BEFORE THE STATE OF NEW JERSEY

BOARD OF PUBLIC UTILITIES

I/M/O THE IMPLEMENTATION OF	]	
L. 2018, c.16 REGARDING THE	]	
ESTABLISHMENT OF A ZERO EMISSION	]	BPU DKT. NO. EO18080899
CERTIFICATE PROGRAM FOR	]	
ELIGIBLE NUCLEAR POWER PLANTS	]	

CERTIFICATION OF ANDREA C. CRANE
ON BEHALF OF THE
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PUBLIC VERSION

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1. Introduction

My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard, #401, Fort Lauderdale, Florida 33306. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I have been President of the firm since 2008.

Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

I have testified in over 400 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony since January 2008 is included in Appendix A.

I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

2. Background

On December 19, 2018, PSEG Nuclear LLC ("PSEG") and Exelon Generating Company, LLC ("Exelon", collectively "Companies") filed applications with the New Jersey Board of Public Utilities ("BPU" or "Board") requesting that the BPU authorize the disbursement of subsidies pursuant to the Zero Emission Certificate ("ZEC") Program authorized in legislation that was signed into law on May 23, 2018. That legislation allows for New Jersey ratepayers to subsidize non-regulated nuclear operating units that are shown to have a beneficial impact on air quality in the state. P.L. 2018, c.16, N.J.S.A. 48:3-87.3 et seq. In order to receive a subsidy, the nuclear operator must demonstrate not only that a unit has a beneficial impact on air quality, but must also demonstrate and certify that the unit will be shut-down for economic reasons within the next three years in the absence of a financial subsidy.

Subsidies from New Jersey ratepayers are capped at 0.4 cents per kwh, according to N.J.S.A. 48:3-87.5 (j). In addition, the total nuclear generation eligible for the subsidy is capped at 40% of the state's retail electric sales for the energy year preceding the enactment of the statute, that is, Energy Year 2017. N.J.S.A. 48:3-87.5(g).

PSEG and Exelon are owners of the Salem 1 and Salem 2 nuclear generation units, which are located in Lower Alloways Creek Township, New Jersey. PSEG owns 57.41% of each unit and is the operator of the units. Exelon owns the remaining 42.59% of Salem 1 and Salem 2. In addition, PSEG is the sole owner and operator of the Hope Creek nuclear generation unit, which is located at the same site. In their filings, PSEG and Exelon are requesting subsidies in order to continue to operate Salem 1 and Salem 2 for the next three years. In addition, PSEG is requesting a subsidy in order to continue operation of the Hope Creek nuclear generating facility.

The Columbia Group was engaged by the New Jersey Division of Rate Counsel ("Rate Counsel") in order to review the Companies' filings and to provide recommendations regarding various financial aspects of those filings. Specifically, I address whether the Companies have demonstrated that nuclear operations at each applicable unit will end within the next three years in the absence of a subsidy. I also address the amount of the subsidies being requested in this case and opine on the methodologies used by the Companies to support the requested subsidy.

3. Executive Summary

The Companies have not demonstrated that Salem 1, Salem 2, or Hope Creek will be shut down over the next three years if subsidies are not awarded by the BPU. The financial analyses provided by the Companies include significant costs associated with operational and market risks that are speculative and inappropriate to charge to regulated ratepayers in New Jersey. In addition, the methodologies proposed by the Companies would allow PSEG and Exelon to recover the full cost of capital expenditures within one year, in violation of sound accounting practices. The Companies' analyses also contain cost estimates that are overstated and also ignore certain financial benefits associated with the nuclear units. In summary, the financial analyses do not support the claim that subsidies are required in order to keep the nuclear units operating over the next three years.

4. Basis of Review

As noted in its transmittal letters in this case, "…PSEG has been vested with the sole and exclusive authority to make retirement decisions for the plants, covering Exelon Generation's 42.59% minority ownership share as well as PSEG's 57.41% majority ownership share. The

Salem plant submittals address all elements of the application for 100% of the ownership interest and are submitted on behalf of both owners. When possible, PSEG has provided financial data for 100% of the plant. However, in some cases, confidential financial data from Exelon Generation, that could not be shared with PSEG, was needed. With respect to such confidential information, Exelon Generation has made separate submittals as additional supporting materials to the Salem 1 [and Salem 2] application."[1]

Since PSEG is the operator of Salem 1 and Salem 2, and has "sole and exclusive authority" to make retirement decisions, our review focused primarily on an analysis of the financial data by PSEG for each nuclear unit. However, we also reviewed the applications submitted by Exelon. Section 7 of these comments contains a brief discussion of the data submitted by Exelon.

5. Methodology

The Board has traditionally utilized a rate base / rate of return methodology for evaluating the financial results of regulated utilities. Under that methodology, the BPU sets utility rates that are designed to provide the regulated utility with a reasonable opportunity to recover its costs, including its cost of capital. Utility rates are designed to recover operating and maintenance costs, depreciation and amortization, and taxes. In addition, utility rates include a return on the investment that is used in the provision of utility service. That return includes two components – a return on debt, which reflects the utility's interest expense, and a return on equity, which reflects the profits to shareholders. While determining the return on debt is largely

[1] PSEG Transmittal Letters, Salem 1 and Salem 2, footnote 3.

objective and non-controversial, determining an appropriate return on equity is more subjective and is usually one of the most contentious issues in any base rate case proceeding.

PSEG and Exelon did not utilize a traditional rate base / rate of return analysis in developing their requested subsidies. While the Companies did estimate the 2016 and 2017 financial results for each unit on a rate base / rate of return methodology, they supported their proposed subsidies based on a cash-flow analysis. Essentially, the Companies compared their projected revenues from nuclear operations (including energy revenues, capacity revenues, and other ancillary revenues) with their projected costs – including both capital and operating costs. Thus, the Companies' costs include not only operating and maintenance costs, but also fuel and non-fuel capital expenditures and the "cost of risks." The costs of risks included by PSEG and Exelon include two components – operating risk and market risk. As we will demonstrate below, the Companies' analyses provide a skewed picture of the Companies' projected financial condition and is not appropriate for purposes of authorizing a subsidy in this case.

Although the Board should make various adjustments to the Companies' analyses when evaluating whether a subsidy is required, the Board should not attempt to utilize a traditional rate base / rate of return approach for the Companies. Salem 1, Salem 2, and Hope Creek are deregulated assets. As discussed in Rate Counsel's comments, these generating facilities were deregulated in New Jersey pursuant to the Electric Discount and Energy Competition Act ("EDECA") and the owners of these nuclear facilities were compensated for stranded costs at that time. It would therefore be inappropriate for the Board to apply a regulated ratemaking methodology to determine if further financial subsidies are needed to maintain nuclear operations during the next three years.

6. Requested Subsidy

In response to [Unit]-ZECJ-FIN-0002[2], the Company provided its projected cash flow shortfalls for the next three energy years. PSEG is projecting shortfalls for Salem 1, Salem 2, and Hope Creek that amount to **[BEGIN PSEG CONFIDENTIAL]** [redacted]

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These amounts are based on 100% of the financial results for Salem 1 and Salem 2. The operating and maintenance costs reflected in PSEG's analysis includes labor, material, outside services, real estate taxes, support services and fully allocated overheads, spent fuel costs, cost of working capital, and other operating and maintenance costs. In addition, PSEG's analysis includes capital expenditures, including both fuel and non-fuel capital costs. Fuel-related capital expenditures are the capital expenditures associated with refueling outages, while non-fuel capital expenditures represent "spending on long-lived plant equipment required to maintain safe and reliable operations." Finally, the Company has also included the cost of operational risk and the cost of market risk as two components of its subsidy request.

[2] PSEG provided similar information in all three of its applications for the three nuclear units at issue here. Salem 1 data was designated as "S1", Salem 2 data was designated at "S2", and Hope Creek data was designated as "HC". In referring to data requests relating to the three units, I have used the designation "Unit" to indicate that there are three similar responses that apply for the three nuclear units.

Based on projected generation from the three nuclear units, the requested subsidies would cost ratepayers $805.4 million over the next three energy years, as shown in the response to [Unit]-SSA-0006:

Projected ZEC Payments ($ Millions)

Unit	June 2019 - May 2020	June 2020 – May 2021	June 2021 – May 2022	Three Year Total
Salem 1	$91.7	$94.1	$103.6	$289.4
Salem 2	$93.9	$81.5	$88.0	$263.4
Hope Creek	$79.7	$93.5	$79.4	$252.8
Total	$265.3	$269.1	$271.0	$805.4

In addition, ZEC payments to the three nuclear units could be even higher if actual nuclear generation is higher than projected. As discussed below, PSEG has included inappropriate costs in its subsidy claim, has overstated certain costs, and has ignored important financial benefits associated with the units. Accordingly, the Companies' have not demonstrated that the nuclear units will shut down over the next three years if ZEC payments are not authorized by the BPU.

A. Inclusion of Operational and Market Risks

The Statute that authorized the ZEC Program required applicants to provide costs, including "the cost of operational risks and market risks that would be avoided by ceasing operations…." N.J.S.A. 48:3-87.5(a). Operational risks included "the risk that operating costs will be higher than anticipated because of new regulatory mandates or equipment failures and the risk that per megawatt-hour costs will be higher than anticipated because of lower than expected capacity factors…" Id. As stated in the Statute, market risks included "the risk of a forced outage and the associated costs arising from contractual obligations, and the risk that output from the nuclear power plant may not be able to be sold at projected levels." Id.

The Companies have included significant costs relating to Operational Risk and Market Risk in their claims for subsidies. PSEG states in its response to [Unit]-IUD-0001 that Market Risk is the risk associated with **[BEGIN PSEG CONFIDENTIAL]** [redacted]

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[redacted] **[END PSEG CONFIDENTIAL]** Thus, a significant portion of the Company's overall claim for subsides relates not to objective and verifiable cost estimates, but to speculative risks. While the Legislature provided that these risks should be considered when evaluating whether or not a subsidy was required, they did not ensure recovery of these speculative costs from ratepayers.

The Operational and Market Risks included in the Companies' analysis do not reflect an actual cost to the nuclear operators. Instead, these components are cost "cushions" designed to protect nuclear operators from potential additional costs (or lower revenues) if the Companies' forecasts turn out to be incorrect. Ratepayers should be not be put in the position of having to guarantee owners of these deregulated facilities against either market uncertainty or operational risks, especially when the nuclear operators themselves control much of the risk relating to operations.

With regard to Operational Risks, **[BEGIN PSEG CONFIDENTIAL]** [redacted] **[END PSEG CONFIDENTIAL]** to evaluate Operational Risk. It is significant that PSEG only assumes that this Operational Risk will <u>add</u> costs to it nuclear operations. But it is just as likely that the Company's cost estimates will be overstated rather than understated. Presumably, its cost estimates provide the best indicator of expected future costs for nuclear operations, and many of these costs are directly under the Company's control. Therefore, while it is possible that costs could be higher than forecast, it is also possible that costs could be lower than forecast. PSEG did not provide any recognition in its applications that costs could actually be less than forecast, i.e., it made no adjustment for the possibility that its forecasts may be overstated. Accordingly, the Operational Risk adjustment is one-sided and places an unreasonable burden on New Jersey ratepayers. The purpose of providing cost estimates is so the BPU can make its decision regarding subsidies based on the most realistic available data with regard to future operational factors and costs. The subsidies provided for in the ZEC Legislation were not intended to be a guarantee for the owners of these unregulated merchant plants that their costs would be reimbursed by ratepayers in all cases. Therefore, the BPU should not inflate any subsidy requirements in order to ensure guaranteed recovery for these unregulated facilities.

Similarly, with regard to Market Risks, ratepayers should not be the guarantors of last resort for all possible contingent risks related to operating revenues. The fact is that the nuclear units at issue have been deregulated for approximately 20 years. At the time of deregulation, ratepayers paid hundreds of millions of dollars in stranded costs to the owners of the nuclear facilities, based on perceived risks and expectations that market prices would not be high enough to allow owners to recover all of their investment. However, as shown in Rate Counsel's comments, since deregulation the nuclear operators have generally done very well, with actual costs falling far below market prices, resulting in significant profits from these nuclear units.

Moreover, the original operating licenses for the three units at issue were all due to expire after 40 years of operation. Under the original operating licenses, Salem 1 would have been shut down by now, and Salem 2 and Hope Creek would be retired in 2021 and 2026 respectively. In 2009, PSEG requested authorization to extend the operating licenses of these units. Although the units were originally regulated, by the time that PSEG requested an extension of their operating licenses the units were deregulated and presumably PSEG made a calculated business decision to request an extension in the operating licenses. At that time, the Companies presumably were more than satisfied with the level of earnings being generated by these nuclear units. Now that market conditions have changed and energy revenues have declined, it is unreasonable to require ratepayers to provide millions of dollars of subsidies without consideration of the substantial benefits that the nuclear operators have enjoyed in the past.

If the BPU permits the nuclear operators to charge ratepayers for subsidies that include Operational and Market Risks, then it should also reduce those subsidies to take into account prior benefits enjoyed by shareholders. This includes not only the higher profits enjoyed in prior years, but also other financial benefits, such as the retention of excess deferred income taxes and other tax benefits, as addressed later in my comments.

B. Inclusion of Capital Expenditures

The Legislation authorizing the ZEC Program does not provide specifics about how the BPU should evaluate the subsidy requests that are submitted by owners of nuclear generating facilities and the Legislation does not identify the specific mechanism that the BPU should use to evaluate these claims for subsidies, or the mechanism that should be used by the BPU to rank claims made by various nuclear operators. As noted earlier, in this case, the Companies presented their requests for subsidies on a cash flow basis. Neither PSEG nor Exelon provided an analysis to demonstrate what the impact would be on the Companies' earnings if their respective subsidy requests were approved.

The BPU must first consider whether a cash flow approach is appropriate, and if so, whether the specific cash flow methodology used by PSEG and Exelon is reasonable. As discussed above, under this mechanism certain potential "risks" are treated as reimbursable costs. These include speculative components such as Operational Risk and Market Risk. In addition, the cash flow approach utilized by PSEG and Exelon includes recovery, in each year, of all capital expenditures made on behalf of the nuclear units.

Under a traditional ratemaking mechanism, investment is recovered over the useful life of the underlying assets. Prior to full recovery, investors have the opportunity to earn a return on that investment, based on the embedded cost of long-term debt and on the return on equity authorized by the Board. This equity return is intended to compensate equity investors, based on comparable returns available to other investments of comparable risk.

The cash-flow approach presented by PSEG and Exelon in this case provides for immediate recovery of all capital investment – and the proposed capital costs are significant. What this means is that each year, PSEG and Exelon would be relieved from risk associated with incremental plant investment. This treatment is contrary to both common practice and basic accounting principles. In a deregulated environment, businesses are not assured of capital recovery within one year. In fact, just the opposite is true. It is usual and customary for deregulated businesses to make investments with the expectations that such investment will be recovered over a multi-year period – if at all.

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There are several concerns about including 100% of each year's capital expenditures in the subsidies to be provided by ratepayers. First, permitting the Companies to recover 100% of these costs in the year incurred violates a basic accounting principle that costs which provide a benefit over multiple years should be recovered over a multi-year period. Allowing for immediate recovery is contrary to this principle. Deregulated businesses do not have the expectation of immediate recovery of capital investment. This is especially true in the case of major investment that is designed to provide service for many years. The accounting community recognizes this fact and has developed accounting rules that are intended to provide investors with a realistic view of the financial impact of such investment over a long period of time.

Second, allowing for immediate recovery eliminates much of the Companies' risk that capital costs associated with these units will not be recovered. If the Legislature's intent was to eliminate all risk for nuclear operators, then it should require reregulation of those nuclear units that it determines must continue to run to serve the public interest. Under the Companies' proposal, however, ratepayers get the worst of both worlds, reimbursing supposedly-unregulated entities for 100% of capital expenditures while not enjoying surpluses that may result should costs be lower, or revenues higher, than anticipated.

Third, recovering these costs over one year through subsidies paid by regulated ratepayers results in intergenerational inequity, in that it requires current ratepayers to pay for costs that are expected to provide benefits for many years into the future. In fact, under the Companies' proposal, ratepayers could finance all capital expenditures over the next three years and the Companies could later sell these nuclear units earning significant profits that would be then be retained by shareholders.

In addition, while the limited time that the parties have had to review the applications does not permit Rate Counsel to undertake a detailed review of all capital projects for which costs were included in the subsidy calculation, it should be noted that many of the capital projects are ill-defined and may not be needed at all. A review of the capital budgets provided in the responses to [Unit]-SSA-18 indicates that many of the costs included by the Company are identified as **[BEGIN PSEG CONFIDENTIAL]** [redacted]

[redacted] **[END PSEG CONFIDENTIAL]**

The Company's capital budgets included in the subsidy requests also call into question the time frame over which an analysis of capital projects should be undertaken. The three-year review period specified by the Legislation for determining whether a subsidy is required is inconsistent with capital budgets that are designed to ensure continued operation over the remaining life of the operating permit for each nuclear facility. Even if the BPU decided to award ZECs to the Companies in this case, it is unlikely that ZECs would continue to subsidize these nuclear units over the next two decades. Therefore, one should ask if it is reasonable for the BPU to consider in the subsidy calculation capital projects included in the nuclear operator's "business as usual" capital budgets, or whether the BPU should consider only those capital expenditures required to keep a unit operating for the next three years. Given the fact that these capital projects have not been shown to be necessary if one assumes that the plants will shut down at the end of the three-year ZEC cycle, and given the large amount of unallocated project funds included in the capital expenditure claims, the BPU should reject the Companies' request to recover these costs in subsidies from regulated ratepayers.

C. Inclusion of Spent Fuel Costs

In its cost estimates, PSEG included claims relating to Spent Fuel costs. As discussed in the response to [Unit]-GAIO-0013, PSEG included millions of dollars for Spent Fuel costs that are not actually being incurred by the nuclear operators. The Department of Energy ("DOE") had previously collected a charge from nuclear operators for disposal of nuclear fuel. The most recent charge was $0.955 per Mwh. However, the nuclear operators filed suit claiming that this charge should be terminated since DOE had not yet developed a plan to address the disposal of spent fuel. Accordingly, this Spent Fuel charge was suspended by Court Order in May 2014. Since that time, nuclear operators have not paid the Spent Fuel charge and nuclear operators are not accruing Spent Fuel costs on its books and records of account. Nevertheless, the Companies included Spent Fuel charges in the operating costs calculated for each nuclear unit. The Spent Fuel charges included in PSEG's cost projections range from **[BEGIN PSEG CONFIDENTIAL]** [redacted] **[END PSEG CONFIDENTIAL]** over the three energy years that are the subject of the ZEC applications. Since PSEG is not liable for these costs and these costs are not being accrued by the nuclear operators, any allowance given to PSEG or Exelon related to Spent Fuel will simply accrue to the benefit of shareholders. Therefore, the BPU should reject the Companies' claims to consider Spent Fuel costs in its subsidy review.

D. Inclusion of Support Services and Overhead Costs

PSEG has included significant claims for support services and overhead costs in its requests for subsidies. Support services and overheads account for approximately **[BEGIN PSEG CONFIDENTIAL]** [redacted]

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Given the nature of the service company and the overhead allocation process used by PSEG, I believe that PSEG's estimate of the variable portion of support service and overhead costs is inflated. By its nature, most of the costs incurred by the service company are fixed. In fact, the very nature of the service company is that it provides common support services to multiple corporate entities that can take advantage of economies of scale and share costs. It is unlikely that the majority of these costs will go away if the nuclear units are shut down. As stated in the response to [Unit]-ZECJ-FIN-0006, Support Services and Fully Allocated Overhead costs include "support services such as, accounting, legal, communications, procurement, human resources, information technology, treasury and financial, investor relations, stockholder services, real estate, insurance, risk management, tax, security and claims, corporate secretarial and certain planning, budgeting, forecasting services, and general and administrative expenses and other corporate overhead costs." Many of these costs would be incurred even if the nuclear units shut down. While there may be some savings, it is unlikely that the majority of the costs would be avoided. Since many of these costs would not be avoided if the nuclear units were to shut down, PSEG has overstated the operating and maintenance costs associated with these three nuclear facilities in its analysis. In determining the need for any subsidy, the Board should consider only those costs that are incurred as a result of the operation of the three nuclear generating facilities. Attributing significant common costs incurred by the service company, as well as significant corporate overhead costs, to the nuclear units overstates the impact of continued operation of the units on the overall consolidated financial results of its owners.

E. Exclusion of Hedging Revenues

In addition to overstating the costs associated with nuclear units and including costs that are unreasonable to charge to New Jersey ratepayers through subsidy payments, PSEG also understated the revenues associated with nuclear operations by excluding hedging revenues. In its response to [Unit]-IUD-0001, PSEG acknowledged that **[BEGIN PSEG CONFIDENTIAL]** [redacted] **[END PSEG CONFIDENTIAL]** Exelon echoed some of these concerns, stating that its hedge contracts were not usually tied to a specific generating unit. Accordingly, neither PSEG nor Exelon included any hedging revenues in its analysis.

The Companies' failure to include revenues from hedging activities overstates the subsidies required, for two reasons. First, by not including hedging revenues, the Companies' revenue projections from nuclear operations are understated. Even if hedge contracts are not tied to specific generating units, the operation of the nuclear units provides an energy source that is integral to the hedging positions taken by the two Companies. Second, although revenues from hedging activities are not included in the calculated subsidy, the associated costs of the hedging activities were implicitly included through the variables used in the Market Risk models. As noted in the response to [Unit]-IUD-0001, **[BEGIN PSEG CONFIDENTIAL]** [redacted] **[END PSEG CONFIDENTIAL]**

The Companies' failure to consider hedging revenues in their analyses is another reason to reject the subsidies being requested by PSEG, since the analyses ignore hedging revenues while charging ratepayers for Market Risk that can be mitigated through the use of hedging mechanisms.

F. Additional Tax Benefits

The Tax Cut and Jobs Act of 2017 ("TCJA"), which became effective January 1, 2018, had a major impact on the costs of corporations, both regulated and non-regulated. The most significant feature of the TCJA was the reduction in the corporate federal income tax rate from 35% to 21%. This reduction not only reduced the Companies' corporate income tax expense prospectively, but also resulted in millions of dollars of excess deferred income taxes relating to the nuclear units that are at issue in this case.

In some cases, the tax treatment given to certain costs involving the nuclear units differs from the treatment pursuant to Generally Accepted Accounting Principles ("GAAP"). The difference between the taxes recorded pursuant to GAAP and the IRS tax treatment is booked by companies as accumulated deferred income taxes. In most cases, these differences relate to timing differences between tax and book treatment, and therefore the accumulated deferred income tax balances reverse over time. Accumulated deferred income taxes are calculated based on the current income tax rates. When the federal corporate income tax rate was lowered, the Companies found themselves with millions of dollars of accumulated deferred income taxes that will never “reverse” due to the fact that these taxes were initially recorded at a 35% tax rate tax but future taxes will be paid based on the lower 21% rate.

Excess deferred income taxes are the difference between the accumulated deferred income tax liability booked at the prior federal income tax rate of 35% and the accumulated deferred income tax liability at the new federal income tax rate of 21%. In the case of regulated entities, any excess deferred income tax asset is retuned to regulated ratepayers. However, in the case of unregulated entities, the impact resulting from any change in the tax rates is immediately reflected in the income statement. Therefore, in 2017, after the TCJA was enacted, both PSEG and Exelon recorded credits to net income, essentially providing shareholders with the benefits of the excess deferred income taxes that would have been refunded to ratepayers in a regulated environment.

According to the response to RCR-PS-HC-A-002, PSEG received a benefit of approximately **[BEGIN PSEG CONFIDENTIAL]** [redacted] [redacted] **[END PSEG CONFIDENTIAL]** in 2017 relating to excess deferred income taxes for Salem 1, Salem 2, and Hope Creek. While Exelon did not identify the amount of the credit to income that it took in 2017, it is reasonable to assume that it was proportional to the credits provided to PSEG shareholders for Salem 1 and Salem 2. Thus, both PSEG and Exelon shareholders benefitted in 2017 from the retention of these excess deferred income taxes. It seems disingenuous to now seek subsidies from ratepayers when these benefits, which would have flowed back to ratepayers in a regulated environment, were retained by the Companies.

If the BPU permits PSEG and/or Exelon to receive subsidies pursuant to the ZEC Program, these subsidies should be reduced by the extraordinary benefits provided to PSEG and Exelon as a result of the TCJA.

Moreover, in addition to the benefits retained by the Companies associated with excess deferred income taxes, there are also other tax benefits associated with the nuclear units. The units at issue in this proceeding are held by limited liability companies ("LLCs"), and profits and losses are passed through to the LLC member. Since PSEG and Exelon both file consolidated federal income tax returns, tax losses incurred by the LLC and passed through to the member can be used to offset income earned by other entities in the consolidated income tax group. This arrangement can be especially beneficial if other members of the consolidated income tax group, such as regulated utilities, have significant taxable income. This is especially critical over the next three years, given that PSEG's regulated affiliate just concluded a utility base rate case and is likely to see the full benefit from its new higher base rates over the next 12 months. No consideration of these tax benefits was provided in the subsidy analyses provided by the Companies.

7. Exelon Filing

While PSEG provided the financial data for Salem 1 and Salem 2 on a total plant basis (100%), certain financial projections were also provided by Exelon. While the Exelon data was provided on a calendar year basis instead of an energy year basis, calendar year data had also been provided by PSEG. Therefore, by allocating the calendar year shortfalls projected by PSEG between PSEG and Exelon, it was possible to compare the PSEG calendar year forecasts with the Exelon calendar year forecasts. The following table shows the projected shortfalls as forecast by

PSEG, 42.59% of which was then allocated to Exelon, and the Exelon forecast for each of the jointly-owned units:

Allocation of PSEG Projected Shortfalls vs. Exelon Projected Shortfalls – $Millions

[BEGIN PSEG/EXELON CONFIDENTIAL]

[redacted]

[redacted]

[redacted] **[END PSEG/EXELON CONFIDENTIAL]**

While Exelon's forecasts differ somewhat from PSEG's forecasts, the basic problems identified above with regard to the PSEG filing apply to Exelon as well. Like PSEG, Exelon has included substantial Operational and Market Risks in its forecasts. It has provided cash flow forecasts that reflect recovery of capital expenditures over one year. It has included Spent Fuel costs and significant Support Services and Overhead Costs in its forecasts. It has excluded hedging revenues from its analysis. Therefore, the deficiencies noted above with regard to the PSEG filing are equally applicable to the Exelon projected shortfalls.

8. Conclusions and Recommendations

The financial projections submitted by the Companies do not demonstrate that Salem 1, Salem 2, or Hope Creek require subsidies pursuant to the ZEC Program in order to remain in operation for the next three years. The shortfalls projected by the Companies are based on speculative Operational and Market Risks. In addition, these shortfalls include unrealistic assumptions about the recovery of capital expenditures, include inflated costs for Spent Fuel and Support Services and Overheads, and exclude other sources of revenue such as hedging revenues. The Companies' analyses also ignore other important benefits provided by nuclear operations, such as tax benefits that flow to the consolidated income tax group.

When one eliminates from the Companies' projections a) the speculative Operational and Market Risks, b) the capital expenditures that the Companies are seeking to recover over one year, c) the phantom Spent Fuel costs that are not actually being incurred, and d) the largely fixed service company and overhead costs, the shortfalls projected by the Companies are more than eliminated, as shown below:

[BEGIN PSEG CONFIDENTIAL]

[redacted]

[redacted] **[END PSEG CONFIDENTIAL]** that are speculative or otherwise unreasonable to collect from New Jersey ratepayers. In addition, there are excess deferred tax benefits, other tax benefits, and hedging revenues that have not been considered in the Companies' analyses and which are not included in the Total Adjustments shown above. While the BPU may want to give consideration to some allowance for capital costs and support services in evaluating the financial impacts of the three nuclear units at issue in this case, it is clear that the shortfalls projected by the Companies are overstated. In fact, it is likely that the revenues from Salem 1, Salem 2, and Hope Creek will be sufficient to sustain nuclear operations over the next three years. Accordingly, the BPU should reject the requests made by PSEG and Exelon for ratepayer subsidies through the ZEC Program.

CERTIFICATION

I certify that the foregoing statements made by me are true. I am aware that if any of the foregoing statements made by me are willfully false, I am subject to punishment.

January 30, 2019
Date

Andrea C. Crane

Andrea C. Crane
President, The Columbia Group, Inc.

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Zero Emission Certifications	E	New Jersey	EO18080899	1/19	Zero Emission Certificates Subsidy	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	18-00043-UT	12/18	Removal of Energy Efficiency Disincentives	Office of Attorney General
Kansas Gas Service	G	Kansas	18-KGSG-560-RTS	10/18	Revenue Requirements	Citizens' Utility Ratepayer Board
New Mexico Gas Company	G	New Mexico	18-00038-UT	9/18	Testimony in Support of Stipulation	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	18-KCPE-480-RTS	9/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E/G	New Jersey	ER18010029/ GR18010030	8/18	Revenue Requirements	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	18-WSEE-328-RTS	6/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Southwestern Public Service Company	E	New Mexico	17-00255-UT	4/18	Revenue Requirements	Office of Attorney General
Empire District Electric Company	E	Kansas	18-EPDE-184-PRE	3/18	Approval of Wind Generation Facilities	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	18-KCPE-095-MER	1/18	Proposed Merger	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E	New Jersey	GR17070776	1/18	Gas System Modernization Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	17-00044-UT	10/17	Approval of Wind Generation Facilities	Office of Attorney General
Kansas Gas Service	G	Kansas	17-KGSG-455-ACT	9/17	MGP Remediation Costs	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER17030308	8/17	Base Rate Case	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	16-00276-UT	6/17	Testimony in Support of Stipulation	Office of Attorney General
Westar Energy, Inc.	E	Kansas	17-WSEE-147-RTS	5/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	17-KCPE-201-RTS	4/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	16-KCPE-593-ACQ	12/16	Proposed Merger	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	16-KGSG-491-RTS	9/16	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00312-UT	7/16	Automated Metering Infrastructure	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	16-KCPE-160-MIS	6/16	Clean Charge Network	Citizens' Utility Ratepayer Board
Kentucky American Water Company	W	Kentucky	2016-00418	5/16	Revenue Requirements	Attorney General/LFUCG
Black Hills/Kansas Gas Utility Company	G	Kansas	16-BHCG-171-TAR	3/16	Long-Term Hedge Contract	Citizens' Utility Ratepayer Board
General Investigation Regarding Accelerated Pipeline Replacement	G	Kansas	15-GIMG-343-GIG	1/16	Cost Recovery Issues	Citizens' Utility Ratepayer Board

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Public Service Company of New Mexico	E	New Mexico	15-00261-UT	1/16	Revenue Requirements	Office of Attorney General
Atmos Energy Company	G	Kansas	16-ATMG-079-RTS	12/15	Revenue Requirements	Citizens' Utility Ratepayer Board
El Paso Electric Company	E	New Mexico	15-00109-UT	12/15	Sale of Generating Facility	Office of Attorney General
El Paso Electric Company	E	New Mexico	15-00127-UT	9/15	Revenue Requirements	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER14030250	9/15	Storm Hardening Surcharge	Division of Rate Counsel
El Paso Electric Company	E	New Mexico	15-00099-UT	8/15	Certificate of Public Convenience - Ft. Bliss	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	15-00083-UT	7/15	Approval of Purchased Power Agreements	Office of Attorney General
Westar Energy, Inc.	E	Kansas	15-WSEE-115-RTS	7/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	15-KCPE-116-RTS	5/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR14101099-1120	4/15	Cable Rates (Form 1240)	Division of Rate Counsel
Liberty Utilities (Pine Buff Water)	W	Arkansas	14-020-U	1/15	Revenue Requirements	Office of Attorney General
Public Service Electric and Gas Co.	E/G	New Jersey	EO14080897	11/14	Energy Efficiency Program Extension II	Division of Rate Counsel
Exelon and Pepco Holdings, Inc.	E	New Jersey	EM14060581	11/14	Synergy Savings, Customer Investment Fund, CTA	Division of Rate Counsel
Black Hills/Kansas Gas Utility Company	G	Kansas	14-BHCG-502-RTS	9/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	14-00158-UT	9/14	Renewable Energy Rider	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	13-00390-UT	8/14	Abandonment of San Juan Units 2 and 3	Office of Attorney General
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General
Oneok, Inc. and Kansas Gas Service	G	Kansas	14-KGSG-100-MIS	12/13	Plan of Reorganization	Citizens' Utility Ratepayer Board
Public Service Electric & Gas Company	E/G	New Jersey	EO13020155 GO13020156	10/13	Energy Strong Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	12-00350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4 All - Extension Program	Division of Rate Counsel
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium, Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board