

**STATE OF NEW JERSEY
OFFICE OF ADMINISTRATIVE LAW
BEFORE HONORABLE RICHARD MCGILL, ALJ**

I/M/O the Verified Petition of JCP&L)	
for Review and Approval of Increases in)	
and Other Adjustments to its Rates and)	
Charges for Electric Service, and For)	OAL Docket No. PUC 16310-12N
Approval of Other Proposed Tariff)	
Revisions in Connection Therewith; and)	BPU Docket No. ER12111052
for Approval of an Accelerated)	
Reliability Enhancement Program)	
(“2012 Base Rate Filing”))	

**DIRECT TESTIMONY OF DAVID E. PETERSON
ON BEHALF OF THE
DIVISION OF RATE COUNSEL**

**STEFANIE A. BRAND, ESQ.
DIRECTOR, DIVISION OF RATE COUNSEL**

**DIVISION OF RATE COUNSEL
140 East Front Street-4th Floor
P. O. Box 003
Trenton, New Jersey 08625
Phone: 609-984-1460
Email: njratepayer@rpa.state.nj.us**

Dated: July 2, 2013

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I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

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

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN THE PUBLIC UTILITY FIELD?

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

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

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

1 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN PUBLIC**
2 **UTILITY RATE PROCEEDINGS?**

3 A. Yes. I have presented testimony in 139 other proceedings before the state
4 regulatory commissions in Alabama, Arkansas, California, Colorado,
5 Connecticut, Delaware, Indiana, Kansas, Maine, Maryland, Montana, Nevada,
6 New Jersey, New Mexico, New York, Pennsylvania, South Dakota, West
7 Virginia, and Wyoming, and before the Federal Energy Regulatory Commission.
8 Collectively, my testimonies have addressed the following topics: the appropriate
9 test year, rate base, revenues, expenses, depreciation, taxes, capital structure,
10 capital costs, rate of return, cost allocation, rate design, life-cycle analyses,
11 affiliate transactions, mergers, acquisitions, and cost-tracking procedures.

12

13 In addition, I testified twice before the Energy Subcommittee of the Delaware
14 House of Representatives on the issues of consolidated tax savings and tax
15 normalization. Also, I have presented seminars on public utility regulation,
16 revenues requirements, cost allocation, rate design, consolidated tax savings,
17 income tax normalization and other ratemaking issues to the Delaware Public
18 Service Commission, to the Commissioners and Staff of the Washington Utilities
19 and Transportation Commission, and to the Colorado Office of Consumer
20 Counsel.

II. SUMMARY

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

A. My appearance in this proceeding is on behalf of the Division of Rate Counsel (“Rate Counsel”).

Q. HAVE YOU TESTIFIED IN OTHER PROCEEDINGS BEFORE THE NEW JERSEY BOARD OF PUBLIC UTILITIES (“BOARD”)?

A. Yes, I have. I have submitted testimony in the following proceedings before the Board:

<u>Utility</u>	<u>Docket No.</u>
South Jersey Gas Company	GR8704329 GR03050413 GR03080683
New Jersey-American Water Company	WR88070639 WR91081399J WR92090906J WR94030059 WR95040165 WR98010015 WR03070511 WR06030257
ACE/Delmarva Merger Atlantic City Electric Company	EM97020103 ER03020110 ER11080469
FirstEnergy/GPU Merger (JCP&L) Jersey Central Power & Light	EM00110870 ER02080506 ER05121018
Rockland Electric Company	ER02100724 ER06060483 ER09080668

1	Public Service Electric and Gas	EM00040253
2		GR09050422
3		GO12030188
4	Exelon/PSE&G Merger	EM05020106
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6	Conectiv/Pepco Merger (ACE)	EM01050308
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8	Elizabethtown Gas Company	GR02040245
9		GR09030195
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11	United Water New Jersey, Inc.	WR07020135
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13	New Jersey Natural Gas Company	GR07110889
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16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
17 **PROCEEDING?**

18 A. I was asked by Rate Counsel to review and analyze the Petition, testimonies and
19 exhibits filed by Jersey Central Power & Light Company (“JCP&L” or “the
20 Company”) supporting its claimed rate base allowance for cash working capital
21 and for the rates it proposes to implement at the conclusion of this rate
22 proceeding. The purpose of my testimony is to present the results of my analysis
23 of JCP&L’s lead/lag cash working capital study, its embedded class cost of
24 service study and its proposed delivery service rates to Your Honor and the
25 Board.

26
27 **Q. ARE YOU FAMILIAR WITH JCP&L’S CASH WORKING CAPITAL**
28 **AND RATE DESIGN PROPOSALS IN THIS PROCEEDING?**

29 A. Yes, I am. I have carefully reviewed the Direct Testimonies and Exhibits
30 sponsored by JCP&L’s witnesses relating to the issues that I address herein.
31 These include the testimonies of Mr. Jeffrey L. Adams, who presents the
32 Company’s lead/lag study, Ms. Meghan C. Moreland, who presents the
33 Company’s class cost study, Ms. Sally J. Cheong, who presents JCP&L’s

1 proposed distribution of the increase among the classes of service and proposed
2 rate design, and Mr. Kevin F. Connelly, who proposes changes to certain
3 miscellaneous service charges. I also reviewed the Company's responses to data
4 requests of Rate Counsel and the Board Staff, again relating to the issues that I
5 address in my testimony.
6

7 **Q. BEFORE DISCUSSING YOUR SPECIFIC FINDINGS AND**
8 **RECOMMENDATIONS, PLEASE SUMMARIZE THE COMPANY'S**
9 **REQUESTS RELATING TO THE ISSUES THAT YOU ADDRESS IN**
10 **YOUR TESTIMONY.**

11 A. Concerning cash working capital, in the Company's December 2012 filing in this
12 docket, Mr. Adams presented a lead/lag analysis of JCP&L's 2011 expenses that
13 purported to demonstrate a \$146,298,532 cash working capital requirement.
14 Sometime thereafter, it was discovered that Mr. Adams' original analysis
15 improperly included transmission-related revenues and expenses. Therefore, on
16 May 31, 2013, Mr. Adams submitted supplemental testimony and exhibits that
17 excluded the effects of transmission-related revenues and expense. Mr. Adam's
18 supplemental exhibits purport to demonstrate a \$138,138,683 requirement for
19 cash working capital.
20

21 Ms. Moreland presented JCP&L's class cost of service study in this proceeding.
22 In Ms. Moreland's embedded class cost of service study, JCP&L's service related
23 costs were allocated among seven customer classes. Following is a summary of
24 the earned rate of return for each customer class from Ms. Moreland's study.
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Table 1

**Jersey Central Power & Light Company
Earned Rates of Return – JCP&L’s Cost Study Method
Under Existing Rates**

Class	Rate of Return	Unitized ROR
Residential Service (RS)	6.75%	0.85
Residential Time-of-Day (RT)	8.03%	1.01
General Service Secondary (GS)	8.19%	1.03
General Service Secondary Time of Day (GST)	6.48%	0.81
General Service Primary (GP)	39.90%	5.00
General Service Transmission (GT)	51.02%	6.40
Lighting	4.55%	0.57
Total Company	7.98%	1.00

Ms. Cheong relied on the results of Ms. Moreland’s cost study as well as her own judgment to realign class revenue responsibilities. Ms. Moreland’s cost study indicated that the RS, GST and the Lighting classes are contributing less than the system average rate of return. Therefore, Ms. Cheong proposed a higher than average (on a percentage basis) revenue increase for those three classes. Ms. Cheong also proposed a slightly higher than average percentage increase for the RT and GS rate classes and no increase for the GP and GT classes. Table 2, below, shows Ms. Cheong’s proposed allocation of the requested increase among the seven service classes along with the resulting percentage increase for each rate class.

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Table 2
Jersey Central Power & Light Company
Company-Proposed Spread of Requested Increase

Class	Increase Amount	Increase Percent
RS	\$17,916,470	6.31%
RT	\$ 520,544	5.56%
GS	\$10,613,582	5.66%
GST	\$ 1,120,000	6.80%
GP	\$ 0	0.00%
GT	\$ 0	0.00%
Lighting	\$ 1,300,000	6.80%
Total Company	\$31,470,596	5.46%

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Ms. Cheong proposed very few rate design changes for the individual rate classes. For the RS, RT, and GS customers, Ms. Cheong proposed to increase the monthly service charge by \$1.00. She also proposed to increase the per kWh and per kW energy and demand charges within each class by an equal percentage.

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Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS ON JCP&L'S CASH WORKING CAPITAL, COST ALLOCATION AND RATE DESIGN PROPOSALS.

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A. Following is a brief summary of my findings and recommendations.

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- **Cash working capital.** Mr. Adams' lead/lag analysis overstates JCP&L's actual cash working capital requirement by a significant amount. It does so for three primary reasons, as follows: 1) the payment lead that Mr. Adams assigned to JCP&L's federal income tax payments is significantly understated, 2) Mr. Adams' lead/lag analysis improperly includes non-cash expenses; and 3) Mr. Adams' lead/lag analyses assigns incorrect

1 expense lead days to the debt and equity components of JCP&L's revenue
2 requirement. Based on my calculation of JCP&L's working capital
3 requirement, I recommend including a \$76,484,029 cash working capital
4 allowance in JCP&L's distribution rate base. This amount is \$69,814,503
5 less than the amount that is included in JCP&L's proposed rate base.
6 Therefore, I recommend that Mr. Henkes reduce JCP&L's rate base claim
7 for cash working capital by \$69,814,503.

- 8
- 9 • **Embedded cost of service study and distribution of the revenue**
10 **increase/decrease.** I object to Ms. Moreland's use of a "minimum grid
11 study" to classify a portion of JCP&L's transformer investment as
12 customer-related. Ms. Moreland's minimum grid study classifies and
13 allocates 26.2 percent of JCP&L's transformer investment on a customer
14 basis rather than on than peak demand basis as the remaining 73.8 percent
15 of transformer investment is allocated. This procedure results in an
16 understatement of the earned return for the Residential Service class.
17 However, Ms. Cheong did not strictly follow the results of Ms.
18 Moreland's class cost study to assign class revenue responsibilities. Ms.
19 Cheong's proposed allocation of the JCP&L's requested revenue increase
20 reflects a moderate step towards moving each class's rate of return closer
21 to the system-wide average. For this reason, I do not object to the results
22 that Ms. Cheong proposes, at the Company's claimed revenue deficiency.
23 Because Rate Counsel is proposing a significant reduction in JCP&L's
24 revenue, however, I am recommending a different spread of the reduction
25 to each rate class. My allocation of the revenue decrease, however,
26 follows the same gradualism principle upon which Ms. Cheong also
27 relied. Also, since Rate Counsel is recommending a significant reduction
28 in JCP&L's existing distribution rates, I recommend that the present

1 monthly service charges within the currently effective rate schedules be
2 maintained. Class revenue targets should be achieved by reducing
3 existing kWh and kW rates by a uniform percentage within each rate class.
4 I am also recommending different miscellaneous service charges than
5 those proposed by Mr. Connelly.
6

7 The basis for these findings and recommendations are explained in more detail in
8 the following sections of this testimony.
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12 II. CASH WORKING CAPITAL ANALYSIS

13 14 Q. FOR WHAT PURPOSE SHOULD A CASH WORKING CAPITAL 15 ALLOWANCE BE INCLUDED IN RATE BASE?

16 A. A utility's rate base is a measure of the physical (plant and equipment) and
17 monetary (working capital) assets supported by investor-supplied funds and
18 dedicated to public service. A cash working capital allowance should be included
19 in rate base to compensate investors for investor-supplied funds, if any, used to
20 provide the day-to-day cash needs of the utility. These cash needs can be
21 measured in a lead/lag study. A lead/lag study measures the time between (1) the
22 provision of service to utility customers and the receipt of revenue for that service
23 by the utility, and (2) the provision of service by the utility and its disbursements
24 to employees and suppliers in payment for the associated costs. The difference
25 between the revenue "lag" and the expense "lead" is expressed in days. The
26 difference, which can be either a net lag or a net lead, multiplied by the average
27 daily cash operating expense, quantifies the cash working capital required for, or
28 available from, utility operations.

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2 In this proceeding, Mr. Adams sponsored a lead/lag study based on accounting
3 and payment information for the calendar year 2011. Mr. Adams' analysis,
4 however, goes far beyond the measurement of JCP&L's cash working capital
5 requirement.

6

7 **Q. HOW DOES MR. ADAMS' CASH WORKING CAPITAL CALCULATION**
8 **OVERSTATE JCP&L'S WORKING CAPITAL REQUIREMENT?**

9 A. It does so for three primary reasons, as follows: 1) the payment lead that Mr.
10 Adams assigned to JCP&L's federal income tax payments is significantly
11 understated, 2) Mr. Adams' lead/lag analysis improperly includes non-cash
12 expenses; and 3) Mr. Adams' lead/lag analysis assigns incorrect expense lead
13 days to the debt and equity components of JCP&L's revenue requirement.

14

15 **Q. TURNING TO YOUR FIRST CRITICISM OF MR. ADAMS' LEAD/LAG**
16 **ANALYSIS, WHAT IS YOUR ISSUE WITH THE WAY IN WHICH MR.**
17 **ADAMS CALCULATED THE EXPENSE LEAD DAYS ASSOCIATED**
18 **WITH THE PAYMENT OF FEDERAL INCOME TAXES?**

19 A. JCP&L participates with other corporate affiliates in the filing, by the parent
20 company, FirstEnergy Corp., of a consolidated tax return. FirstEnergy Corp.
21 makes quarterly estimated tax payments to the US Treasury on behalf of itself and
22 those affiliates that are participating in the consolidated tax return. In turn,
23 JCP&L makes quarterly tax payments to FirstEnergy based on JCP&L's
24 estimated stand-alone tax liability. For the 2011 lead/lag study year, JCP&L
25 made the following federal income tax payments to FirstEnergy.

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Table 3

**Jersey Central Power & Light Company
 Federal Income Tax Payments to Parent
 And Associated Expense Lead Days¹
 2011**

	Payment	Lead (Days)
April 15, 2011	\$24,471,000	(78.00)
June 15, 2011	\$ 9,908,000	(17.00)
September 15, 2011	\$31,613,000	75.00
December 15, 2011	<u>\$(16,690,000)</u>	166.00
Total	\$49,302,000	(50.24)

To determine the average lead days associated with JCP&L’s payment of federal income taxes for the entire year, Mr. Adams weighted the lead days (i.e., the number of days between the payment date and the mid-point of the year, or July 1, 2011) by the amount of each tax payment. This resulted in a weighted average expense lead days of (50.24) days, according to Mr. Adams. A negative lead day expense in a lead/lag study implies that the expense is prepaid by the Company, i.e., payment is due before service is provided, thereby creating a cash working capital requirement. Because of the uneven amount of JCP&L’s quarterly tax payments during 2011, however, Mr. Adams’ net lead day calculation is skewed so as to make it appear as though there is a prepayment requirement for federal income taxes. This resulted largely due to the fact that JCP&L over-paid its estimated taxes in the first three installments, in particular the first and third installment, and received a large refund from FirstEnergy in December. Had JCP&L made equal tax payments in each of the four quarterly installments, the expense lead days would have been 36.50 days rather than (50.24) days, as Mr. Adams claims, as illustrated on Exhibit___(DEP-1). The implication of a 36.5-day expense lead in the lead/lag analysis is that JCP&L does not require nearly

1 the amount of cash working capital from investors as Mr. Adams has included in
2 his lead/lag analysis to pay the Company's federal tax liability on a timely basis.
3

4 **Q. IS THERE ANY SUPPORT FOR ASSUMING EQUAL QUARTERLY**
5 **INCOME TAX PAYMENTS IN A LEAD/LAG ANALYSIS?**

6 A. Yes, there is. In my thirty-six years of performing lead/lag cash working capital
7 studies and analyzing studies performed by others the assumption of uniform
8 quarterly income tax installments has been the rule rather than the exception, for
9 good reason. The Internal Revenue Service permits taxpayers to utilize a number
10 of different methods to annualize estimated taxable income for purposes of
11 calculating estimate tax payments to minimize the taxpayer's estimated tax
12 payments, such that a taxpayer should never be in the prepaid tax position shown
13 in Mr. Adams analysis. The uniform estimated income tax payment assumption
14 in a lead/lag analysis of cash working capital requirements is eminently
15 reasonable. JCP&L's over-payment of taxes in the earlier installments and the
16 subsequent refund in December, on the other hand, is not reasonable for purposes
17 of measuring the cash working capital requirement associated with JCP&L's
18 federal income tax payments. Therefore, I recommend that the payment lag
19 associated with JCP&L's federal income taxes currently payable be set at 36.50
20 days to reflect uniform quarterly payments of JCP&L's tax liability. Substituting
21 my 36.50-day expense lead for Mr. Adams' (50.24) day expense lead increases
22 the total lead days for state and federal income taxes from (49.88) days as
23 included in Mr. Adams lead/lag study² to 15.42 days, which I included in my
24 lead/lag analysis.³
25

¹ See JCP&L's response to S-JCWC-2 Attachment (Confidential).

² Exhibit JC-12 Supplemental, Supplemental Direct Testimony of Jeffrey L. Adams, Schedule JLA-1 Supplemental.

³ Exhibit ___ (DEP-2), line 3.

1 Q. THE SECOND AREA OF DISAGREEMENT THAT YOU MENTIONED
2 CONCERNING MR. ADAMS' LEAD/LAG ANALYSIS IS HIS
3 TREATMENT OF NON-CASH EXPENSES. PRECISELY, HOW HAS
4 MR. ADAMS TREATED JCP&L'S NON-CASH EXPENSES IN HIS
5 LEAD/LAG STUDY?

6 A. Mr. Adams' treatment of non-cash expenses in his lead/lag study is inconsistent.
7 On pages 6-7 of his Direct Testimony, Mr. Adams explains his adjustment to
8 exclude certain non-cash expenses from his lead/lag study, as follows:

9 An adjustment of \$57,916,423 was made to Operations and Maintenance
10 Expense consisting of three groupings of expense items. The first
11 grouping includes accounting items which are non-cash in nature such as
12 deferrals for the non-utility generation charge ("NGC"), amortizations for
13 storm damages and the pre-1983 nuclear fuel obligations, and
14 uncollectible expenses. In addition, deferrals or amortization associated
15 with Pension and Other Post Employment Benefits ("OPEB") were
16 excluded from the study. These items are reported on the FERC Form 1
17 income statement but are not used in the Lead/Lag Study total
18 \$51,508,647. The second grouping of expenses eliminates transfers of
19 Materials and Supplies which are reclassifications from the balance sheet
20 and non-cash. These items are reported on the FERC Form 1 income
21 statement but are not included in the Lead/Lag Study total \$(2,135,513).
22 The last grouping of items in the operations and maintenance adjustment
23 consist of miscellaneous clearing accounts, reclassifications, and non-
24 cash transactions, and/or cash items which have no material effect on the
25 results of the study. These items are reported on the FERC Form 1
26 income statement but are excluded from the Lead/Lag Study total
27 \$8,543,289.⁴

28
29 Despite his adjustment to exclude nearly \$58 million of non-cash expenses, Mr.
30 Adams lead/lag study still includes over \$276 million of non-cash expenses. The
31 non-cash expenses that remain in Mr. Adams' lead/lag study include depreciation,
32 regulatory debits and credits, and deferred income taxes.

33

⁴ Exhibit JC-12, Direct Testimony of Jeffrey L. Adams, pages 6-7.

1 **Q. WHY IS IT IMPROPER TO INCLUDE NON-CASH EXPENSES IN CASH**
2 **WORKING CAPITAL?**

3 A. As I stated earlier in my testimony, a rate base allowance for cash working capital
4 is intended to compensate the utility for investor funds used to finance the day-to-
5 day cash operating needs of the utility. Cash flows arising from non-cash
6 expenses do not serve this purpose and, therefore, should not be included in the
7 working cash allowance.

8
9 **Q. SPECIFICALLY, WHAT IS YOUR OBJECTION TO INCLUDING**
10 **DEPRECIATION EXPENSE IN THE LEAD-LAG STUDY?**

11 A. Simply stated, there is no cash transfer involved in the depreciation transaction
12 and, thus, there is no need for a cash working capital allowance for depreciation
13 expense. The cash transaction associated with a plant asset occurred when the
14 asset was first acquired. No additional investor-supplied funds for working
15 capital purposes are required following the initial investment.

16
17 Rather, the depreciation expense is an accounting accrual established to provide a
18 systematic means for the utility to recover the cost of a plant asset over its useful
19 service life. The utility, however, does not write out a check at the end of each
20 month for “depreciation expense” to investors. At the same time, ratepayers make
21 cash payments to the utility for the utility’s depreciation expense. For that reason,
22 depreciation expense represents a significant source of cash flow for the utility not
23 a requirement for working capital. The monthly write-down of plant investment
24 through the depreciation transaction does not create a need for cash working
25 capital. Therefore, it is not appropriate to include depreciation and amortization
26 expenses in a lead/lag cash working capital study.

27

1 **Q. IS YOUR OBJECTION TO INCLUDING DEFERRED INCOME TAXES**
2 **IN THE LEAD/LAG STUDY THE SAME AS IT WAS FOR**
3 **DEPRECIATION EXPENSE?**

4 A. Yes, but it is even more egregious to include deferred income taxes in a lead/lag
5 study. Just as with the depreciation expense, there is no continuing cash payment
6 required from the Company or from investors for deferred taxes. Because no
7 periodic cash outlay is required, no investment in working capital is required.
8 What makes it even more problematic to include deferred taxes in a lead/lag
9 analysis is that investor-supplied capital was never involved in the Company's
10 deferred tax balance. Deferred taxes have been collected from ratepayers, without
11 being paid to the US Treasury by the utility. It is perverse to conclude that
12 deferred tax expenses create a cash working capital requirement since no investor
13 funds were ever expended for them.

14

15 **Q. ARE THERE ANY OTHER NON-CASH EXPENSES INCLUDED IN MR.**
16 **ADAMS' LEAD/LAG STUDY THAT YOU FIND OBJECTIONABLE?**

17 A. Yes. I object to Mr. Adams' inclusion of miscellaneous regulatory debits and
18 credits in the lead/lag study. These regulatory debits and credits represent various
19 amortizations of costs previously incurred prior to the 2011 test year and,
20 therefore, do not reflect cash transactions within the study period requiring an
21 associated allowance for cash working capital. As with depreciation, the cash
22 transactions associated with the various amortizations included as regulatory
23 debits and credits took place in years prior to the 2011 study period. There is no
24 continuing need for investor-supplied capital to wind down the remaining
25 accounting write-off of costs incurred in prior years.

1 **Q. IS MR. ADAMS' TREATMENT IN HIS LEAD/LAG STUDY OF RETURN**
2 **ON INVESTMENT APPROPRIATE?**

3 A. No, it is not. Essentially, Mr. Adams includes JCP&L's debt and equity returns in
4 his lead/lag analysis using a zero-day expense lead. That is, Mr. Adams'
5 treatment is as if stockholders and debt-holders are being compensated on a daily
6 basis. He attempts to justify his proposed treatment of the Company's return with
7 the following statement in his Direct Testimony: "All of the payments for these
8 items come from operating income, which is the property of the investor once
9 service is provided."⁵ But, contrary to Mr. Adams' statement, ownership of
10 operating income is not the issue here. In fact, I willingly concede that the
11 Company (and therefore its investors) owns all of the revenues it receives, not just
12 those which become operating income after expenses are deducted. The fact that
13 the Company owns all of its revenues, however, is not determinative of how much
14 investor-supplied capital is required to meet the utility's day-to-day operating
15 expenses. For that determination, we need to examine the specific cash flows
16 associated with the utility's transactions. Regarding the Company's stockholders,
17 they receive compensation in two forms: 1) through quarterly dividend payments,
18 if any, and 2) through capital appreciation, if any, upon the sale of the stock. If
19 one were to measure the actual delay in the utility's cash outlay to stockholders,
20 one should refer to the quarterly dividends that are being paid, rather than
21 assuming a zero lag as Mr. Adams has done. But, because there is no contractual
22 requirement for JCP&L (or FirstEnergy Corp.) to pay stockholders a quarterly
23 dividend, the common equity should not be included in the lead/lag analysis.

⁵ Direct Testimony of Jeffrey L. Adams, page 8.

1 **Q. HOW DID MR. ADAMS TREAT LONG-TERM DEBT INTEREST IN HIS**
2 **LEAD/LAG ANALYSIS?**

3 A. Mr. Adams treated interest on long-term debt in the same way that he treated the
4 common equity return, i.e., he simply lumped debt interest in with the common
5 equity return and applied a zero-day lag to JCP&L's total net income.
6

7 **Q. SHOULD LONG-TERM DEBT BE ACCOUNTED FOR IN THIS**
8 **MANNER?**

9 A. No. Unlike common stock dividends, there are contractual requirements
10 associated with debt interest that obligate JCP&L to make specified payments on
11 certain dates. In this respect, the debt interest portion of JCP&L's return
12 allowance more closely resembles its other cash operating expenses. Therefore,
13 the average payment lead for long-term debt should be separately recognized in
14 the lead/lag calculation. Long-term debt is paid semi-annually, creating a 91.25-
15 day expense lead.
16

17 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE**
18 **IMPACT OF ALL OF YOUR RECOMMENDED ADJUSTMENTS TO MR.**
19 **ADAMS' LEAD/LAG STUDY?**

20 A. Yes, I have. My Exhibit___(DEP-2) serves this purpose. This schedule shows
21 the cumulative effect of my adjustments to Mr. Adams' claimed cash working
22 capital requirement. My schedule shows that JCP&L's cash working capital
23 requirement for its distribution operations is \$76,484,029, rather than
24 \$146,298,532 that Mr. Adams claimed in his Direct Testimony. Mr. Adams later
25 updated his lead/lag analysis, which now shows a \$138,138,683 working cash
26 requirement. I have asked Mr. Henkes to reflect my \$69,814,503 adjustment to
27 cash working capital in his rate base determination.
28

1 **IV. COST ALLOCATION**

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3 **Q. HAVE YOU REVIEWED JCP&L'S EMBEDDED CLASS COST OF**
4 **SERVICE STUDY?**

5 A. Yes, I have. JCP&L's witness Meghan C. Moreland sponsored JCP&L's
6 embedded class cost of service study in this proceeding. Studies like Ms.
7 Moreland's, if performed carefully and objectively, can be useful tools in fairly
8 apportioning revenue responsibility among rate classes and in designing unit
9 charges within rate classes.

10

11 **Q. WHAT ARE THE RESULTS OF MS. MORELAND'S CLASS COST**
12 **STUDY?**

13 A. A class cost study allocates the Company's cost to the various classes of service.
14 Thus, a class cost study can be useful in assigning revenue responsibility to each
15 customer class. The assignment of class revenue responsibility is usually made
16 after considering each class's earned rate of return relative to the system-wide
17 earned rate of return. In this respect, Ms. Moreland's class cost study indicated
18 the following results.

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Table 1
Jersey Central Power & Light Company
Earned Returns from JCP&L's Cost Study
(As Filed)

Service Class	Rate of Return	Unitized Return
RS	6.75%	0.85
RT	8.03%	1.01
GS	8.19%	1.03
GST	6.48%	0.81
GP	39.90%	5.00
GT	51.02%	6.40
LGT	4.55%	0.57
Total	7.98%	1.00

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The unitized rate of return in the far right column in Table 1 measures the relative performance of each rate class to the system-wide rate of return. A unitized rate of return is the ratio of each class's earned return to the system-wide earned return. A unitized rate of return of less than 1.0 for any class indicates that the class return is less than the system-wide average. The implication of a unitized rate of return of less than 1.0 is that such class or classes are being subsidized by another rate class or classes.

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As it applies to JCP&L's filed case, Ms. Moreland's cost study results indicate that Residential Service ("RS"), General Service – Transmission ("GST") and Lighting customers are being subsidized by customers in other rate classes. Note that the unitized rate of return in each of these classes is less than 1.0. Based on these results, JCP&L witness Sally J. Cheong proposed to increase revenues in the RS, Residential Time-of-Day ("RT"), GST, and Lighting classes by a slightly higher percentage than the Company's proposed system-wide percentage revenue

1 increase. Ms. Cheong's proposed rate increase by class are shown in the
2 following table.

3
4 **Table 2**
5 **Jersey Central Power & Light Company**
6 **Company Proposed Increase by Class**
7
8

Service Class	Amount	Percent	Unitized Percent
RS	\$17,916,470	6.31%	1.16
RT	\$ 520,544	5.56%	1.02
GS	\$10,613,582	5.66%	1.04
GST	\$ 1,120,000	6.80%	1.25
GP	\$ 0	0.00%	0.00
GT	\$ 0	0.00%	0.00
LTG	\$ 1,300,000	6.80%	1.25
Total Company	\$31,470,596	5.46%	1.00

9
10
11 **Q. WHICH ALLOCATION PROCEDURE DID MS. MORELAND USE IN**
12 **HER STUDY?**

13 A. Approximately 70 percent of JCP&L's plant investment at issue in this
14 proceeding is in distribution facilities; including station equipment, conductors,
15 poles, towers, and transformers. The remaining 30 percent represents facilities
16 that provide service to individual customers (i.e., meters, services, and other
17 customer installations), general office facilities, and street lighting. With such a
18 large percentage of plant being distribution-related, the outcome of the cost study
19 can be significantly influenced by the procedures used to allocate the costs of
20 those facilities. For most of JCP&L's distribution facilities, Ms. Moreland used
21 what she referred to as the average and excess demand method. Technically, the
22 variant used by Ms. Moreland is more commonly referred to as the "peak and
23 average demand" method since the method she uses relies on peak class demands,

1 rather than “excess demands”. Excess demands are the remainder after average
2 demands are subtracted from peak demands for each class. Ms. Moreland’s peak
3 and average allocation method includes some recognition of class energy usage,
4 as well as class non-coincident peak demands.
5

6 **Q. HAS THE BOARD FOUND IT APPROPRIATE TO CONSIDER ANNUAL**
7 **USAGE IN ADDITION TO PEAK DEMAND IN DEVELOPING**
8 **ALLOCATION FACTORS?**

9 A. Yes, it has. The Board found it appropriate to consider the “dual demand/energy
10 dimension of T&D system planning and operation” in developing class allocation
11 factors in Jersey Central Power and Light’s (“JCP&L”) 1991 base rate proceeding
12 (BRC Docket No. ER91121820J). In its Order approving an allocation method
13 that recognized both peak demand and annual usage for JCP&L’s transmission
14 and distribution facilities, the Board stated:
15

16 The record in this proceeding contains two distinct approaches to
17 the classification and allocation of non-production transmission,
18 subtransmission and distribution (hereafter “T&D”) costs. The DOD/FEA
19 approach classifies plant costs functionalized in accounts 360-368 on an
20 exclusive demand basis, allocating them based upon voltage specific non-
21 coincident peaks. The other approach is a voltage level specific average
22 and excess method advocated by Rate Counsel and included in the MSPM
23 studies advanced by the Staff and the Company.
24

25 Exclusive demand approaches to the allocation of T&D costs —
26 such as that advanced by the DOD/FEA — were rejected in the April 9,
27 1992, Order in JCP&L’s last base rate proceeding [BPU Docket No.
28 ER89110912J] after the Board determined that “there is a dual demand
29 and energy dimension to transmission and distribution system planning
30 and operation which should henceforth be reflected in cost allocation.”
31 See, JCP&L Order, p. 6. In that proceeding, we adopted the average and
32 excess approach advocated by Rate Counsel and supported by Staff as an
33 interim step toward a more complete investigation of the proper allocator
34 for these costs. The difficulty with this prior version of the average and

1 excess method was its use of system load factor to classify T&D costs into
2 demand and energy components. The employment of voltage level
3 specific load factors to classify costs in the Rate Counsel, Staff and
4 Company cost studies in the instant proceeding addresses the concerns
5 raised in our April 9, 1992, Order.
6

7 Accordingly, we CONCUR with the Initial Decision that the
8 voltage specific average and excess method is the appropriate basis for the
9 classification and allocation of T&D costs and ORDER that it be
10 employed in this and future JCP&L proceedings until such time that a
11 more precise methodology is developed. We REJECT the exclusive
12 demand approach advanced by the DOD/FEA based upon its failure to
13 reflect the aforementioned dual demand/energy dimension of the T&D
14 planning process.⁶
15

16 Thus, the Board found that both annual usage (i.e., kWh) and class demands are
17 appropriate to consider in developing allocation factors for transmission and
18 distribution facilities. The peak and average allocation method, such as that used
19 in Ms. Moreland's study, incorporates class energy usage into the allocation
20 process.
21

22 **Q. DID MS. MORELAND APPLY THE PEAK AND AVERAGE**
23 **ALLOCATION METHOD TO ALL OF JCP&L'S DISTRIBUTION**
24 **PLANT?**

25 A. No, she did not. On pages 5-6 of her Direct Testimony, Ms. Moreland explains
26 that she modified the allocation procedures that the Company used in its 2002 rate
27 proceeding with respect to Account No. 368 – Line Transformers. Therein, Ms.
28 Moreland explained that in the 2002 rate case, the Company's class cost study
29 allocated line transformers using peak demand and energy, presumably using the
30 peak and average allocation method that was adopted by the Board. In this case,
31 however, Ms. Moreland classified 26.20 percent of the Company's line

⁶ *U/M/O the Petition of Jersey Central Power & Light Company for Approval of Increased Base Tariff Rates and Charges for Electric Service and Other Tariff Revisions*, BRC Docket No. ER91121820J, Final

1 transformer investment to the customer cost classification using a “minimum grid
2 study.” That is, under Ms. Moreland’s approach in this proceeding, 26.20 percent
3 of the line transformer investment is allocated to the various classes using a
4 customer allocation factor. The remaining 73.8 percent of line transformer
5 investment is allocated to the classes using non-coincident peak demands. Ms.
6 Moreland used a “minimum grid study” to determine the percentage of
7 transformer investment that is classified as customer-related. The only support
8 she provided for this is her statement: “Generally speaking, as the number of
9 customers increase, the number of line transformers installed also must increase to
10 avoid excessive voltage drop.”⁷

11
12 **Q. BEFORE YOU ADDRESS MS. MORELAND’S CLAIM THAT THE**
13 **NUMBER OF LINE TRANSFORMERS INCREASE WITH THE NUMBER**
14 **OF CUSTOMERS, WHAT IS A MINIMUM GRID STUDY?**

15 A. A minimum grid study postulates that there are certain types and sizes of facilities
16 that must be installed by the utility to provide customer access to the utility’s
17 electrical service, regardless of customer usage requirements. The minimum grid
18 study classifies the cost of the minimum size of these facilities as customer-
19 related. In this instance, JCP&L’s minimum grid study used the cost of the
20 minimum size overhead line transformer that it commonly installs in its service
21 territory. That is, JCP&L multiplied the cost of the minimum size transformer by
22 the number of transformers installed in its service territory. This product divided
23 by trended cost of all transformers currently installed represents the 26.2 percent
24 value of transformers that Ms. Moreland classified as customer-related and
25 allocated among the rate classes using a customer-based allocator.

26

Decision and Order, page 16 (June 15, 1993).

⁷ Direct Testimony of Meghan C. Moreland, page 6.

1 Q. WHAT IS YOUR OBJECTION TO USING A MINIMUM GRID STUDY
2 TO CLASSIFY A PORTION OF JCP&L'S DISTRIBUTION COSTS AS
3 CUSTOMER-RELATED?

4 A. My objection to the minimum grid study approach is that it does not give
5 appropriate consideration to JCP&L's actual system design, construction and
6 operation. Having failed to give proper consideration to these important factors,
7 the minimum grid study fails to reflect JCP&L's cost of service.

8
9 Those who support classifying distribution facilities (other than services and
10 meters) on a customer basis do so based on an assertion that some minimum
11 investment is necessary to make electrical service available for each customer,
12 regardless of the customer's peak or annual service requirements. Proponents
13 then argue that this "customer-related" investment should be defined as either: a)
14 the hypothetical cost of the current distribution system revalued using the cost of
15 minimum-size distribution facilities presently installed on the system (the
16 minimum grid study approach) or; b) the hypothetical cost of distribution plant
17 having no load carrying capability (the so-called "zero-intercept" approach). The
18 minimum size distribution equipment that a utility will install, however, is based
19 on expected customer loads, not on the number of customers served by the utility
20 or minimum service requirements. As for the zero-intercept approach, no utility
21 installs distribution equipment incapable of carrying loads. Rather the facilities
22 that JCP&L installs are sized, designed, operated and maintained in order to meet
23 the individual customer's peak and annual service requirements. Neither the
24 minimum grid study approach nor the zero-intercept variant of the minimum grid
25 study approach gives appropriate consideration to actual system design,
26 construction, and operation. The minimum grid study approach fails to reflect
27 cost-causation and, therefore, is not a proper cost allocation method.

28

1 **Q. EARLIER YOU STATED THAT MS. MORELAND ATTEMPTED TO**
2 **JUSTIFY USING A MINIMUM GRID STUDY FOR TRANSFORMERS**
3 **BY HER STATEMENT: “GENERALLY SPEAKING, AS THE NUMBER**
4 **OF CUSTOMERS INCREASE, THE NUMBER OF LINE**
5 **TRANSFORMERS INSTALLED ALSO MUST INCREASE TO AVOID**
6 **EXCESSIVE VOLTAGE DROP”. DO YOU AGREE WITH MS.**
7 **MORELAND’S STATEMENT?**

8 A. No, I do not. The number of transformers installed is not based solely on the
9 number of customers. Location and expected load requirements also significantly
10 influence the number and size of transformers that are installed. In fact, there are
11 approximately six customers for every transformer installed on JCP&L’s system.⁸
12 Thus, it is only in a general sense that the number of transformers installed is
13 related to the number of customers; there is no direct, linear relationship between
14 the two.

15
16 **Q. DID YOU RE-RUN MS. MORELAND’S CLASS COST STUDY AFTER**
17 **ELIMINATING THE EFFECTS OF THE MINIMUM GRID STUDY?**

18 A. No, I was not able to perform the analysis myself because the Company used
19 proprietary software to prepare its costs study. Therefore, JCP&L agreed to
20 perform the analysis for me.⁹

21
22 **Q. DOES MS. MORELAND’S USE OF THE MINIMUM GRID STUDY**
23 **SIGNIFICANTLY IMPACT THE COST STUDY RESULTS?**

24
25 A. Table 4 below compares the results of the cost studies with and without the
26 minimum grid study.

⁸ See JCP&L’s response to RCR-RD-6.

⁹ See JCP&L’s response to RCR-RD-3.

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Table 4
Jersey Central Power & Light Company
Comparison of Cost Study Results
With and Without Minimum Grid Study (“MGS”)

Service Class	With MGS		Without MGS	
	Rate of Return	Unitized Rate of Return	Rate of Return	Unitized Rate of Return
RS	6.75%	0.85	7.07%	0.89
RT	8.03%	1.01	8.06%	1.01
GS	8.19%	1.03	7.75%	0.97
GST	6.48%	0.81	5.82%	0.73
GP	39.90%	5.00	36.69%	4.60
GT	51.02%	6.39	51.02%	6.39
LGT	4.55%	0.57	4.52%	0.57
Total Company	7.98%	1.00	7.98%	1.00

8
9

10 As it turns out, limiting the minimum grid study to only transformers does not
 11 have a significant impact on the indicated cost study results for most of the
 12 customer classes. This is especially true since Ms. Cheong is not proposing class
 13 increases that move each class to a 1.00 unitized rate of return in this proceeding.
 14 The moderating approach that Ms. Cheong is following moves most classes
 15 incrementally closer to a 1.0 unitized rate of return. Since the minimum grid
 16 study in this case does not have a large impact on most class rates of return,
 17 applying Ms. Cheong’s proposed class revenue increases to the class cost study
 18 without the minimum grid study will likely move those class rates of return closer
 19 to 1.0 also. Therefore, I do not object to Ms. Cheong’s proposed allocation of
 20 JCP&L’s proposed revenue increase among the rate classes, despite my objection
 21 to the minimum grid study. Obviously, I will object to any attempt to expand the
 22 use of a minimum grid study to any of the other distribution accounts in this or
 23 future rate proceedings.

1
2 **Q. IN THIS PROCEEDING, MR. HENKES IS RECOMMENDING THAT**
3 **JCP&L'S ANNUAL BASE REVENUES BE REDUCED BY \$201,960,479.**
4 **HOW SHOULD THIS DECREASE BE DISTRIBUTED AMONG RATE**
5 **CLASSES?**

6 A. Earlier I concluded that Ms. Cheong's distribution of the Company's proposed
7 increase was reasonable, based on the Company's claimed revenue requirement.
8 Therefore, I recommend that the same principles be used to allocate Rate
9 Counsel's recommended revenue reduction among the rate classes. My proposed
10 allocation is shown on Table 5, below.

11
12 **Table 5**
13 **Jersey Central Power & Light Company**
14 **Rate Counsel's Proposed Spread of the Revenue Reduction**
15
16

Class	Revenue Increase	Percent Change
RS	\$(98,196,424)	-34.59%
RT	\$ (3,313,765)	-35.36%
GS	\$ (64,830,387)	-34.59%
GST	\$ (5,697,481)	-34.59%
GP	\$ (13,184,150)	-38.52%
GT	\$ (10,122,061)	-38.52%
LTG	\$ (6,616,211)	-34.59%
Total Company	\$(201,960,479)	-35.01%

17
18 My allocation of Rate Counsel's recommended revenue decrease shown in Table
19 5 reflects the same principles that are reflected in the cost study (excluding the
20 minimum grid study) and in Ms. Cheong's proposed allocation of JCP&L's
21 claimed revenue deficiency. Because Rate Counsel is reflecting an overall
22 reduction in revenues, the percentage reduction to the RG, GS, and LTG classes
23 are less than average because the unitized rates of return in those classes are less

1 than 1.0. Because the unitized rates of return in the GP and GT classes are
2 significantly above 1.0, I am proposing a 10 percent larger-than-average revenue
3 reduction for that class. The RT class received a 1 percent larger-than-average
4 revenue reduction under my proposed spread because that class's unitized rate of
5 return is only slightly above 1.0. My proposed revenue spread should achieve the
6 same goals that are reflected in Ms. Cheong's proposed revenue allocation; i.e.,
7 make a gradual movement for each class closer to a unitized rate of return of 1.0.
8

9 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MS. CHEONG'S**
10 **PROPOSED RATE DESIGNS?**

11 A. Yes, I do. Ms. Cheong proposes to increase monthly customer charges in the RS,
12 RT, RGT (Residential Geothermal & Heat Pump Service), GS (General Service
13 Secondary), and GST (General Service Time-of-Day) classes by \$1.00. For the
14 energy (kWh) and demand (kW) charges, where applicable, Ms. Cheong proposes
15 to increase current charges by an equal percentage within each rate class.
16

17 Since Rate Counsel is proposing a large reduction in JCP&L's existing revenues,
18 now is not the appropriate time to consider an increase in existing rates.
19 Therefore, I object to Ms. Cheong's proposal to increase the monthly customer
20 service charge. The revenue reductions that I recommend for each class should be
21 achieved by maintaining the existing monthly customer charges and by reducing
22 the kWh and kW charges by an equal percentage within each rate class.
23

24 **Q. HAVE YOU REVIEWED JCP&L'S PROPOSED CHANGES TO**
25 **CERTAIN MISCELLANEOUS SERVICE CHARGES?**

26 A. Yes, I have. Through the Direct Testimony of Mr. Kevin F. Connelly, JCP&L
27 proposed the following increases for certain miscellaneous services:
28

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Table 6
Jersey Central Power & Light Company
Company Proposed Changes to Miscellaneous Service Charges

Service	Current Charge	Proposed Charge
Returned payment	\$10	\$15
Field collection	\$20	\$25
Reconnection for non-payment at the meter	\$22	\$45
Convenience fee for payment by phone	\$0	\$1

6
7
8 **Q. DID MR. CONNELLY PROVIDE COST ANALYSES TO SUPPORT THE**
9 **INCREASES IN THE SERVICE CHARGES THAT HE**
10 **RECOMMENDED?**

11 A. Yes, he did. His cost analysis for returned payment services provided by JCP&L,
12 however, fails to support the \$15 charge that he recommends. Mr. Connelly's
13 own analysis justifies a \$12.04 charge for returned payment; not \$15 as he
14 proposed.¹⁰ Mr. Connelly attempts to justify charging customers more than the
15 Company's cost to provide the returned payment service to offer customers an
16 additional disincentive to provide checks and to make electronic payments that
17 are later returned or dishonored. I disagree. While promoting efficient behavior
18 is an important goal in utility rate setting, there is no sound economic justification
19 for pricing service above cost. Nor is it fair and necessary to penalize customers
20 through excessive (i.e., above cost) rates and charges. Therefore, I recommend
21 that the returned payment charge be limited to JCP&L's costs, which I round to
22 \$12.

23

¹⁰ See Direct Testimony of Kevin F. Connelly, Schedule KC-2, page 1.

1 **Q. DO YOU HAVE A COMMENT ON MR. CONNELLY'S PROPOSED**
2 **INCREASE IN THE RECONNECTION CHARGE AT THE METER FOR**
3 **NON-PAYMENT?**

4 A. Yes. As shown in Table 6 above, Mr. Connelly proposes to increase this charge
5 from the present amount of \$22 to \$45. Mr. Connelly's cost analysis indicates
6 that JCP&L's underlying cost for this service is \$68.57. Mr. Connelly proposed a
7 \$45 charge for this service rather than \$68.57 in an attempt to mitigate the impact
8 of the increase to the cost-based level on customers. I agree that mitigation is
9 important and necessary. Even at \$45, the increase proposed by Mr. Connelly
10 represents a 104 percent increase from the present charge. In an attempt to further
11 mitigate the impact of the increase on customers, I recommend that the charge for
12 reconnection service at the meter for non-payment be set at \$30 at this time. A
13 \$30 charge for this service represents a 36 percent increase over the present
14 charge, which I believe is very reasonable.

15
16 **Q. DO YOU SUPPORT THE IMPOSITION OF A \$1.00 CHARGE FOR**
17 **CUSTOMER PAYMENTS MADE BY PHONE USING A COMPANY**
18 **CUSTOMER SERVICE REPRESENTATIVE?**

19 A. No, I do not. I understand that there is a nominal cost to the Company for using
20 customer service representatives to process bill payments for customers. By
21 imposing what Mr. Connelly characterizes as a "convenience fee" for this service,
22 the Company hopes to encourage customers to increase of the use of the free self-
23 service bill payment option. In my opinion, JCP&L should encourage all forms
24 customer payment, regardless of how they are processed, to alleviate the burden
25 imposed on all customers caused by late paying customers and uncollectible
26 accounts. Therefore, it is inappropriate to impose a convenience fee on customers
27 who are willing to settle their accounts. I recommend that the \$1 convenience fee
28 proposed by Mr. Connelly be rejected.

1

2 **Q. DOES RATE COUNSEL HAVE ANY OBJECTION TO MR.**
3 **CONNELLY'S PROPOSAL TO INCREASE THE FIELD COLLECTION**
4 **CHARGE FROM THE CURRENT CHARGE \$20 TO \$25?**

5 A. No. Rate Counsel has no objection to the proposed \$5 increase in this charge.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AS THIS TIME?**

8 A. Yes, it does.

EXHIBITS

JERSEY CENTRAL POWER & LIGHT COMPANY

Calculation of Federal Income Tax Expense Lead Days

Assuming Uniform Quarterly Estimated Payments

Payment Date	Payment % of Total	Expense Lead Days	Weighted Lead Days
(A)	(B)	(C)	(D)
1. April 15, 2011	25%	(78.00)	(19.50)
2. June 15, 2011	25%	(17.00)	(4.25)
3. September 15, 2011	25%	75.00	18.75
4. December 15, 2011	25%	166.00	41.50
5. Total weighted lead days			<u>36.50</u>

JERSEY CENTRAL POWER & LIGHT COMPANY

Electric Distribution Lead/Lag Study

2011

(A)	Expense (B)	Lead/Lag Days (C)	Dollar/Days (D)
1. O&M expenses	\$1,832,315,873	35.82	\$65,633,554,571
2. Taxes other than income	65,530,507	(39.62)	(2,596,318,687)
3. Income taxes - current	58,530,521	15.42	902,540,634
4. Interest on long-term debt	54,861,104	91.25	5,006,075,740
5. NJ Sales Tax	157,889,464	(50.57)	(7,984,470,194)
6. Subtotal	\$2,169,127,469	28.10	\$60,961,382,064
7. Revenue lag (days)		40.97	
8. Expense lead (days)		28.10	
9. Net lag (days)		12.87	
10. Expense requirement per day		\$5,942,815	
11. Cash working capital requirement		\$76,484,029	
12. Amount as filed		146,298,532	
13. Adjustment to rate base as filed		(\$69,814,503)	

Sources:

- Columns B & C lines 1,2,3,5: Schedule JLA-1 Supplemental
- Column B, line 4: Exhibit JC-7, Schedule MCM-1
- Column C, line 3: Current FIT lead days is 36.5
- Column C, line 4: Semi-annual interest payments (365/4)
- Column C, line 12: Schedule JLA-1

