NEW JERSEY DEPARTMENT OF ENERGY

BOARD OF PUBLIC UTILITIES

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| IN THE MATTER OF THE PETITION OF JCP&L FOR APPROVAL OF AN INCREASE IN RATES FOR ELECTRIC SERVICE | BPU Docket No. 807-488<br>OAL Docket No. PUC 3518-80 |

# PUBLIC ADVOCATE'S BRIEF IN SUPPORT OF A ROLLBACK OF THE LEAC


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Modification of LEAC Forecast Period

Over eighty years ago, it was recognized that rates must be just and reasonable not only for utility investors, but also for utility consumers. Covington & Lexington Turnpike Co. v. Sanford, 164 U.S. 596 (1896). While a utility is entitled to recover its legitimate costs from rate payers, there must be reasonable assurance that the utility is not recovering more than its reasonable costs. Moreover, there must be assurances that customers are equitably sharing the burden of these costs. Rate Counsel does not suscribe to the view that "just and reasonable rates" should be viewed solely from the perspective of the utility company. Permian Basin Area Rate Cases, 390 U.S. 747, 791, 88 S. Ct. 1344, 20 L.Ed. 2d 312, 350 (1968).

If that were the case, it would be legally permissible to overcharge some customers, provided that other customers are simultaneously undercharged, resulting in an overall revenue stream to the utility adequate to cover its overall legitimate costs. The folly of such an argument is obvious. The existence of such a situation, absent other circumstance, is impermissible.

Jersey Central's present LEAC is, in essence, a six month clause with a 12 month "lookahead". In other words, rates for the next six months are set based on forecasted costs and events in the next 12 months. This is different

than all other Levelized Electric and Gas Adjustment Clauses in New Jersey, as all other utilities use a 12 month forecast to set rates for 12 months.

The Department of the Public Advocate recommends that JCP&L's clause be changed so that the forecast period matches the anticipated life of the clause. We believe the existing methodology creates the potential for abuse, either intentional or accidental, particularly when there is a large deferred energy underrecovery balance, as there is in the present case.

On September 3, 1980, Mr. Hafer was questioned about the interactions of the level of the LEAC that will exist from October 1980 to March 1981 (the subject of this proceeding), the likely postponement of the Oyster Creek "lessons learned" outage from October 1980 to April, 1981 and the deferred energy balance that would exist at the next LEAC filing for March 1981, using the present 6 months clause/12 month forecast (which JCP&L seeks to retain).

The general tenor of Mr. Hafer's responses was that the Oyster Creek outage postponement, or any other event which would cause costs to be lower than budget from October to March would tend to reduce the deferred energy balance on an accelerated basis, but the deferred energy balance is so great that no one need worry that the company would go into an overrecovery situation in the next six months. (TR941-942).

However, Mr. Hafer did agree that the end result could be winter users paying off a disproportionate share of the deferred fuel balance, which was incurred in the course of providing service to both summer and winter users. (Tr.944-946)

Indeed, the entire JCP&L filing reflects speculative increased costs which will have their greatest impact on the company from March through August 1981, but which JCP&L wants recognized in rates now. In the meantime, from October of 1980 to March 1981, JCP&L would be paying down its deferred energy balance not only with its amortization allowance, but also with the surplus of forecasted monthly costs over actual month by month energy costs. The end effect will be an accelerated reduction in the deferred fuel balance, fully paid for by winter users. The Public Advocate notes that winter heating customers have seen a doubling of their rates in a year. To require them to carry a disproportionate share of deferred energy balance, which even under present policy should be collected evenly over 12 months, adds insult to injury.

By changing to a 6 month cost projection, this deferred energy balance can be "budgeted" fairly through future periods. Mr. Hafer does concede that this cost should not be paid disproportionately between summer and winter users.

Yet that is the end result of a 6 month clause with 12 months lookahead which JCP&L can "pad" with expenses that JCP&L expects to incur for a time period beyond the life of this clause and which will be again taken into account as the basis for setting a still higher clause 6 months from now.

As a result of the TMI accident, the Board has had to venture into previously unexplored territory in developing policies which are fair to both utility and consumer. As problems are discovered with existing policies, they must be fixed. At times, existing policies may contain potential flaws which remain undiscovered because the circumstances do not develop to make such flaws evident. Policy has been continuously developing on an "as needed" basis for JCP&L since the TMI accident. The 6 months clause, 12 month "lookahead" methodology presently in use was developed prior to the TMI accident. At that time, no one could have known that JCP&L would be reduced from a three nuclear plant utility to a one nuclear plant utility. Under such circumstances it is not surprising that JCP&L returns every six months for a LEAC adjustment. But the 6 month clause/12 month lookahead in this case provides the worst of all possible worlds for the ratepayer. He gets a 6 month clause which includes future expenses <u>beyond</u> the six month period, and then, in the next proceeding, he sees those same expenses a second time. This does not occur in any other New Jersey LEAC or RMAC (Raw Materials Adjustment Charge).

Eighteen Month Recovery of Deferred Energy Balance

As previously stated, the ratemaking process must be fair to both investor and consumer. It is accepted regulatory policy, in New Jersey and elsewhere, that extraordinary expenses, if they are to be taken account at all in rate making, should be normalized over several years. This is particularly true if such expenses resulted as a consequence of events which occur with less than annual frequency.

JCP&L's substantial energy underrecovery largely represents expenses incurred as a result of two simultaneous nuclear outages which then became three simultaneous nuclear outages. JCP&L had no base load nuclear power going into its system from January to July of 1980. JCP&L is, or was, the most nuclear dependent utility in New Jersey. Hopefully, the TMI-2 accident was a once in a lifetime event. It is the company's position that TMI-2 can and will be repaired and returned to service as a nuclear plant. The TMI-1 outage is a direct consequence of the unique TMI-2 accident. The extension of the Oyster Creek outage was to repair latent defects which dated from the plant's initial construction, but were only made evident after years of service. Can anyone, other than anti-nuclear activists, disagree with the statement that this combination of outages is unusual, extraordinary, and unrepresentative of normal business operations?

It is conceded that the energy clause mechanism permits the recovery of all legitimately incurred energy costs. However, when such costs are extraordinarily large due to typical circumstances, such as extended nuclear outages, the Board can, should, and, on previous occasions, has been flexible on the recovery period for deferred energy balances.

The Public Advocate recognizes that JCP&L's financial condition is less than optimal. However, the Company's position has substantially improved in recent months. The ALJ and the Board should take notice that the company did not submit any testimony on its cash flow position, even on rebuttal. Such testimony and exhibits were regular features of previous LEAC filings. See BPU Docket Nos. 801-45 and 795-427.

On the other hand, at the public hearings there was substantial testimony by ratepayers concerning their cash flows, and the cumulative impact of JCP&L increases, pancaked one atop the next.. The consumers' plight cannot be ignored. As a private company in the unregulated sector, JCP&L would have failed long ago. JCP&L owes its present existence to its ratepayers.

A proper balance of investor and consumer interests requires the Board to stretch out the deferred energy balance recovery period.

The Public Advocate urges the ALJ and Board to adopt Mr. Knudsen's recommendation for a modest extension of the deferred energy recovery period from 12 to 18 months.

1. Philadelphia Electric/Salem Unit #2 Sales Substitution and Pricing

As shown on exhibit JC-A, petitioner forecasts purchases of electricity from Philadelphia Electric (PE) commencing in October 1980 and continuing throughout the balance of the LEAC period. Rate Counsel has shown that the Company's estimate of the cost of this electricity for the LEAC period is overstated.

The electricity to be purchased from PE is priced at 95% of the Pennsylvania-New Jersey-Maryland (PJM) running rate. Petitioner's filing is based upon its estimate of this rate during the LEAC period. However, data presented by the Company in this proceeding shows that the PJM running rate as projected by the PJM Committee is significantly less for each month of the LEAC period than the Company's estimate. On exhibit JC-H.1, the Company estimated that had PJM's estimates been used to price the PE purchase, the result would have been $18,225,000 less than that shown in its filing for the LEAC period, or $6,500,000 less for the six-month period ending February 28, 1981. It is also important to note that PJM's estimates were made more recently than petitioner's. (Tr304) Moreover the Company performs only annual, not monthly, estimates of the PJM running rate (Tr286); therefore the Company is unable to accurately forecast the rate of change in the price during the LEAC period. The Company has produced no evidence to support its own and, significantly higher, estimates of the PJM running rate.

Mr. Knudsen has performed his analysis based upon the PJM estimates of the running rate as applied by the Company to the PE (Salem) purchase (Exhibit JC-H.1). Mr. Knudsen reduced the energy cost by $6.5 million for six months ending February 1981 as shown on exhibit 1, page 1 of RCT-A.

The Company was asked to prepare an exhibit to show the impact of using PJM's estimate of its running rate on all affected numbers in the LEAC filing in addition to pricing the electricity from PE. The Company produced exhibit JC-H.2 showing that use of the PJM estimate effectively reduced the LEAC request by $2.7 million. The effect for the first six months of the LEAC period is derived from JC-H.2, pages 2 and 3. The Riegel offset is derived from JC-A.4(d), page 3, and is worth $100,000. The net additional impact is $2.3 million for the first six months.

The result of the above adjustment is that the recommendation of the Public Advocate in this case is for a rollback in JCP&L's LEAC of $4.6 million.*

* Derived by adding the $2.3 million on this page to the original recommendation of a rollback of $2.3 million. See RCT-A, Exhibit 1, Page 2 of 2, and Tr.764-765.

2. Reduced Sales Forecasts

To the extent the Company has overestimated its sales forecast for the LEAC period, it is overestimating the volume of purchased power, and therefore, the cost.

There are two factors which Mr. Knudsen identified that indicate that the Company has in fact overestimated its sales.

First, Petitioner's forecast assumes that two plants owned by the Whippany Paperboard Company will be operating and will be consuming electricity at the rate of 64 gigawatt hours per year. (Tr368). Mr. Raber admitted that the long-term disposition of these two plants is uncertain, depending upon negotiations for the sale of the Company which is now bankrupt. (Tr367). These two plants were shut down during the past summer, and there is absolutely no indication that they will be operating during the LEAC period. In fact, Mr. Hafer testified that the Company would not be back on line during the next twelve months. (Tr878).

Second, Petitioner did not adequately incorporate the effects of price elasticity. Mr. Steger testified that since he did not know precisely when sales reductions took place, he made a broad assumption that consumption would be reduced equally throughout each hour of the day, including therefore the middle of the night. (Tr343-344). This is important when considering the fact that on-peak electricity

costs so much more than off-peak electricity to produce and to purchase. During cross-examination of Mr. Raber, it was established that the likely period of conservation for commercial and residential customers was during on-peak, daytime hours. (Tr373-380).

Another factor effecting price elasticity is the economic climate. Mr. Knudsen testified that Petitioner understated the adverse impact of the current recession upon sales and upon housing starts in Petitioner's service territory (RCT-A, p. 11). Further, Mr. Raber admitted that his technique for forecasting sales, an examination of a twelve-month rolling average of consumption, does not fully capture the effect of five rate increases since July 1, 1979 (Tr386).

A comparison with the projected and actual consumption of electricity by residential customers is educational. The Company had estimated that total residential usage would decline in 1980 by 1.7% over 1979, and that all-electric residential customers would cut their usage by 3.6%. Comparing the actual results for the first six months of 1980 with the first six months of 1979 shows that total residential consumption was down 4.4%, and all-electric residential consumption was down more than 10.8%. (RCT-A, p. 14). Consumption during the second half of 1980 is not likely to increase given the fact that the Petitioner is predicting the recession will last through 1980 with a slow recovery in 1981. (JC-400, p. 2).

The Petitioner has made a 3.6% downward adjustment (468 Gwh) to its budgeted sales. (JC-B, p. 2). This adjustment does not reflect the closing of Whippany Paperboard, nor does it adequately reflect declining customer usage. Mr. Knudsen adjusted the sales forecast by reducing sales during the LEAC period by 191 Gwh. 64 Gwh are attributed to Whippany Paperboard, and 127 Gwh represents a further 1% reduction to reflect the prospective effect of further rate increases and lower than expected customer usage. (RCT-A, p. 15).

As was discussed above in this section, the petitioner has calculated the impact of reduced sales by assuming that the reduction would occur uniformly around the clock. (Tr.343-344). The result is reflected in Mr. Gentieu's figure of 43 mills/kwh, representing the company's estimate of the savings due to reduced demand for purchased power. (JC-A.5, p. 4)

Mr. Knudsen further adjusted this figure based upon two considerations:

1. The sales adjustments should be made at higher energy costs because it is more likely that such sales will occur in high-use periods. Energy in high-use periods is more costly.

2. In substituting energy sources, the petitioner would eliminate highest-priced energy to minimize its costs. (RCT-A, p. 17)

On Exhibit 4 to his testimony, Mr. Knudsen calculated that the marginal cost of producing energy during the first six months of the LEAC period is 52.2 mills/kwh. This figure was derived using the Company's estimate of the cost to produce electricity from its five most expensive sources. To the extent that reduced sales can be translated to reduced production, these five sources will be the ones to be cut first. Therefore, for every kilowatt-hour the company doesn't have to produce, it saves 52.2 mills, not 43 mills. Mr. Knudsen used the 52.2 mills figure to price four adjustments: the reduced sales forecast, the recalculation of sales change, the Oyster Creek operating rate, and the Oyster Creek outage.

The recalculation of sales change is based upon an actual PCP run taking into account those sources of energy which would actually be on line during a period of reduced sales. The company's original figure was based upon a manual estimate. (RCT-A, p. 17)

3. Oyster Creek Operating Rate

In determining the amount of electricity available from the Oyster Creek plant, the Petitioner is forecasting that the plant will operate at 74.8% of capacity during the LEAC period. (JC-A, p. 8 (4063 Gwh out of an annual capacity of 5432 Gwh)). Mr. Knudsen adjusted the operating rate during the last 24 months when the plant was operating, and allowing for planned outages during the LEAC period. The plant went down for refueling early in 1980, and the scheduled two-month outage lasted until mid-July when cracks in the sparger were detected and repaired. Consequently, Mr. Knudsen examined the 24-month period ending December 1979. The plant operated at no less than 91% capacity during that period except for a routine refueling from September through December 1978 and a highly exceptional outage in May 1979 due, not to a malfunction, but to a lack of instrumentation. (RCT-A, pp. 22-23). Applying this rate to the LEAC period, and assuming that the plant will be down as forecasted by the Company in October and November 1980, the savings during the first six months of the LEAC period are $6.6 million, and $17.7 million for the whole period. (RCT-A, exhibit 6).

4. Oyster Creek Outage

A substantial adjustment to Petitioner's request results from shifting an outage for the Oyster Creek plant from the fall of 1980 to the spring of 1981, specifically April and May 1981. This outage was planned so that Petitioner could complete a second round of modifications to the plant mandated by the Nuclear Regulatory Commission (NRC). The Petitioner is currently asking the NRC for permission to delay those modifications, which would close the plant, until April 1981 (JC-K, Tr880).

Mr. Knudsen testified:

> As I commented in the Introduction to my testimony, the uncertainties relating to Oyster Creek have a tremendous impact on the outcome of this case. It seems to me only fair that to the extent there is a significant possibility this major event will not occur as planned that we view this development to the benefit of the ratepayers.
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> * * * *
>
> In making my proposal for a six month LEAC and in deferring the Oyster Creek outage to the second half of the LEAC period, I believe I am proposing an exceptional response which is sensitive both to the customers need for a pause in constantly increasing rates and of the Company's need to protect its financial condition
>
> RCT-A, pp. 25-26

As was mentioned earlier in this brief, the evolving progress of this Petitioner in its struggle to remain solvent demands a flexible approach by the Board of Public Utilities

in order to safeguard the legitimate concerns of the Company's ratepayers. Rates have increased tremendously since the TMI accident and as surely as springs follows winter, there will be before the Board another request by JCP&L to increase its LEAC next March. Significantly, this is the first case in several in which Petitioner has not introduced exhibits showing a barely trickling cash flow. The Board should recognize this fact, consider the liklihood that the planned outage for certain NRC-mandated modifications can be delayed at least six months, and weigh these two against the testimony of ratepayers given at the public hearings, particularly those facing a long winter armed only with electric heat. Mr. Knudsen's recommendation does represent a compromise that under the circumstances is fairest to all concerned.

5. Gas Substitution

This adjustment deals with the amount of natural gas available for the generation of electricity at Petitioner's Sayreville plant. The practical maximum amount of gas that can be burned at the Sayreville plant is 893,000 mcf per 31-day month (Tr. 581). Mr. Goldstein testified that the gas supplier for this plant, New Jersey Natural, can supply 850,000 mcf per month to the plant when they have the gas (Tr. 578). He further testified that the supplier could deliver gas to the Sayreville plant throughout the LEAC period with the exception of 30 days in the winter (Tr. 530). Exhibit JC-A.4(b), page 2, shows that a total of 2,394 mcf of gas was burned at Sayreville during April, May, and June of this year compared with 1,500 mcf projected in the 3 + 9 budget for that period, indicating greater availability than forcasted by Petitioner. Mr. Knudsen, who has participated in a number of gas base rate cases during the last few years, has observed that gas suppliers tend to conservatively estimate the amount of gas they have to sell and also tend to leave flexibility in their commitments to individual customers. There are several factors which have caused an increased amount of natural gas to be available to northeastern utilities:

1. Increased amounts of gas generally due to deregulation

2. Conversion of southern and southwestern utilities to coal

3. Fall-off in industrial sales due to the recession. (RCT-A, pp.27-28).

It is Mr. Knudsen's judgment that 1,600,000 mcf will be available for burning at the Sayreville plant over and above the Company's estimate. This estimate of course is within the monthly 890,000 mcf capacity, and parallels the monthly variations projected by the Company in its 3 + 9 budget (JC-A.4(b)). Mr. Knudsen estimated that the cost savings for the first six months of the LEAC period due to increased availability of gas for the Sayreville plant amount to $3 million (RCT-A, exhibit 7).

6. Line Losses

Based on his analysis of data collected over the past 42 months, Mr. Knudsen testified that the company has overestimated the line loss computation. (RCT-A, p.20). The company's calculation of 9.4%* does not seem to be based upon any long-term historical analysis. Mr. Knudsen has analyzed the actual experience over the past 3½ years and has found that the line loss experience for that time was 9.1%. Mr. Knudsen recommended that line losses be computed at 9.1%. This adjustment amounts to $1.1 million assuming that the line losses are priced at the adjusted average mills/kwh shown on JC-A, p.2. (RCT-A, p.21).

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* 14,420 GWH-Net system requirements (JC-A, p.2)
\- 13,183 GWH-Budgeted sales (JC-A, p.3)
1,237 GWH-Line loss

1,237 ÷ 13,183 = 9.4%

7. Split Savings

Mr. Knudsen testified that the net benefits to the company of the cost + 10% arrangement for the purchase of energy from PJM is $984,000 for the first six months of the LEAC period (RCT-A, p. 19). These savings have not been reflected in the company's original LEAC filings (Tr. 123). The source for Mr. Knudsen's figure is company-supplied data, identified for the record as JC-H, p.2.

8. Coal Prices

A review of the transcript at pages 511-528 reveals a great degree of confusion with respect to the company's forecast of coal prices. RCT-A, p. 29 recalls the various and sundry escalation methodologies apparently used to determine the costs through the LEAC period.

Whatever forecasting method is really used, the fact is that the Company has consistently overstated in its budget both the purchased and the burned rates of coal throughout 1980, at times by as much as 25%. (RCT-A, p. 30). In 1980 through July, the budgeted average burned price of coal for the seven months was $28.17/ton compared with the actual average for the same period of $24.58/ton, a variance of $3.59/ton. (RCT-A, exhibit 8).

The latest prediction from one of the Company's suppliers is that coal will cost an average of $28.35/ton over the LEAC period (Tr.589). This new figure is approximately $1/ton less than the figure contained in the filing: $29.37/ton (JC-A, p. 2)

Given this new projection, and the company's penchant for overestimation in this area, Mr. Knudsen reduced the cost as presented in the filing by $2/ton (RCT-A, p.31). This reduction amounts to $600,000 for the first six months of the LEAC period. (RCT-A, exhibit 8).

## CONCLUSION

The Public Advocate respectfully urges the Administrative Law Judge and the Board of Public Utilities to order a rollback of JCP&L's LEAC of $4.6 million. In the eighteen months since the accident at Three Mile Island JCP&L has received five rate increases totalling almost $300 million. However, in this case the Advocate has demonstrated that JCP&L is not entitled to any increase. Moreover, for the first time since the accident at TMI, JCP&L has not presented evidence regarding any cash flow problems. Now it is the customers of JCP&L who are having cash flow problems. JCP&L will probably be getting a base rate increase around February 1, 1981 and an increase in its LEAC on March 1, 1981. This case is an excellent opportunity (and perhaps the last one) for the ALJ and the Board to demonstrate that when the facts so dictate, they are willing to order a rollback.

Respectfully submitted,

STANLEY C. VAN NESS
PUBLIC ADVOCATE

By: Alfred L. Nardelli
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Deputy Director

Dated: September 8, 1980

State of New Jersey
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BOARD OF PUBLIC UTILITIES
1100 RAYMOND BLVD.
NEWARK, NEW JERSEY 07102

VAUGHN DONOVAN
ACTING DIRECTOR

DIVISION OF RATE & ACCOUNT

September 9, 1980

Re: In the matter of the petition of
Jersey Central Power & Light Company
for an increase in the Levelized
Energy Adjustment Clause
Docket No. 807-488

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

Dear Judge Marshall:

Enclosed are four (4) copies of the Board's Staff Position regarding the above. Copies of this position are being sent to Commrs. Barbour, Hynes, and Curran, as well as all active parties in the above matter.

Very truly yours,

Vaughn M. Donovan

Vaughn M. Donovan, Director
Division of Rates & Accounts

Enclosures

JERSEY CENTRAL POWER & LIGHT COMPANY
BPU DOCKET NO. 807-488
OAL DOCKET NO. PUC 3518-80

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DEPARTMENT OF ENERGY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF JERSEY CENTRAL POWER & LIGHT COMPANY FOR AN INCREASE IN ITS LEVELIZED ENERGY ADJUSTMENT CHARGE

DOCKET NO. 807-488
OAL DOCKET NO. PUC-3518-80

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STAFF POSITION

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Gerald N. Tobia Jr.
GERALD N. TOBIA, JR.
CHIEF, BUREAU OF RATES

I. Paul Slevin
I PAUL SLEVIN
SUPERVISING ACCOUNTANT
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## INTRODUCTION

On July 21, 1980, Jersey Central Power and Light Company (petitioner), filed a petition to revise its Levelized Energy Adjustment Clause (LEAC). The filing proposes an increase in the LEAC of 6.264 mills per kilowatthour, before voltage adjustments, to become effective for bills rendered on and after September 1, 1980. The proposed increase would increase petitioner's annual retail revenues by $77.8 million or approximately 8.5%. The increase in the monthly bill of petitioner's typical residential customer using 500 KWH monthly at summer rates would be $3.17, or 7.3%.

Subsequent to the filing and prior to the first scheduled public hearing, the parties (Board's staff, Public Advocate, Ocean County Board of Chosen Freeholders and the NJ Department of Energy) participated in a number of discovery conferences. Non-evidentiary public hearings were held throughout the company's service territory on August 20, 21, and 25, 1980. Evidentiary public hearings were held at the Office of Administrative Law before Judge Stephen Marshall, on August 20, 21, 22, 25, 26, 27, 29 and September 3, 1980. Staff notes that the Department of Energy did not participate in the formal proceedings. The first six days were devoted to the company's presentation of its direct case and cross-examination by the parties. The Public Advocate proferred a witness on August 29, 1980, and the company presented a rebuttal witness on September 3, 1980.

## PROPOSAL BY JERSEY CENTRAL POWER AND LIGHT COMPANY

The charges proposed by the petitioner are based upon total energy costs as adjusted, projected for twelve (12) months ended August 31, 1981. Petitioner's calculation of the proposed LEAC is as follows:

### DERIVATION OF PETITIONER'S PROPOSED LEAC INCREASE
(September 1, 1980 - August 31, 1981)

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| Total energy costs projected for the 12 months ended August 1981 (LEAC period) as budgeted | $ 454.5 million |
| (Less): Adjustments to budget: | |
| Lower than forecast sales | (22.2) |
| Additional gas substituted for oil | (21.4) |
| Additional waste heat revenues | (0.2) |
| Energy costs as adjusted | $ 410.7 million |
| Projected total sales, 12 months ended August 1981 as budgeted | 13 183 Gwh |
| (Less): Sales adjustment | (468) |
| Sales as adjusted | 12 715 Gwh |
| Energy costs per Kwh of sales ($410.7 ÷ 12 715) | 32.300 mills/Kwh |
| (Less): Energy costs per Kwh included in retail base rates | (14.000) |
| Energy costs per Kwh above level included in retail base rates | 18.300 mills/Kwh |
| Retail energy costs projected to be unrecovered (deferred) as of 9/1/80 effective date of requested LEAC increase (p.3) | $ 81. million |
| Projected retail sales, 12 months ended August 1981 (as adj.) | 12 424 Gwh |
| Unrecovered retail energy costs per Kwh of retail sales ($81.4 ÷ 12 424) | 6.552 mills/Kwh |
| (Refund) of Pa. Gross Receipts Tax collected in Jan. and Feb. 1980 (tax repealed effective 1/1/80, but not eliminated from rates until March 1980) | (0.015) |

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| LEAC before provision for revenue taxes (energy costs above base plus underrecovery adjustment less tax refund = 18.300 + 6.552 - 0.015) | 24.837 mills/Kwh |
| Plus: Provision for revenue taxes (above x 0.1351) | 3.355 |
| LEAC including provision for revenue taxes | 28.192 mills/Kwh |
| (Less): Total LEAC currently in effect | (21.928) |
| Proposed increase in total LEAC | 6.264 mills/Kwh |

It should be noted that at the September 3, 1980 proceeding, petitioner's rebuttal witness indicated that based upon a last minute review of PJM's (Pennsylvania-Jersey-Maryland Power Pool) average running rates, a $9 million adjustment to its total projected energy costs would be appropriate; that the company's deferred unrecovered energy costs as at September 1, 1980 aggregate $94.6 million; and that certain adjustments proferred by the Public Advocate, which will be set forth hereinafter, were not considered unreasonable (JC-J; JC-D.2).

The effect of the foregoing would reduce the proposed increase in the LEAC by .456 mills/KWH to 5.808 mills/KWH. This would increase petitioner's annual tariff revenues by $71.8 million or approximately 7.8% (JC-J)

PROPOSAL BY PUBLIC ADVOCATE

The Public Advocate, through its witness Thomas E. Knudsen, recommends certain adjustments to petitioner's proposal the result of which is a refund or roll-back of some $4.8 million. This position is based among other things, upon recognition of the following adjustments:

| | |
|---|---|
| PCP Recalculation of Sales Change | ( 1.9) |
| P.E./Salem Pricing Substitution | ( 6.5) |
| Reduced Sales Forecast | ( 5.2) |
| Split Savings | ( 1.0) |
| Line Losses | ( .6) |
| Oyster Creek Operating Rate | ( 6.6) |
| Oyster Creek Outage | (21.9) |
| Gas Substitution | ( 3.0) |
| Coal Prices | ( .6) |
| Repricing of Interchange Purchases & Related Adjustments | ( 2.2) |
| TOTAL ADJUSTMENTS | ($49.5 million) |

Staff points out that the Public Advocate's adjustments result in a .776 mill/KWH reduction in the existing level of the clause. This analysis is based on the use of 6 months of projected costs and our assumed review of the clause and its results both actual and projected at the end of the six month period.

He suggests that due to "...the uncertainty surrounding future events in the March - August, 1981 period, and because we have an option to review the rates again in March..." the LEAC can be set for six months, a period in which cost projections and estimates are more certain.

The Public Advocate, further argues that a portion of the company's existing "new" deferred or unrecovered energy costs[1/] should be amortized over eighteen (18) months. He isolates the recent delay in return to service of the Oyster Creek Nuclear Generating Station, due to the repairs made to the Sparger; (equipment within the emergency core cooling system). This has come to be known as the Sparger Outage.

The deferred costs associated with this four month delay in restart is estimated by the Public Advocate to be approximately $61 million. Of this amount one-third, or $20.4 million is included in the six-month analysis. The balance of the $94.6 million or $33.6 is proposed to be written-off over a twelve (12) month period and, therefore, they include one half or $16.8 million in their analysis. The total deferred energy costs that the Public Advocate suggests be included in the six-month LEAC is approximately $37.2 million.

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1/ $94.6 million per JC-D.2

STAFF PROPOSAL

In order to fully understand the reasoning and judgments supporting the staff's recommendation it is important to look back for a moment on how the petitioner's LEAC has been operating, even before the TMI incident and the unique and unprecedented regulatory considerations and procedures this Board has faced in the many and varied proceedings involving the company.

The company's LEAC, from its inception has been a clause predicated on 12 months of future estimate of all fuel and energy related costs, including revenue taxes and line losses, together with estimates of projected sales levels for that period. Through a review of this data a fuel cost factor was permitted to be applied to a customer's energy usage. The clause was then reviewed at the end of the first 6 month period and if any adjustments were found to be justified a new factor would be put into effect. This mechanism has been in place and utilized even prior to the TMI incident. It is important to note that first a review occurred and if a new factor was necessary it was permitted at that time.

Furthermore to say that the regulatory environment and activity surrounding this company, the Board, its staff, the Public Advocate, the Department of Energy and other intervenors has been unprecedented and unique, would be a gross understatement. The Board's institution of a Strategic Option Study dealing with such complex subjects as bankruptcy, state power authority, assignment of the company's franchise, to mention a few areas now under study by an independent consultant, support this contention. We need not stop there. The variety of unusual petition requests dealing with the Revolving Credit Agreement, pledge of uranium, sale of uranium, pledge of accounts receivable, sale of interest in Seward generating station have

dictated that we look beyond traditional regulatory approaches if the myraid of problems flowing from the incidents are going to be equitably and expeditiously resolved. It is with this back drop that staff embarred on a determination of the instant LEAC in a fare and equitable manner.

In addition to all of the foregoing another area that concerns staff is the Advocates and the Company's analysis and support of the cost estimates used on structuring their respective positions. While the dollars in dispute range from a roll-back of some $4.8 million (Advocate) to a need for $71.8 million (company) the major differences is not the usual fuel costs increases either projected or anticipated from foreign suppliers but rather reduced line losses, sales forecasts, Oyster Creek outtage and PJM running rate to mention a few. As a matter of fact the major dollar area is the estimate related to the "lessons learned" modification of Oyster Creek and how long and when will it be out.

The record shows that the impact of the above may not be felt until the spring-summer of 1981. We are aware that any change from the company's projections or the Public Advocate's position relative to anyone or combination of the above, or other assumptions inherent in the LEAC, could have a negative or positive impact on the company's deferred energy balance. As long as these costs are found to be reasonable and necessary the ratepayers will ultimately pay any additional costs or receive the benefits of the lower forecasted costs should the Public Advocate's assumptions bear out.

It is staff's opinion that given the tremendous uncertainty which exists regarding the level of costs for what appears to be the next six months, especially the question of timing of many of the proposed cost factors,

that the present LEAC (21.928 mills/KWH), proposed to be changed effective September 1, 1980, be continued for a period of at least six (6) months; and that the record in this instant matter remain open. During this period the company and the other active parties to the proceeding could actively monitor the company's actual energy costs as well as all other related areas. During this time frame the critical issue involving Oyster Creek's "lessons learned-from-TMI outage" will become known. In the event that there is an adverse impact in the company's economic viability during this time frame from either the Oyster Creek situation or some unknown occurance the Board could hold expedited hearings to review the matter and deal with it accordingly.

Our recommendation was not reached without much deliberation and concern. We continue to support the Board in its efforts to maintain the short run economic viability of this company so that the customers of JCP&L will continue to receive safe, adequate and proper service during this hectic time. We recognize and appreciate the horrendous financial burden being borne by the ratepayer as a result of the tremendous cost of replacement power they are being asked to bear. Staff through all of its recommendations has attempted to balance the "scales of equity" among the company, the shareholder and the ratepayer. We have recommended increases where we were satisfied that the best interests of all would be served by our recommendation. The easy way out would have been to recommend no increase. This could have been irresponsible and in the long run prove in our opinion more costly from both the rates for service aspect but more importantly the use of interruption or degradation of existing service levels.

We are satisfied that the projected level of costs for at least the next six months period may afford a continuance of the existing factor without any financial or economic impairment. In the event there are unforeseen cost increases there is a regulatory vehicle in place to expeditiously deal with that eventuality. To grant rate relief based on the record, this time in our opinion is not justified. We are concerned however, with the level of deferred energy and will discuss this later in this position.

Not withstanding the foregoing, we have reviewed the testimony and exhibits of the various witnesses and concur with the adjustments to the company's projected energy costs proposed by the Public Advocate. We feel some discussion is necessary on the following: the proposed Oyster Creek outage; treatment of the deferred energy costs; and the Public Advocate's proposal for a six month clause based upon six months of energy costs.

## OYSTER CREEK OUTAGE

The company's energy cost projections as originally filed for the twelve (12) month period ending August 31, 1981, give effect to an outage of the Oyster Creek Nuclear Generating Station, to take place sometime in October, 1980. As stated earlier, its purpose is to complete certain modifications known as Category "B" items, ordered by the Nuclear Regulatory Commission (NRC) to be in place by January 1, 1981. These repairs or modifications are the result of the "lessons learned" from TMI accident. The record shows that the replacement energy costs could be anywhere from $14 million to $25 million. Staff points out that the Public Advocate's estimate of the cost of replacement energy would be $21.9 million. Staff concurs with the level of costs determined by the Public Advocate.

However, the issue is when will the outage occur. The optimistic view, and one that the Public Advocate subscribes to, is that the NRC will allow an extension of time to comply with the Category "B" modifications. Company Exhibit JC-I indicates that JCP&L will be submitting to the NRC, sometime in September, 1980, a request for delay of fuel implementation of the Category "B" items until the first half of 1981. There appears to be a problem in obtaining certain equipment and material. At the last hearing on September 3, 1980, the company indicated that a draft of the letter to the NRC would be made available to all parties on September 5, 1980, which letter will request that the plant shut down no earlier than April, 1980, to complete the necessary repairs. The Company agrees with the parties, that a delay and, therefore, completion of all repairs during one outage in the spring of 1981 is the appropriate course of action, most beneficial to the company and its ratepayers. We are aware of the severe financial burden that the

company would face should the Board adopt the six month clause proposed by the Public Advocate and the NRC rejects the company's request. However, at the expiration of the six (6) month extension of the existing clause, as proposed by the staff, the company should have the benefit of the status of the Oyster Creek matter. In the interim as long as the station is on line there would be no need for any additional replacement energy and, therefore, the company would not incur the additional power costs. The ratepayers on the other hand would not be incurring the increased charges due to the anticipated outage that may not materialize. On the other hand, if the outage occurs the parties can deal with it on our proposed expedited manner.

Deferred Energy Costs

The position of the company and Public Advocate has been set forth hereinbefore.

Since the accident at TMI, JCP&L has built up a balance of deferred energy charges. At September 1, 1980, this balance is approximately $94.6 million. It has been and will continue to be the staff's position that all reasonable energy costs, whether termed replacement energy costs or otherwise should be borne by the ratepayers. This has also been the concern of the consortium of banks that have entered into the Revolving Credit Agreement (RCA) with JCP&L and its parent and sister operating companies. While we recognize that the company's forecasts relative to its energy costs and sales are high during the next twelve (12) month period ending August 31, 1981, the company is by no means out of the woods financially. This tenuous position is very much prevalent today, as noted by the fact that the Board recently approved an increase in the borrowing limit under the RCA ($139 million to $160 million) until October 1, 1980.

In view of the foregoing, staff recommends that the amortization of the "new" deferred or unrecovered energy costs over a twelve (12) month period. This will better match the company's costs with sales, and therefore, revenues, whether it be a six (6) or twelve (12) month clause. Should the Board adopt the staff's initial recommendation there would be no impact relative to this adjustment. In the alternative, the above position would result in an increase in the LEAC of $7 million over the following six months.

LEAC

There has been much discussion as to the Public Advocate's proposal to modify JCP&L's existing clause. The company's present LEAC (RIDER EAC - Energy Adjustment Charge, Original Sheet No. 23) provides among other things that... "The estimated twelve-month average cost shall be redetermined every six months (or more frequently, if required...)". The company argues that the Board should not now modify its long standing position relative to this issue. The Public Advocate proposes to limit the review of this succeeding clause to a six month analysis of the company's projected energy costs. As stated hereinbefore, the uncertainty as to future events in the March-August, 1981 period is the underlying motive for their proposal. The Public Advocate also suggests that the customers have borne a "... heavy burden..." since the accident, and that they should not be asked to absorb increases around which there is some uncertainty.

Staff feels that it has adequately set forth its position relative to the company's energy cost projections and the Public Advocate's adjustments thereto, at the beginning of our proposal. However, should the Board disagree with the six month "freeze" we urge that they adopt the Public Advocate's proposal for the six month analysis. We should point out that the company's existing clause does provide for a six month review, but based upon twelve (12) months of projected costs.

## Recommendation

After careful analysis of the record and exhibits in this proceeding, the staff would recommend the following:

1. That the Board for the reasons expressed maintain the existing level of the clause for the six month period; and order the record to stay open and require the parties to monitor the results of the clause. This can be done by the company submitting monthly reports to the parties for review. In the event remedial action is necessary the record can be reopened and corrective action recommended to the Board.
2. In the event the Board finds that the staff's recommended action is not warranted, staff would further recommend adoption of the Advocate's adjustments with the exception of the deferred energy costs treatment. We would recommend a 12-month amortization which would result in a $7 million increase and an increase in the factor of 1.131 mills/KWH (Schedule A).

JERSEY CENTRAL POWER & LIGHT COMPANY
LEAD - DOCKET NO. 807-488
STAFF CALCULATION ($ MILLIONS)

| | |
|---|---|
| Projected Energy Costs as Adjusted for Six Months Ended February 28, 1981 (JCA - page 3 of 15) | $ 219.0 |
| Less: Adjustments to Budget (RCTA, Exhibit 1) | |
| PCP Recalculation of Sales Change | (1.9) |
| P.E./Salem Pricing Substitution | (6.5) |
| Reduced Sales Forecast | (5.2) |
| Split Savings | (1.0) |
| Line Losses | ( .6) |
| Oyster Creek Operating Rate | (6.6) |
| Oyster Creek Outage | (21.9) |
| Gas Substitution | (3.0) |
| Coal Prices | (.6) |
| Repricing of Interchange Purchases & Related Adjustments | (2.2) |
| | ($ 49.5) |
| Projected Energy Costs as Adjusted | $ 169.5 |
| Projected Total Sales as Budgeted (JCA, page 3 of 15) | 6668 |
| (Less) Sales Adjustment (1) JCA | (225) |
| (2) RCTA | (96) |
| Projected Total Sales as Adjusted | 6347 Gwh |
| Energy Cost per Kwh of Sales | 26.70 |
| (Less) Energy Cost per Kwh in Base Rates | (14.00) |
| Energy Costs Above Level in Base Rates | 12.70 Mills/Kwh |
| Retail Energy Costs Unrecovered as of 9/1/80 | $ 47.3 |
| Projected Retail Sales as Adjusted | 6198 Gwh |
| Unrecovered Retail Energy Costs per Kwh | 7.63 Mills/Kwh |
| (Less) Refund (PA. Gross Receipts Tax) | (.015) |
| LEAC Before Revenue Taxes | 20.315 Mills |
| Revenue Taxes | 2.744 |
| LEAC Including Revenue Taxes | 23.059 Mills |
| (Less) Total LEAC Presently in Effect | (21.928) |
| Proposed Increase in LEAC | 1.131 Mills/Kwh |
| Dollar Equivalent | $ 7 Million |