

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

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

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**REBUTTAL TESTIMONY OF DAVID PETERSON  
ON BEHALF OF THE  
DIVISION OF RATE COUNSEL**

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**Dated: August 7, 2013**

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**I. INTRODUCTION**

1  
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. ARE YOU THE SAME DAVID E. PETERSON THAT SUBMITTED**  
10 **DIRECT TESTIMONY EARLIER IN THIS PROCEEDING ON BEHALF**  
11 **OF THE DIVISION OF RATE COUNSEL?**

12 A. Yes, I am.

13  
14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AT THIS TIME?**

15 A. The purpose of this testimony is to provide the Division of Rate Counsel's brief  
16 response to the testimonies of Stephen B. Wimple on behalf of Consolidated  
17 Edison Development, Inc. ("Con Ed Development") and Jeffry Pollock on behalf  
18 of Gerdau Ameristeel Sayreville, Inc. ("Gerdau").

19  
20 **II. RESPONSE TO CON ED DEVELOPMENT**

21 **Q. WHAT IS MR. WIMPLE PROPOSING IN THIS PROCEEDING ON**  
22 **BEHALF OF CON ED DEVELOPMENT?**

23 A. Con Ed Development's New Jersey solar facilities receive electrical services from  
24 JCP&L under rate schedules GP (General Service Primary) and GT (General  
25 Services Transmission). Mr. Wemple objects to JCP&L imposing on-peak  
26 demand charges on Con Ed Development's solar projects because, in his words,  
27 the facilities require only "station power" during the "fringes" of the on-peak  
28 period and during off-peak times. Mr. Wemple believes it is unfair for JCP&L to

1 impose on-peak demand charges on Con Ed Development’s load because  
2 “transmission and distribution resources are needed to meet demand during peak  
3 periods”<sup>1</sup> and Con Ed Development “only require(s) power from JCP&L during  
4 Off-Peak Hours and the fringes of On-Peak Hours”<sup>2</sup> and that Con Ed  
5 Development’s “Solar Projects do not put any strain on the transmission and  
6 distribution system.”<sup>3</sup> Therefore, Mr. Wemple recommends that JCP&L’s tariff  
7 be modified to eliminate on-peak demand charges for facilities that have no usage  
8 coincident with JP&L’s system peak and, in particular, for all grid-supply solar  
9 projects.<sup>4</sup>

10  
11 **Q. DO YOU AGREE WITH MR. WEMPLE’S CONCLUSIONS AND**  
12 **RECOMMENDATION?**

13 A. No, I do not. Mr. Wemple is advocating coincident peak demand billing rather  
14 than time-of-use pricing. In recommending that demand charges be applied to  
15 only those customers whose demands are coincident with JCP&L’s system peak,  
16 Mr. Wemple suggests that loads placed on the system at times other than the  
17 coincident peak have no cost consequences on the system. This suggestion is  
18 incorrect. Transmission and distribution systems are designed, built, operated and  
19 maintained to deliver power and energy not only at the time of the system peak,  
20 but also during “fringe” on-peak times and also during off-peak times as well.  
21 Moreover, the Board has already rejected Mr. Wemple’s unfounded conclusion in  
22 previous orders concerning cost allocation. On page 21 of my Direct Testimony,  
23 I included language from the Board’s Order in JCP&L’s 1991 rate case wherein  
24 the Board rejected a demand-only cost allocation approach because of the dual  
25 nature (i.e., demand and energy) of service provided by the Company’s facilities.  
26 That is, JCP&L does not just provide peak service, it must also operate and

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<sup>1</sup> Testimony of Stephen B. Wemple, page 5.

<sup>2</sup> Testimony of Stephen B. Wemple, page 7.

<sup>3</sup> *Ibid.*

<sup>4</sup> Testimony of Stephen B. Wemple, page 9.

1 maintain its facilities in order to be able to provide continuous service. This is the  
2 reasoning that the Board relied on when it required that an energy component be  
3 included in class cost allocation of transmission and distribution plant. The same  
4 reasoning also applies to the coincident peak rate design that Mr. Wemple  
5 recommends. Such a rate design fails to recognize that JCP&L must operate and  
6 maintain its system in order to be able to serve all loads at all times, not just the  
7 loads online during the system peak.

8  
9 **Q DID MR. WEMPLE RECOMMEND SPECIFIC MODIFICATIONS TO**  
10 **JCP&L'S TARIFF TO REMEDY WHAT HE BELIEVES IS UNFAIR**  
11 **TREATMENT OF SOLAR PROJECTS?**

12 A. No, he did not. Mr. Wemple failed to provide any analyses of the cost  
13 consequences of peak vs. off-peak demands that justify modifying the tariff-  
14 defined on-peak hours and days. Rather, on page 9 of his testimony he  
15 recommends that the tariff be modified so as to eliminate on-peak demand  
16 charges for all grid-supply solar customers. End-use driven rate designs, such as  
17 that recommended by Mr. Wemple, are generally disfavored by regulators, and  
18 should be rejected here, because they are unduly discriminatory.

19  
20  
21 **III. RESPONSE TO GERDAU**

22 **Q. HAVE YOU REVIEWED THE DIRECT TESTMONY OF**  
23 **JEFFRY POLLOCK ON BEHALF OF GERDAU**  
24 **CONCERNING CLASS COST ALLOCATION?**

25 A. Yes, I have. Mr. Pollock contends that JCP&L's allocation method  
26 results in an excessive amount of administrative and general ("A&G")  
27 costs being allocated to the SC-GT (General Service Transmission)

1 rate class. This results because JCP&L used the average and excess  
2 (technically the peak and average) allocation method to allocate A&G  
3 costs among the rate classes rather than allocating A&G costs using  
4 an allocation based on the amount of distribution plant and expenses  
5 directly assigned and allocated to the various rate classes. Mr.  
6 Pollock contends that JCP&L's cost allocation method results in a  
7 \$1.62 million subsidy by his client to JCP&L's other distribution  
8 customers. He proposes to eliminate this subsidy by reducing the  
9 GT230 demand charge to \$0.55 per kW.

10  
11 **Q. DO YOU AGREE WITH MR. POLLOCK'S ANALYSIS AND**  
12 **RECOMMENDATION?**

13 A. Not entirely. I agree with Mr. Pollock that JCP&L's allocation  
14 procedures result in far too many A&G costs being allocated to the  
15 GT230 rate class. On the other hand, the widely used A&G allocation  
16 methods, such as that proposed by Mr. Pollock, may result in far too  
17 few A&G costs being allocated to GT230 in this instance. In this  
18 instance, an A&G allocation method that is predominately based on  
19 Gerdau's limited investment in distribution plant (essentially meter  
20 investment only) may not recognize all of the resource requirements  
21 that JCP&L has devoted to serving Gerdau's account. Therefore, I do  
22 not agree that the entire "subsidy" claimed by Mr. Pollock should be  
23 eliminated in this proceeding.

24 **Q. EVEN THOUGH YOU DO NOT FULLY AGREE WITH MR.**  
25 **POLLOCK'S RESULTS, DOES YOUR RECOMMENDED**

1           **SPREAD OF RATE COUNSEL’S REVENUE DECREASE**  
2           **RECOGNIZE THAT THE SC-GT RATE CLASS IS**  
3           **PRESENTLY EARNING AN EXCESSIVE RATE OF RETURN?**

4    A.    Yes. I assigned a 10 percent larger-than-average revenue reduction to  
5           the GP and GT rate classes in my proposed rate spread in order to  
6           recognize that class unitized rates of return for those two classes are  
7           significantly greater than 1.0. This represents a measured, gradual  
8           step towards cost-based rates for all classes.

9

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

11   A.    Yes, it does.