

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW**

**I/M/O THE VERIFIED PETITION OF JERSEY)
CENTRAL POWER & LIGHT COMPANY FOR)
REVIEW AND APPROVAL OF INCREASES IN)
AND OTHER ADJUSTMENTS TO ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE, AND) **BPU DOCKET NO. ER12111052**
FOR APPROVAL OF OTHER PROPOSED TARIFF) **OAL DKT NO. PUC16310-2012N**
REVISIONS IN CONNECTION THEREWITH;)
AND FOR APPROVAL OF AN ACCELERATED)
RELIABILITY ENHANCEMENT PROGRAM)
("2012 BASE RATE FILING"))**

**SUPPLEMENTAL DIRECT TESTIMONY OF ROBERT J. HENKES
ON BEHALF OF THE
STATE OF NEW JERSEY DIVISION OF RATE COUNSEL**

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Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Robert J. Henkes, 7 Sunset Road, Old Greenwich, Connecticut 06870.

Q. ARE YOU THE SAME ROBERT J. HENKES WHO SUBMITTED DIRECT TESTIMONY ON JUNE 14, 2013 IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of this supplemental direct testimony is to update my originally filed direct testimony dated June 14, 2013 to reflect:

- 1) Material included in the Company’s June 14, 2013 Update Filing;
- 2) JCP&L’s proposal to reduce its return on equity to 11.00% as per the rebuttal testimony of Ms. Pauline Ahern;
- 3) Revisions and additions to my originally filed direct testimony to reflect my acceptance of certain matters included in the Company’s June 14, 2013 Update Filing and a correction to my originally recommended plant in service adjustment based on my response to JCP&L’s data requests JC-RC-147 through 149; and
- 4) Rate Counsel’s recommended pro forma annualized depreciation expenses for JCP&L in this case based on the depreciation rates recommended by Rate Counsel witness, Michael Majoros, in his direct testimony filed on August 7, 2013.

1 **Q. HAVE YOU ATTACHED UPDATED TESTIMONY SCHEDULES TO REFLECT**
2 **THE IMPACT OF THESE TESTIMONY UPDATES AND REVISIONS ON YOUR**
3 **ORIGINALLY FILED DIRECT TESTIMONY SCHEDULES?**

4 A. Yes. These updated Supplemental Direct Testimony schedules are attached as Schedules
5 RJH-1R through RJH-17R. The numbers under the “Updated JCP&L” columns shown in
6 these schedules represent the Company’s revenue requirement positions from its June 14,
7 2013 Update Filing, adjusted for the reduced ROE number of 11.00% per the rebuttal
8 testimony of Ms. Pauline Ahern. The numbers under the “RC” columns shown in these
9 schedules represent Rate Counsel’s updated and revised revenue requirement positions.

10
11 **Q. HOW HAS YOUR SUPPLEMENTAL DIRECT TESTIMONY CHANGED RATE**
12 **COUNSEL’S ORIGINALLY RECOMMENDED BASE RATE DECREASE OF**
13 **APPROXIMATELY \$202.8 MILLION SUMMARIZED ON SCHEDULE RJH-1 OF**
14 **YOUR JUNE 14, 2013 DIRECT TESTIMONY?**

15 A. As shown on Supplemental Direct Testimony Schedule RJH-1R, my updated and revised
16 testimony has changed Rate Counsel’s originally recommended base rate decrease for JCP&L
17 of \$202.8 million to an updated and revised base rate decrease amount of \$214.9 million.

18
19 **Q. PLEASE DESCRIBE THE CHANGES INCLUDED IN JCP&L’S JUNE 14, 2013**
20 **UPDATE FILING AS COMPARED TO THE REVENUE REQUIREMENT**
21 **POSITIONS PROPOSED BY THE COMPANY IN ITS ORIGINAL DIRECT**
22 **TESTIMONY FILED ON NOVEMBER 28, 2012.**

23 A. The Company’s proposed revenue requirement changes included in its June 14, 2013 Update

1 Filing consist of the following items:

- 2 1) A reduction in JCP&L’s proposed Materials and Supplies (“M&S”) balance in rate
3 base from approximately \$20.5 million to approximately \$16.7 million (see Schedules
4 RJH-3R, line 11 and RJH-6R), reflecting the Company’s agreement with one of the
5 two adjustments I presented in my Direct Testimony to correct JCP&L’s proposed
6 M&S balance.
- 7 2) A reduction in JCP&L’s proposed cash working capital (“CWC”) balance from
8 approximately \$146.3 million to approximately \$138.1 million (see Schedule RJH-3R,
9 line 12), reflecting the Company’s agreement that its calculated CWC balance should
10 be corrected to remove the CWC portion associated with its transmission operations.
- 11 3) JCP&L’s agreement with my recommendation that certain test year net-of-tax
12 Operating Reserves amounting to approximately \$4.2 million should be treated as a
13 rate base deduction (see Schedule RJH-3R, line 15).
- 14 4) JCP&L’s agreement with my recommendation that the Company’s proposed pro
15 forma test year management audit fees should be reduced by \$33,791 (see Schedule
16 RJH-8R, line 7).
- 17 5) JCP&L’s proposal to increase its proposed projected rate case expenses from
18 \$2,348,000 to \$3,208,101 based on the actual expenses incurred for its most recent
19 2002 base rate case (see Schedules RJH-8R, line 8 and RJH-9R).
- 20 6) JCP&L’s proposal to introduce a new expense adjustment of \$80,325 reflecting a
21 restatement of Service Company depreciation expenses based on the new depreciation
22 rates proposed by Mr. Spanos in his new Depreciation Study (see Schedule RJH-8R,
23 line 19).

1 7) JCP&L’s proposal to introduce a new expense adjustment of \$113,417 reflecting the
2 removal from the test year of certain Regulatory Asset amortization credits because
3 these expense credit are already separately reflected via Riders (see Schedules RJH-
4 7R, line 5 and RJH-15R, line 10).

5 8) JCP&L’s proposal to reduce its pro forma annualized depreciation expenses from
6 approximately \$92.7 million to approximately \$83.8 million (see Schedules RJH-7R,
7 line 4 and RJH-14R), reflecting the reduced depreciation rates from JCP&L’s new
8 Depreciation Study conducted by Mr. Spanos, as well as a reduction in the Company’s
9 proposed Intangible Plant depreciation expense to correct for an error identified in my
10 Direct Testimony.

11 9) A reduction of \$102,860 in JCP&L’s proposed pro forma income taxes (see Schedules
12 RJH-7R, line 9 and RJH-16R, line 5), reflecting the Company’s agreement with an
13 adjustment I presented in my Direct Testimony to reflect an income tax credit for the
14 Company’s test year Investment Tax Credit (“ITC”) amortization.

15 The resulting updated JCP&L overall revenue requirement indicated a rate increase of
16 approximately \$20.624 million.

17
18 **Q. DID YOU REFLECT ONE OTHER CHANGE TO JCP&L’S JUNE 14, 2013 UPDATE**
19 **FILING?**

20 A. Yes. I have incorporated the rebuttal ROE of 11.00% and resulting overall rate of return of
21 8.61% included in the rebuttal testimony of Ms. Pauline Ahern. This change reduced
22 JCP&L’s updated overall revenue requirement from approximately \$20.624 million to
23 approximately \$10.958 million. Please note that while I have incorporated JCP&L’s rebuttal

1 overall rate of 8.61%, I have not at this time incorporated other changes the Company has
2 proposed in its remaining rebuttal testimonies.

3
4 **Q. PLEASE DESCRIBE THE CHANGES INCLUDED IN THIS SUPPLEMENTAL**
5 **DIRECT TESTIMONY AS COMPARED TO THE REVENUE REQUIREMENT**
6 **POSITIONS REFLECTED BY YOU IN YOUR ORIGINAL DIRECT TESTIMONY**
7 **FILED ON JUNE 14, 2013.**

8 A. The first change reflected in my Supplemental Direct Testimony reflects a correction to my
9 recommended utility plant in service adjustment for the removal from plant in service of the
10 capitalized costs associated with the storm damages from the July 2011 Heat Storm,
11 Hurricane Irene, and the October 2011 Snowstorm. Whereas in my original Direct Testimony
12 I quantified this utility plant adjustment to be approximately \$100.7 million, the correct plant
13 adjustment should be approximately \$77.1 million. In my responses to JCP&L data requests
14 JC-RC-147 through 149, I have agreed that this correction should be made. My revised
15 recommended utility plant in service adjustment of \$77.1 million is shown on the attached
16 Schedule RJH-3R, line 1 and is further detailed in footnote (2) of this schedule.

17
18 The second change included in my Supplemental Direct Testimony is my reflection of
19 JCP&L's updated rate case expense estimate of \$3,208,101. This updated recommended
20 position is shown on Schedule RJH-9R, line 1. It should be noted that I have only accepted
21 this revised rate case expense estimate as a placeholder amount at this time, as my ultimate
22 recommendation is that eventually the actual rate case expense amount of this base rate case
23 be reflected for ratemaking purposes in this case.

*Henkes Supplemental Direct Testimony
Jersey Central Power & Light Company – BPU Docket No ER12111052*

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The third change included in my Supplemental Direct Testimony is my adoption of the \$113,417 expense adjustment for the Regulatory Asset amortization credit recoverable via Riders that was newly proposed by JCP&L in its June 14, 2013 Update Filing. This amortization expense adjustment is shown on Schedule RJH-15R, line 10.

The fourth change included in my Supplemental Direct Testimony is my reflection of the Company’s pro forma annualized depreciation expenses based on the depreciation rates recommended by Rate Counsel witness Michael Majoros in his testimony dated August 7, 2013. This updated depreciation expense adjustment is shown on Schedule RJH-14R.

Finally, as shown on Schedule RJH-8R, line 19, I have currently reflected JCP&L’s \$80,325 Service Company depreciation expense adjustment based on JCP&L’s depreciation rates from Mr. Spanos’ Depreciation Study. This expense adjustment should really be based on Mr. Majoros’s recommended depreciation rates in this case, but those numbers are not available at this time. Since I believe that the difference in the Service Company depreciation expense adjustment based on either Mr. Spanos’ or Mr. Majoros’ proposed depreciation rates is not material, I have reflected JCP&L’s proposed expense adjustment amount.

Q. MR. HENKES, DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. Yes, it does.

SCHEDULES RJH-1R THROUGH RJH-17R

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 REVENUE REQUIREMENT**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>	
1. Pro Forma Rate Base	\$ 2,024,166,188	\$ (776,382,794)	\$ 1,247,783,394	RJH-3R
2. Rate of Return	<u>8.61%</u>		<u>7.76%</u>	RJH-2R
3. Income Requirement	174,216,745	(77,451,143)	96,765,602	
4. Pro Forma Income	<u>167,734,919</u>	<u>56,125,932</u>	<u>223,860,850</u>	RJH-7R
5. Income Deficiency	6,481,827	(133,577,075)	(127,095,248)	
6. Revenue Conversion Factor	<u>1.69061</u>	<u>1.69061</u>	<u>1.69061</u>	
7. Rate Increase	<u>\$ 10,958,240</u>	<u>\$ (225,826,737)</u>	<u>\$ (214,868,497)</u>	
8. Rate Increase Percentage	<u>1.90%</u>		<u>-37.20%</u>	(2)

(1) Exhibit JC-3 Supplemental No. 2, Schedule SDM-1 Supplemental No. 2

(2) Rate increase on line 7 above divided by pro forma test year electric sales revenues on Schedule RJH-7R, line 1.

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 RATE OF RETURN**

SUPPLEMENTAL DIRECT TESTIMONY

<u>JCP&L PROPOSAL:</u>	<u>Ratios</u>	<u>Cost Rates</u>	<u>Weighted Cost Rates</u>
	(1)	(1)	(1)
Long Term Debt	46.20%	5.82%	2.69%
Common Equity	<u>53.80%</u>	11.00% (3)	<u>5.92%</u>
Total Cost of Capital	<u>100.00%</u>		<u>8.61%</u>

<u>RCRECOMMENDATION:</u>	<u>Ratios</u>	<u>Cost Rates</u>	<u>Weighted Cost Rates</u>
	(2)	(2)	(2)
Long Term Debt	50.00%	6.26%	3.13%
Common Equity	<u>50.00%</u>	9.25%	<u>4.63%</u>
Total Cost of Capital	<u>100.00%</u>		<u>7.76%</u>

(1) Schedule SRS-4

(2) Testimony of Matthew Kahal, Schedule MIK-1, page 1

(3) Rebuttal testimony of Pauline Ahern

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 DISTRIBUTION RATE BASE**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>	
1. Utility Plant in Service	\$ 3,948,975,061	\$ (77,120,550) (2)	\$ 3,871,854,511	
<u>Deductions:</u>				
2. Reserve for Depreciation	(1,502,324,772)		(1,502,324,772)	
3. Accumulated Deferred Income Tax	(687,624,687)		(687,624,687)	
4. Customer Advances (Net of Tax)	(13,264,190)		(13,264,190)	
5. Customer Deposits	<u>(23,745,666)</u>		<u>(23,745,666)</u>	
6. Total Deductions	<u>(2,226,959,315)</u>		<u>(2,226,959,315)</u>	
<u>Additions:</u>				
7. Unamort. Net Loss on Reacq. Debt	17,920,314	(9,569,740)	8,350,574	RJH-4R
8. Unamort. Storm Cost (Net of Tax)	26,470,956	(26,470,956)	-	RJH-5R
9. Excess Cost of Removal Reserve	<u>107,158,582</u>	<u>(107,158,582)</u>	-	(3)
10. Total Additions	<u>151,549,852</u>	<u>(143,199,278)</u>	<u>8,350,574</u>	
<u>Other Rate Base Components:</u>				
11. Materials & Supplies	16,699,010	(1,877,767)	14,821,243	RJH-6R
12. Cash Working Capital	138,138,682	(61,654,653)	76,484,029	(4)
13. Consolidated Income Tax Benefits	-	(511,030,428)	(511,030,428)	(5)
14. Customer Refunds	-	(1,163,573)	(1,163,573)	(6)
15. Operating Reserves (Net of Tax)	(4,237,102)	-	(4,237,102)	(7)
16. Deferred Taxes - TMI-2 Non-Qual. Decommissioning Trust Fund	<u>-</u>	<u>19,663,455</u>	<u>19,663,455</u>	(7)
17. Total Other Rate Base Components	<u>150,600,590</u>	<u>(556,062,966)</u>	<u>(405,462,376)</u>	
18. TOTAL NET RATE BASE	<u><u>\$ 2,024,166,188</u></u>	<u><u>\$ (776,382,794)</u></u>	<u><u>\$ 1,247,783,394</u></u>	

(1) Exhibit JC-3 Supplemental No. 2, Schedule SDM-5 Supplemental No. 2

(2) Remove the following major storm balances included in the actual 6/30/12 plant in service balance, as per S-REV-1 Attachment, page 27 and the response to JREV-66:

- July 2011 Heat Storm	\$ 2,661,736
- Hurricane Irene	24,693,632
- October 2011 Snowstorm	<u>49,765,182</u>
- Total Major Storm Plant Cost	<u><u>\$ 77,120,550</u></u>

(3) Testimony of Robert Henkes

(4) Testimony of Dave Peterson

(5) Testimony of Andrea Crane

(6) Average monthly 2011 test year balance as per RCR-A.128 Attachment

(7) Response to RCR-A-126

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 UNAMORTIZED NET LOSS ON REACQUIRED DEBT (NET OF TAX)**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u>	<u>Adjustments</u>	<u>RC</u>	
IMPACT ON RATE BASE:				
1. Total Electric Net Loss on Reacquired Debt	\$ 17,920,314		\$ 17,920,314	(1)
2. Distribution Allocation Factor	<u>-</u>		<u>78.78%</u>	(2)
3. Distribution Net Loss on Reacquired Debt	17,920,314		14,117,623	
4. Offsetting Deferred Tax Benefits @40.85%	<u>-</u>		<u>(5,767,049)</u>	(3)
5. Net-Of-Tax Distribution Net Loss on Reacquired Debt	<u>\$ 17,920,314</u>	<u>\$ (9,569,740)</u>	<u>\$ 8,350,574</u>	
IMPACT ON EXPENSES:				
6. Total Electric Net Loss on Reacquired Debt Amortization Expenses	\$ 1,772,706		\$ 1,772,706	(4)
7. Distribution Allocation Factor	<u>-</u>		<u>78.78%</u>	(2)
8. Distribution Net Loss on Reacquired Debt Amortization Expense	<u>\$ 1,772,706</u>	<u>\$ (376,168)</u>	<u>\$ 1,396,538</u>	

(1) Exhibit JC-3 Supplemental No. 2, Schedule SDM-5 Supplemental No. 2, line 8

(2) Response to RCR-A-102c

(3) Responses to RCR-A-12 and RCR-A-18(a)

(4) Exhibit JC-3 Supplemental No. 2, Schedule SDM-2 Supplemental No. 2, page 6 of 27

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 STORM DAMAGE COSTS (NET OF TAX)**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u>	<u>Adjustments</u>	<u>RC</u>
IMPACT ON EXPENSES:	(1)		
1. Average Storm Damage Costs 2007-2011 Excluding Major Storms	\$ 10,201,290		\$ 10,201,290
2. 2011 Test Year Major Storms - 3 Yr. Amortization	29,834,833	(29,834,833)	-
3. Total Annual Storm Damage Costs	<u>40,036,123</u>	<u>(29,834,833)</u>	<u>10,201,290</u>
4. Less: Amortization Included in Test Year	(8,556,720)		(8,556,720)
5. Amortization Expense Adjustment	<u>\$ 31,479,403</u>	<u>\$ (29,834,833)</u>	<u>\$ 1,644,570</u>
 IMPACT ON RATE BASE:			
6. Average Unamortized Storm Damage Balance 2011 Test Year Major Storms - 3 Yr. Amortization	\$ 44,752,250	(44,752,250)	\$ -
7. Offsetting Deferred Tax Benefits @40.85%	<u>(18,281,294)</u>	<u>18,281,294</u>	<u>-</u>
8. Average Unamortized Balance Net Of Tax	<u>\$ 26,470,956</u>	<u>\$ (26,470,956)</u>	<u>\$ -</u>

(1) Exhibit JC-3 Supplemental No. 2, Schedule SDM-2, page 17 of 27

**JERSEY CENTRAL POWER AND LIGHT COMPANY
MATERIALS AND SUPPLIES**

SUPPLEMENTAL DIRECT TESTIMONY

1. Distribution M&S Balance at 6/30/12 Proposed By JCP&L	\$ 20,461,958	(1)
2. Required Correction to Distribution M&S Balance at 6/30/12	<u>(3,762,948)</u>	
3. Corrected Distribution M&S Balance at 6/30/12	16,699,010	(2)
4. Adjustment to Reflect 13-Month Average Corrected Distribution M&S Balance for 13 Months Ended 6/30/12	<u>(1,877,767)</u>	(2)
5. 13-Month Average Corrected Distribution M&S Balance	<u><u>\$ 14,821,243</u></u>	

(1) Exhibit JC-3, Schedule SDM-2, page 17 of 24

(2) RCR-A-14 Attachment

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 OPERATING INCOME**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>	
1. Operating Revenues				
a. Electric Retail Sales	\$ 576,804,153	\$ 823,138	\$ 577,627,291	(2)
b. Other Operating Revenues	16,736,984		16,736,984	
c. Total Operating Revenues	<u>593,541,137</u>	<u>823,138</u>	<u>594,364,275</u>	
2. Operating Expenses:				
3. O&M Expenses	208,732,611	(59,245,119)	149,487,492	RJH-8R
4. Depreciation Expense	83,826,938	(11,143,224)	72,683,714	RJH-14R
5. Amortization Expense	38,467,576	(33,702,108)	4,765,468	RJH-15R
6. Taxes o/t Income Taxes	16,700,324	(589,323) (3)	16,111,001	
7. Total Operating Expenses	<u>347,727,449</u>	<u>(104,679,775)</u>	<u>243,047,674</u>	
8. Operating Income Before FIT	245,813,688	105,502,913	351,316,601	
9. Income Taxes	<u>78,078,769</u>	<u>49,376,981</u>	<u>127,455,751</u>	RJH-16R
10. Net Utility Operating Income	<u>\$ 167,734,919</u>	<u>\$ 56,125,932</u>	<u>\$ 223,860,850</u>	

(1) Exhibit JC-3 Supplemental No. 2, Schedule SDM-1 Supplemental No. 2

(2) RCR-A-106 Attachment

(3) Incentive compensation expense adjustment on Schedule RJH-11 x estimated payroll tax ratio of 7%

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 OPERATION AND MAINTENANCE EXPENSES**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>	
1. Unadjusted Test Year O&M Expenses	\$ 194,393,842		\$ 194,393,842	
<u>Pro Forma O&M Expense Adjustments:</u>				
2. Reclassify SNFD & PDMS RA Amort.	(1,819,000)		(1,819,000)	
3. Interest on Customer Deposits	30,912		30,912	
4. Annualize Wage Increases at 3%	3,392,898		3,392,898	
5. Amortization of Net Loss on Reacq. Debt	1,772,706	(376,168)	1,396,538	RJH-4R
6. BPU & RC Assessments	(94,855)	1,819 (2)	(93,036)	
7. Management Audit Fees	114,959	- (3)	114,959	
8. Rate Case Expenses	802,025	(534,683)	267,342	RJH-9R
9. Cost to Achieve Merger Synergy Savings	4,822,255	(4,822,255)	-	(4)
10. Reclassify Deferred USF Admin Costs	51,923		51,923	
11. Incremental BGS Meter Costs	75,655		75,655	
12. Normalize Forestry Maintenance Exp.	5,108,966	(5,108,966)	-	(4)
13. Acct. 935 Expense Normalization	-	(1,018,802)	(1,018,802)	RJH-10R
14. Remove Incentive Compensation Exp.	-	(8,418,907)	(8,418,907)	RJH-11R
15. Remove SERP Expenses	-	(408,576)	(408,576)	RJH-12R
16. Pension Expense Adjustment	-	(37,664,418)	(37,664,418)	(5)
17. OPEB Expense Adjustment	-	(814,905)	(814,905)	(5)
18. Miscellaneous Expense Adjustments	-	(79,258)	(79,258)	RJH-13R
19. Service Co. Depreciation at JCP&L rates	80,325		80,325	(6)
20. Total O&M Expense Adjustments	<u>14,338,769</u>	<u>(59,245,119)</u>	<u>(44,906,350)</u>	
21. Total Adjusted Test Year O&M Expenses	<u>\$ 208,732,611</u>	<u>\$ (59,245,119)</u>	<u>\$ 149,487,492</u>	

(1) Exhibit JC-3 Supplemental No. 2, Schedules SDM-1 and SDM-2 Supplemental No. 2, page 1 of 27

(2) Recommended revenue adjustment on RJH-7, L1(c) x assessment rate of 0.00221

(3) Response to RCR-A-113

(4) Testimony of Robert Henkes

(5) Testimony of Dr. Mitchell Serota

(6) Response to RCR-SC-13

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 RATE CASE EXPENSES**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>
1. Estimated Rate Case Expenses			
a. Legal	\$ 2,848,256		
b. Consultant Fees and Expenses	314,289		
c. Court Reporter Fees, Publ. Notices, Postage	<u>45,556</u>		
d. Total	<u>3,208,101</u>	-	3,208,101
2. Less: Stockholder Sharing @ 50%	<u>-</u>	<u>(1,604,051)</u>	<u>(1,604,051)</u> (2)
3. Ratepayer Expense Portion	3,208,101	(1,604,051)	1,604,051
4. Amortization Period (Yrs)	<u>4</u>		<u>6</u> (2)
5. Annual Amortization Expense	<u>\$ 802,025</u>	<u>\$ (534,684)</u>	<u>\$ 267,342</u>

(1) Response to data request S-JREV-14

(2) Testimony of Robert Henkes

JERSEY CENTRAL POWER AND LIGHT COMPANY
ACCOUNT 935 - MAINTENANCE GENERAL PLANT EXPENSE NORMALIZATION

SUPPLEMENTAL DIRECT TESTIMONY

1. Actual Account 935 Expenses - Distribution Related Only:	(1)	
	2007	\$ 1,552,757
	2008	1,495,386
	2009	1,564,891
	2010	1,265,905
	2011	<u>2,743,237</u>
	5-Yr. Average	<u>1,724,435</u> Normalized
2. Difference Between 2011 Test Year and Normalized Expenses		<u>\$ (1,018,802)</u> Recommended Adj.

(1) RCR-A-86 Attachment, page 2

**JERSEY CENTRAL POWER AND LIGHT COMPANY
INCENTIVE COMPENSATION EXPENSE ADJUSTMENT**

SUPPLEMENTAL DIRECT TESTIMONY

1. Total Short Term Incentive Plan (STIP) Expenses Included in Distribution Related 2011 Test Year Expense	\$ 6,657,938 (1)
2. Total Long Term Incentive Plan (LTIP) Expenses Included in Distribution Related 2011 Test Year Expense	<u>\$ 1,760,969 (2)</u>
3. Test Year Distribution STIP and LTIP Expenses	<u><u>\$ 8,418,907</u></u>

(1) RCR-A-57 Attachment 3

(2) RCR-A-57 Attachment 4 (\$420,208 + \$1,340,761)

**JERSEY CENTRAL POWER AND LIGHT COMPANY
REMOVAL OF SUPPLEMENTAL EXECUTIVE RETIREMENT PLANT (SERP) EXPENSES**

SUPPLEMENTAL DIRECT TESTIMONY

1. Direct JCP&L SERP Expenses in Test Year:			
a. Total Electric Expense	\$ 207,417.0		
b. Distribution Allocation Factor	<u>93.16%</u>		
c. Distribution Related Expense		\$ 193,230	(1)
2. SERP Expense Allocated from Service Company to JCP&L's Distribution Related Expense		<u>215,346</u>	(2)
3. Total Distribution Related SERP Expenses to be Removed from Test Year		<u>\$ 408,576</u>	

(1) Response to RCR-A-64 Supplemental

(2) Response to RCR-A-110c

**JERSEY CENTRAL POWER AND LIGHT COMPANY
MISCELLANEOUS EXPENSE ADJUSTMENTS**

SUPPLEMENTAL DIRECT TESTIMONY

1. Remove Employee Clubs Expense	\$	(1,387)	(1)
2. Remove "Celebrate Success" Expenses		(5,707)	(2)
3. Remove Service Award Expenses		(37,875)	(2)
4. Remove Institutional/Goodwill Advertising Expense		(8,140)	(3)
5. Remove Civic Membership Expenses		(25,295)	(4)
6. Remove Private Club Expenses		<u>(854)</u>	(5)
7. Total Miscellaneous Expense Adjustments	\$	<u>(79,258)</u>	

(1) Response to RCR-A-132

(2) Response to RCR-A-87(d)

(3) RCR-A-85 Attachment 2

(4) RCR-A-119 Supplemental, page 2

(5) Response to RCR-A-87(h)

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 DEPRECIATION EXPENSES**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u> (1)	<u>Adjustments</u>	<u>RC</u>
1. Depreciation on Depreciable Distribution Plant at 12/31/11	\$ 69,121,125	\$ 8,194,772	\$ 77,315,897 (3)
2. Depreciation on Post-Test Year Distribution Plant Additions from 12/31/11 - 6/30/12	<u>1,314,250</u>	<u>155,814</u>	<u>1,470,064</u> (3)
3. Total Distribution Plant Depreciation Expense	70,435,375	8,350,586	78,785,961
4. Allocated General Plant Depreciation Expense	9,753,528	(3,923,578)	5,829,950 (3)
5. Allocated Intangible Plant Depreciation Expense	3,625,292		3,625,292 (3)
6. Excess Depreciation Reserve Amortization	-	(13,896,716)	(13,896,716) (3)
7. BGS Metering Depreciation (Normalization Adj. 11)	12,743		12,743 (4)
8. Depreciation Expense Reduction Associated With 6/30/13 Plant in Service Adjustment	<u>-</u>	<u>(1,673,516)</u>	<u>(1,673,516)</u> (2)
9. Total Pro Forma Depreciation Expense	<u>\$ 83,826,938</u>	<u>\$ (11,143,224)</u>	<u>\$ 72,683,714</u>

(1) Schedule CP-2 Supplemental No. 2

(2) Depreciation expense associated with the removal of 12/31/11 distribution plant in service for major storms in 2011:

See Schedule RJH-3R, footnote (2): $\$ 77,120,550 \times 2.170000\% = \underline{\underline{\$ 1,673,516}}$

(3) Testimony of Michael Majoros

(4) Exhibit JC-3, Schedule SDM-2, page 12 of 24

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 AMORTIZATION EXPENSES**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u>	<u>Adjustments</u>	<u>RC</u>	
1. Unadjusted Test Year Amortization Exp.	\$ 3,912,364		\$ 3,912,364	(1)
2. Storm Damage Cost Amortization	31,479,403	(29,834,833)	1,644,570	RJH-5R
3. Net Cost Of Removal Amortization	4,762,102	(2,346,633)	2,415,469	(2)
4. Excess Cost of Removal Amortization	(3,758,513)		(3,758,513)	(3)
5. Gain on Sale of Property Amortization	(420,786)		(420,786)	(4)
6. Eliminate DOE SNFD Fees Amortization	(1,569,000)		(1,569,000)	(5)
7. TMI-2 PDMS Amortization	608,947		608,947	(6)
8. Production-Related RA Amortization Acceleration	1,520,642	(1,520,642)	-	(7)
9. Reclassify SNFD & PDMS RA Amort.	1,819,000		1,819,000	(8)
10. RA Amortization Recoverable via Riders	<u>113,417</u>		<u>113,417</u>	(9)
11. Total Amortization Expenses	<u>\$ 38,467,576</u>	<u>\$ (33,702,108)</u>	<u>\$ 4,765,468</u>	

(1) See response to RCR-A-82. This balance consists of the test year deferred OPEB amortization and the Werner CT amortization which amortization expenses have expired in December 2012 (RCR-A-63) and April 2013 (RCR-A-47), respectively. To be consistent with BPU post-test year ratemaking policy, Rate Counsel has not removed these amortization expenses from the test year.

(2) See Exhibit JC-3, Schedule SDM-2, p. 16 and RCR-A-35 Attachment: JCP&L's proposed net COR amortization is based on the 2-yr. average net COR expenses for 2010 - 2011 and Rate Counsel's recommended net COR amortization is based on the traditionally allowed 5-yr. average net COR expenses for 2007 - 2011.

(3) Normalization Adjustment No. 17

(4) Normalization Adjustment No. 18

(5) Normalization Adjustment No. 19

(6) Normalization Adjustment No. 20

(7) See Exhibit JC-3, Schedule SDM-2, p. 22: JCP&L proposes to accelerate the test year amortization period to 3 years, whereas Rate Counsel rejects this proposal

(8) Normalization Adjustment No. 2

(9) Exhibit JC-3 Supplemental No. 2, Schedule SDM-2 Supplemental No. 2, page 1 of 27

**JERSEY CENTRAL POWER AND LIGHT COMPANY
 PRO FORMA INCOME TAX**

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Updated JCP&L</u>	<u>Adjustments</u>	<u>RC</u>	
1. Net Revenues Before FIT	\$ 245,813,688	\$ 105,502,913	\$ 351,316,601	RJH-7, L8
2. Pro Forma Interest	<u>(54,426,590)</u>	<u>15,370,970</u>	<u>(39,055,620)</u>	(2)
3. Taxable Income	191,387,098	120,873,883	312,260,981	
4. FIT and SIT @ 40.85%	78,181,629	49,376,981	127,558,611	
5. ITC Amortization	<u>(102,860)</u>	<u> </u>	<u>(102,860)</u>	(3)
6. Net Pro Forma Income Taxes	<u>\$ 78,078,769</u>	<u>\$ 49,376,981</u>	<u>\$ 127,455,751</u>	

(1) Response to RCR-A-138

(2) Rate Base	\$ 2,024,166,188	\$ 1,247,783,394	Sch. RJH-3
Weighted Cost of Debt	2.69%	3.13%	Sch. RJH-2
Pro Forma Interest	<u>\$ 54,426,590</u>	<u>\$ 39,055,620</u>	

(3) Response to RCR-A-138

JERSEY CENTRAL POWER AND LIGHT COMPANY
REVENUE REQUIREMENT IMPACT OF RATE COUSEL ADJUSTMENTS
 \$000's

SUPPLEMENTAL DIRECT TESTIMONY

	<u>Rev Req. Impact of Adjustment</u>
- JCP&L's 6/14/13 Updated Rate Increase Request, adjusted for rebuttal ROE of 11.00%	\$ 10,958
 <u>RC-Recommended Adjustments:</u>	
Rate of Return:	
- ROE @ 9.25% vs. 11.00% (<i>Kahal</i>)	(32,217)
- LT debt rate 6.26% vs. 5.82% (<i>Kahal</i>)	4,115
- Cap structure 50/50 Debt/Equity (<i>Kahal</i>)	(7,214)
Rate Base:	
- Remove excess COR reserve rate base addition	(11,733)
- Materials and supplies adjustment	(206)
- Cash working capital (<i>Peterson</i>)	(6,751)
- Consolidated income tax rate base deduction (<i>Crane</i>)	(55,953)
- Customer refunds	(127)
- Operating reserves + decomm. fund def. taxes	2,153
Rate Base & Amortization:	
- Unamort net loss on reacquired debt adjustment	(1,424)
- Remove all 2011 major storm damage costs	(44,495)
Operating Income:	
- Year-end customer revenue adjustment	(821)
- Rate case expense adjustment	(535)
- Remove costs to achieve merger savings adjustment	(4,822)
- Normalize tree trimming expense adjustment	(5,109)
- Remove incentive compensation expenses	(9,008)
- Acct 935 expense normalization adjustment	(1,019)
- Remove SERP expenses	(409)
- Pension expense adjustment (<i>Serota</i>)	(37,664)
- OPEB expense adjustment (<i>Serota</i>)	(815)
- Miscellaneous expense adjustments	(79)
- Depreciation expense adjustments	(9,470)
- Cost of removal amortization exp adjustment	(2,347)
- Normalized storm damage expense adjustment	1,645
- Production RA amortization adjustment	<u>(1,521)</u>
 - RC-recommended rate decrease	 <u>\$ (214,868)</u>
 - Rate increase percentage	 <u><u>-37.20%</u></u>