JCP&L / GPU

Jersey Central Power & Light Company
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September 10, 1980

Mr. Richard H. Vollmer
Director, Three Mile Island-2 Support
Office of Nuclear Reactor Regulation
U.S. Nuclear Regulatory Commission
7920 Norfolk Avenue
Bethesda, MD 20014

Re: NRC Docket No. 50-289 - TMI-1 Restart Proceeding

Dear Mr. Vollmer:

By your letter dated September 21, 1979, to R. C. Arnold, and Mr. J. C. Petersen's data requests sent to C. W. Smyth on November 9, 1979, you requested us to keep the NRC informed of significant regulatory developments affecting the GPU companies. Accordingly, the enclosed material (8 copies) has been sent for that purpose.

Enclosed are the position papers of Jersey Central Power & Light Company in the matter of the Petition of JCP&L for approval of an increase in LEAC factor, BPU Docket No. 807-488.

Very truly yours,

Lawrence E. Sweeney
Rate Department

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Enclosure

cc: M. Karlowicz (w/enc)
J. Petersen "
D. Carroll (w/o enc)
L. Gentieu "

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September 8, 1980

The Honorable Stephen Marshall
Administrative Law Judge
Office of Administrative Law
185 Washington Street
Newark, New Jersey 07102

Re: In the Matter of the Petition of
Jersey Central Power & Light Co.
for an Increase in its Levelized
Energy Cost Adjustment Charge
BPU Docket No. 807-488
OAL Docket No. PUC 3518-80

Dear Judge Marshall:

In response to your request for a statement of issues from the parties in this proceeding, in Jersey Central's view they are as follows:

1. Twelve-month Average Cost Period.

The purpose of the LEAC is to levelize charges to customers while permitting JCP&L to recover incurred energy costs on a current basis. The use of a 12 month-period for projection of costs tends to minimize seasonal variations and spread the costs associated with outages of base load plants and other variations in generation mix.

Because of Jersey Central's exposure to radical shifts in energy costs resulting from outages of nuclear stations, it was provided with a 6 month review. Such a review also was included to relieve Jersey Central of the burden of financing accumulated deferred energy balances for extended periods.

Rate Counsel's suggestion of a 6 month forecast period is inconsistent with the purposes of the clause and such suggestion will result in a temporary reduction in charges during the current LEAC period and will create a leveraging to any increase in future LEAC periods. Such reduction is not related to lower energy costs, but a non-recognition of the outage of Oyster Creek until April 1981.

Such suggestion by Rate Counsel to use a 6-month period is defined solely to shift the outage of Oyster Creek out of the period during which average costs are estimated. Such a change is inconsistent with the provision which is designed to spread the costs which may occur; the cost of such an outage over an annual period so as to eliminate sharp changes in the level of charges to customers. It should also be noted that this suggestion is inconsistent with the present clause and all of the Orders of the Commission which have established the LEAC concept. This proceeding is a summary one to implement the existing LEAC tariff provision. There is no basis for changing that tariff in the context of these proceedings, nor has Mr. Knudsen provided any compelling reasons to justify such a change.

2. Amortization of the Accumulated Deferred Energy Account.

The operation of Jersey Central's LEAC provides for the amortization of its accumulated deferred energy balances over a 12 month period. The estimated energy costs forecast for the next 12 months is added to the accumulated deferred energy balance to determine the levelized billing factor for the 6 month LEAC period. The theoretical effect is that the deferred energy balance at the end of 6 months would be half recovered. Then at the beginning of the next 6 month period a new 12 month forecast is calculated and includes provision for recovery of the such balance over the next 12 months. Thus, the accumulated deferred energy balance would never be recovered if forecasts are exact. However, forecasts vary causing debits and credits and the levelization takes place over a period of several years.

The Public Advocate has recommended that a portion of the deferred energy balance related to the extended outage of Oyster Creek be amortized over an 18 month period. This is inconsistent with the Company's tariff.

Mr. Knudsen relies upon the Order of the Commission in June, 1979, providing for an 18-month amortization period for the recovery of the TMI replacement power costs. Because of the tremendous change in Jersey Central's energy costs, as a result of the TMI accident, the Company filed a base rate case asking for a review of the LEAC factor. In the context of a base rate case and in light of the tremendous increase in energy costs incurred by the Company, the BPU did provide for an 18-month amortization period. Although Mr. Knudsen recognizes the significant differences and financial ability of Jersey Central with other New Jersey utilities, he ignores the fact that the Commission in April of the year provided for the acceleration of the amortization of a deferred energy balance recognizing the need of Jersey Central for additional cash flow.

In light of the fact that Mr. Knudsen is providing for a reduction in energy costs during this 6 month period, and an increase in the next 6 month period, the deferral of amortization of the deferred energy balance would only have the effect of reducing customer charges now, while increase such charges later; an effect which is inconsistent with the levelized clause concept. The Company believes that such proposal is inappropriate and unreasonable and would create greater variations in energy costs to customers rather than the stabilization sought by the LEAC.

3. PCP Recalculation of Sales Change

The Company's filing incorporated a sales reduction of 468 Gwh (JC-A, page 3 of 15) below the sales forecasted by the 1980 "3 + 9" budget. The annual dollar impact of this sales reduction was calculated, using a manual method, to be $22.2 million (JC-A, page 3 of 15 and JC-A.5). A latter Production Cost Program (PCP) computer evaluation indicated that the annual dollar impact of the sales reduction should have been $26.4 million. The Company considers the additional $4.2 million annual dollar impact indicated by the PCP computer evaluation to be appropriate and has included this energy cost reduction in the last column of Exhibit JC-J.

4. P.E./Salem Pricing Substitution

The Company's filing priced the electricity projected to be purchased according to the P.E./Salem agreement at the Company's estimate of the PJM running rate. Rate Counsel has suggested that the pricing of the subject purchase should have been at the PJM estimate of the PJM running rate. In accordance with Rate Counsel's request, the Company quantified the difference resulting from these two pricing methodologies to be $20.9 million annually (the total of JC-H.1 and JC-H.2). The Company does not agree that the PJM estimate of the PJM running rate is the appropriate rate to use for such pricing. As indicated in the rebuttal testimony of F. D. Hafer, the Company's latest information indicates that a new calculation of the Company's estimate of the PJM running rate might at a maximum yield a $9 million reduction in annual energy costs related to the P.E./Salem purchase. To the extent that all numbers and assumptions are being updated, it would be appropriate that this value be substituted in the last column of Exhibit JC-J (this was indicated by F. D. Hafer during his rebuttal testimony of September 3, 1980).

5. Reduced Sales Forecast

The Company believes that Rate Counsel's one percent reduction in the sales forecast related to customer conservation and price elasticity effects is inappropriate. The Company feels that its sales forecast has adequately captured conservation trends, including customer usage reductions in the first half of 1980 relative to corresponding periods of prior years. There is no quantitative basis for further reductions.

The Company contacted Whippany Paperboard Company on September 2, 1980, and was informed that there is no scheduled date for production to resume. For this reason, the Company has accepted Rate Counsel's suggestion to eliminate 64 Gwh from the LEAC period sales forecast. The $3.6 million annual impact of this adjustment is reflected in the fourth column of Exhibit JC-J.

6. Split Savings

At the time of the Company's filing, the PJM "Cost plus 10%" arrangement between GPU and the other PJM Companies was still in the negotiation stage. This agreement has since been finalized. Assuming a September 1, 1980 effective date, the Company agrees that the annual energy cost savings associated with this agreement ($1.7 million as quantified on JC-H) should be reflected in this LEAC proceeding.

7. Line Losses

Rate Counsel has suggested that the Company's line loss factor has been overstated by $1.1 million annually. The Company accepts this reduction in energy costs primarily because it is so small in relation to the total energy requirements of the Company and that it is difficult to refine it much further. This adjustment appears on Exhibit JC-J, column four.

8. Oyster Creek Operating Rate

The Company's filing incorporated an operating rate of approximately 85%. Rate Counsel has proposed that this operating rate should be increased to approximately 91%. The Company feels that it is inappropriate to increase this operating rate in view of increasing NRC involvement as a result of the Three Mile Island incident and the Brown's Ferry incident, the problems associated with the sparger system at Oyster Creek and the vintage (1969) of the Oyster Creek generating station.

9. Oyster Creek Outage

The Company has assumed a five week outage in the fall of 1980 to complete the "TMI-Lessons Learned, Category B" items before January 1, 1981. The need for an outage during the LEAC period (September 1, 1980 through August 31, 1981) has not been questioned during the subject proceeding. The timing of the outage has been an issue as a result of Rate Counsel's proposal to use a six-month period for estimating the Company's energy costs rather than the twelve-month period specified by the tariff. The Company rejects the position of Rate Counsel on the use of a six-month period, as previously stated in this position paper, thus, negating the $17.7 million adjustment made by Rate Counsel.

It is important to note that the Company's estimate of the dollar impact of the Oyster Creek outage is conservative. If the outage is shifted to early 1981, or if the outage must be performed in two periods of three to four weeks each, the Company's total energy costs for the LEAC period would increase.

10. Gas Substitution

The Company disagrees with Rate Counsel's adjustment to reduce annual energy costs by $4.8 million to reflect an additional availability of natural gas for a boiler fuel. The Company contends that there are those who are already objecting to the use of natural gas as a boiler fuel and that the availability of natural gas is limited by the transmission capability of the gas suppliers.

11. Coal Prices

The Company accepts Rate Counsel's adjustment to reduce annual energy costs by $1.4 million primarily because the amount of the adjustment is so small in relation to the Company's total energy costs.

Very truly yours,

KIRSTEN, FRIEDMAN & CHERIN
A Professional Corporation

By______________________
JACK B. KIRSTEN

JBK/mce

Of Counsel:
James B. Liberman
William F. Hyland

cc: Attached Service List