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VIA FEDERAL EXPRESS and
ELECTRONIC MAIL
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Kristi Izzo
Secretary of the Board
Board of Public Utilities
44 South Clinton Avenue, 9th Floor
P.O. Box 350
Trenton, New Jersey 08625-0350

RE: CTA Generic Proceeding Additional Comments – Atlantic City Electric Company
BPU Docket No. EO12121072

Dear Secretary Izzo:

On June 18, 2014, the Board of Public Utilities (the "Board") issued a Notice of Opportunity to Provide Additional Information (the "Notice") seeking input on the modifications to the consolidated income tax adjustment methodology ("CTA") proposed by the Board's Staff (the "Staff Proposal"). Atlantic City Electric Company ("ACE") welcomes the opportunity to provide its views to the Board on this important issue, and hereby responds to that Notice.[1] Additionally, ACE notes that it is a member of the New Jersey Utilities Association ("NJUA"), and is one of the member companies also participating in comments filed separately by the NJUA in response to the Notice.

The Staff Proposal includes three important changes: limiting the "look-back" period to five years from the beginning of the test year, allocating 75% of the calculated "savings" to the utility and its investors, and eliminating transmission assets from the CTA calculation for electric distribution utilities. ACE views each of these changes as positive, and a good-faith effort to address some of the most serious flaws in the current approach to CTA.

[1] ACE previously submitted comments on May 3, 2013 and September 4, 2013 in this docket. Those comments are incorporated herein by reference.

Despite these good faith efforts by the Staff, ACE remains of the view that the CTA should be eliminated in its entirety. As ACE has noted previously, imposition of a CTA is inconsistent with encouraging investment and job growth in New Jersey, and runs contrary to sound regulatory practice. This is why CTAs are highly disfavored and have been repudiated in all but three remaining jurisdictions nationwide.[2] Thus, ACE recommends that the Staff Proposal be modified to include a provision requiring the CTA to "sunset" at a specific date. ACE respectfully suggests that a five year sunset period would be reasonable.

ACE also believes that the final order in this generic proceeding represents an important opportunity for the Board to document the CTA calculation methodology set out in *In re the Petition of Rockland Electric Company for Approval of Changes in Electric Rates, Its Tariff for Electric Service, Its Depreciation Rates, and for Other Relief*, BPU Docket No. ER02100724, Order (dated April 20, 2004), at Exhibit 4 (the "RECO Order"), along with any modifications adopted from the Staff Proposal, and to consider ACE's recommendations provided below. While the Staff Proposal proceeds from the belief that there is already a uniformity of understanding as to the calculation and application of the current CTA methodology, this belief is only partially correct. The final order in this matter is a vehicle for the Board to provide clarity regarding the mechanics of the CTA calculation, and to consider other specific and targeted CTA refinements.

As the Board weighs its final decision in this proceeding, ACE requests that the Board consider ACE's prior comments and recommendations[3] for inclusion in the Board's final order herein, including the following important points. First, the Board should require that any CTA calculation reflect Internal Revenue Service audit changes, as well as any tax law changes for the applicable tax years. Second, the Board should state that the CTA "benefit" will be reduced by the alternative minimum tax paid. Third, the Board should confirm that net plant book value should be used as the basis in determining the total value of all assets and the value of transmission assets to be eliminated from the CTA calculation for electric distribution companies.

In addition to providing clarity on the CTA methodology contained in the RECO Order, the Board must spell out any modifications to the CTA in sufficient detail to avoid the creation of new areas of controversy. Without the benefit of greater specificity, the Board could undermine its important efforts to correct the problems inherent in the current CTA by creating new avenues for differing interpretations of the Board's intent.

[2] Other than New Jersey, only West Virginia and Pennsylvania consistently apply a CTA. *See NJUA Consolidated Tax Adjustment Background Paper*, updated September 4, 2013, at page 2.

[3] ACE's comments dated May 3, 2013 include numerous proposed changes to the CTA methodology, including use of the "pour over" approach, which is discussed in detail at page 20 of ACE's comments. ACE continues to recommend that, if CTAs are going to have continued applicability in New Jersey, the Board expressly adopt the use of the "pour over" approach as described therein.

Finally, ACE is gratified that the Staff Proposal tacitly acknowledges that the current approach to the CTA is unfair and must be modified. While the Staff Proposal is a step in the right direction, ACE continues to believe that New Jersey would be best served by an immediate elimination of the CTA. ACE appreciates this opportunity to provide further comments, and requests that the Board resolve this matter as soon as practicable.

Respectfully submitted,

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