested detailed explanations and
5 source documentation supporting Jersey Central's SBC revenues and expenses,
6 there simply was not enough information provided to allow us to make an
7 informed determination as to the reasonableness and prudence of the Company's
8 SBC expenditures.

9
10 **Q. WHAT DO YOU RECOMMEND?**

11 A. I agree that it is necessary and appropriate to return over-recoveries under the
12 Company's SBC rates back to ratepayers and that crediting the deferred balance
13 with the net over-recoveries is an expedient procedure for accomplishing that
14 return. Given the large costs that are incurred each year under the various SBC
15 elements, it is appropriate to establish a separate, systematic procedure for
16 reviewing the reasonableness and prudence of the costs incurred under each
17 element of the SBC rider. The deferred balance issues arising in Jersey Central's
18 NGC filings are complex enough without having to burden the proceeding further
19 by having to examine the reasonableness and prudence of the Company's SBC
20 related costs and activities. I recommend the Board establish a separate, annual
21 proceeding specifically designed to examine the reasonableness and prudence of
22 the Company's SBC related costs and activities. I also recommend the Board
23 direct Jersey Central to make a filing fully supporting the reasonableness and
24 prudence of its annual SBC expenditures for the periods 2003 through 2005, no
25 later than 120 days following a final Board order in this proceeding. Finally on
26 this issue, I recommend that the Board order Jersey Central to immediately reduce
27 its annual SBC collections by \$18.5 million. This is the net amount by which
28 JCP&L over-recovered SBC-related costs during 2005. Over the past two years,
29 Jersey Central has over-recovered SBC costs by nearly \$40 million. While net
30 over-recoveries eventually are returned to ratepayers via a credit to the deferred

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1 balance, the SBC should not be used intentionally as a vehicle to reduce the
2 deferred balance. That is, there is no good reason to retain higher than necessary
3 SBC rates indefinitely. Jersey Central should be directed to relieve the burden
4 that has been placed on its ratepayers by charging excessive SBC rates.
5
6

7 **V. OYSTER CREEK REGULATORY ASSET**

8 **Q. HOW MUCH IS JERSEY CENTRAL ADDING TO THE DEFERRED**
9 **BALANCE EACH MONTH FOR AMORTIZATION OF THE OYSTER**
10 **CREEK REGULATORY ASSET?**

11 A. Jersey Central is adding \$261,600 per month to the deferred balance for the
12 Oyster Creek Nuclear Fuel Amortization and an additional \$206,559 per month
13 for the Oyster Creek FAS 109/ITC Amortization. Together, these two amounts
14 increase the deferred balance approximately \$5.62 million per year.
15

16 **Q. IS THIS THE AMOUNT THAT JERSEY CENTRAL CLAIMED WOULD**
17 **RESULT FOR THE AMORTIZATION OF THE OYSTER CREEK**
18 **DEFERRED ASSET?**

19 A. No, it is not. In responding to a request by the BPU Staff, Jersey Central claimed
20 a \$3.73 million requirement for amortizing the Oyster Creek regulatory asset, as
21 follows:

22	Oyster Creek Regulatory Asset Balance	
23	FAS 109 Regulatory Asset	\$21.2 Million
24	Accum. Def. ITC	(16.6) Million
25	Unamortized Nuclear Fuel	<u>32.7 Million</u>
26	Total Regulatory Asset	\$37.26 Million
27		
28	Annual Recovery (10 years)	\$ 3.73 Million ⁸
29		

⁸ See response to RAR-17, Attachment A, attached as Exhibit ___(DEP-3).

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1 Thus, without explanation, Jersey Central is now including approximately \$1.9
2 million more per year in the deferred balance than what it previously claimed was
3 necessary to cover the Oyster Creek regulatory asset amortization. Jersey Central
4 should be compelled to fully explain the material difference between its earlier
5 claim and what it is now adding to the deferred balance, or reduce the deferred
6 balance so that it includes only \$3.73 million per year for the amortization of the
7 Oyster Creek Regulatory Asset.
8
9

10 **IV. NGC RECOVERY PERIOD**

11 **Q. HOW OFTEN IS JERSEY CENTRAL PERMITTED TO FILE FOR A** 12 **CHANGE IN ITS TARIFF RIDER NGC?**

13 A. My understanding is that Jersey Central is permitted to file at least annually for a
14 change in its NGC rate.
15

16 **Q. WHAT PERIOD OF TIME IS COVERED IN JERSEY CENTRAL'S** 17 **CURRENT FILING?**

18 A. Jersey Central's 2005 NGC filing covers increases in the deferred balance
19 occurring between August 1, 2003 and December 31, 2005; i.e., a twenty-nine
20 month period.
21

22 **Q. OVER HOW LONG A PERIOD IS JERSEY CENTRAL PROPOSING TO** 23 **RECOVER FROM NEW JERSEY RATEPAYERS THE INCREASES IN** 24 **THE DEFERRED BALANCE?**

25 A. Jersey Central is proposing to recover over the next twelve months the increase in
26 the deferred balance that accumulated over the prior twenty-nine months.
27

28 **Q. DO YOU AGREE WITH THIS APPROACH?**

29 A. No, I do not. It is unfair to New Jersey ratepayers for Jersey Central to compress
30 recovery of twenty-nine months of cost increases into a twelve-month period.

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1 This is especially true when Jersey Central had the opportunity to file for rate
2 recovery much sooner, but, instead chose not to avail itself of that opportunity.
3 Jersey Central alone chose the timing of its filing in this case. It could have, and
4 probably should have, timed its filing to match the cost build-up period precisely
5 to the length of the recovery period, i.e., twelve months, as is provided for in the
6 Board's Order. Therefore, I recommend that the recovery period for the approved
7 increase in the deferred balance established in this proceeding be set at twenty-
8 nine months to properly match the cost increase build-up period.

9
10 **Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS TIME?**

11 **A.** Yes, it does.