

Depreciation Related Orders and Stipulations

BPU Docket No. EO95030098

- **Summary Order, dated March 24, 1997**
- **Stipulation of Final Settlement, dated June 27, 1996**
- **Stipulation of Settlement of Depreciation Rates, dated June 27, 1996**
- **Addendum to Stipulation of Final Settlement, dated December 31, 1996**



AGENDA DATE: 3/24/97

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102

I/M/O THE PETITIONS OF JERSEY CENTRAL)
POWER & LIGHT CO. FOR APPROVAL OF AN)
INCREASE IN ITS LEVELIZED ENERGY ADJ.)
CHARGE, DEMAND SIDE FACTOR, IMPL. OF A)
REMEDI. ADJ. CLAUSE (RAC), OTHER TARIFF)
CHANGES, RECOVERY OF CROWN/VISTA AND)
FREEHOLD BUYOUT COSTS, CHANGES IN DEPR.)
RATES, SETTLEMENT OF PHASE 1 OF THE)
BOARD'S GENERIC PROCEEDING ON THE)
RECOVERY OF NUG CAPACITY PAYMENTS)

SUMMARY ORDER

OAL Dkt. Nos. PUCRA12423-95N,
PUCOT09673-94N, PUC 9739-96
BPU Dkt. Nos. ER95120633,
ER95120634, EM95110532,
EX93060255, EO95030098

(Service List Attached)

This Order memorializes action taken by the Board at a special agenda meeting held on March 24, 1997 by a vote of two Commissioners. By Order in Docket No. EX93060255 dated September 16, 1994, the Board initiated a generic proceeding to consider potential overrecoveries of capacity costs attributed to the inclusion of the capacity component of power purchases from non-utility generators ("NUGs") in the Levelized Energy Adjustment Clauses ("LEACs") of the electric utilities regulated by the Board. The initial fact-finding phase (Phase 1) of the generic proceeding was transmitted to the Office of Administrative Law ("OAL") on October 4, 1994, and following discovery and evidentiary hearings, was concluded for Public Service Electric & Gas Company ("PSE&G"), Atlantic City Electric Company ("Atlantic") and Rockland Electric Company by separate Stipulations approved by the Board by Order dated December 19, 1996. However, Phase 1 remains open for Jersey Central Power & Light Company ("Jersey Central," "JCP&L" or "Company," now doing business as GPU Energy), pending Board action on the instant Stipulation of Final Settlement.

On March 3, 1995, JCP&L filed a petition in Docket No. EO95030098 for changes in depreciation rates applicable to certain categories of utility plant. Specifically, the petition sought a decrease in annual depreciation accruals for transmission and distribution plant of \$8.6 million, a decrease in accruals for general plant of \$0.2 million, and an increase in nuclear plant accruals of \$10.2 million to reflect actual and projected capital additions made or to be made after the conclusion of the Company's

last base rate case. The net effect of the changes would increase the Company's overall depreciation expense by \$1.4 million. However, rate recovery of this increased annual depreciation expense was not requested in the petition.

On November 9, 1995, JCP&L filed a petition in Docket No. EM95110532 seeking approval of the proposed ratemaking treatment of the buyout of its power purchase agreements ("PPAs") with Crown Energy, L.P. and Vista Energy, L.P., the developers of a 362 Mw coal-fired independent power producer ("IPP") NUG project planned for construction in West Deptford Township in Gloucester County, of which Jersey Central had contracted to purchase 200 Mw. The PPAs, each for 100Mw, were bought out for \$17 million.

On December 8, 1995, JCP&L filed petitions in Docket Nos. ER95120633 and ER95120634 seeking approval of 1) a \$37.6 million, 1.9% revenue increase for recovery of costs recoverable by its LEAC and Demand Side Factor ("DSF"); 2) implementation of a Remediation Adjustment Clause ("RAC") for the recovery of the Company's share of the cost of remediating its former manufactured gas plant sites; and 3) the elimination of \$3.2 million of late payment and connection/disconnection costs from base rates and the prospective application of such charges to the specific customers for whom such costs are incurred.

By letter dated April 3, 1996 the Company amended its LEAC petition to seek recovery of the \$125 million cost, plus third party termination costs, of buying out the PPA with Freehold Cogeneration Associates, L.P. ("Freehold" or "FCA") for the purchase of 100 Mw of the capacity of a cogeneration facility planned for construction on the Nestle Beverage Company's ("Nestle's") plant site for the manufacture of freeze-dried coffee in Freehold in Monmouth County. The Company re-noticed the amended filing, requesting a total revised increase of \$45.2 million (2.3%) annually, including \$7.3 million for the recovery of Crown/Vista and \$5.0 million for the recovery of Freehold buyout costs, \$6.2 million for a nuclear performance standard ("NPS") reward, \$19.8 million for increased DSM costs filed under its DSM*2 Plan, and initial RAC recovery of \$0.1 million.

By Order dated June 5, 1996, the Board approved a provisional LEAC settlement executed by JCP&L, Board Staff and the Division of the Ratepayer Advocate ("Advocate" or "RPA") on May 31, 1996 and approved by Administrative Law Judge ("ALJ") William Gural on June 3, 1996. The provisional LEAC settlement provided for an annual revenue increase of \$27.9M (1.4%), reflecting uncontested cost increases of \$16.9M for energy costs and the NPS reward, and \$11.0M for DSM costs. There was no provision for recovery of either Crown/Vista or Freehold buyout costs.

On June 27, 1996, a Stipulation of Final Settlement ("Global Settlement") was executed by JCP&L, Staff and the Ratepayer Advocate and filed with the OAL (Attachment A). The Settlement addressed and proposed to resolve the pending matters described above, and an Initial Decision approving the Settlement was issued by ALJ Gural on July 1, 1996. On December 31, 1996, the same parties executed an Addendum (Attachment B) to reflect the effect of the unanticipated delay in implementing the rate compression and similar provisions of the June 27, 1996 Settlement. The Global Settlement as amended would make the provisional LEAC increase granted on June 5, 1996 final, and among its other provisions are the following:

- o a disallowance of \$3.0 million of Crown/Vista buyout costs and recovery of the \$14 million balance through the LEAC over 2 years without carrying costs, resulting in an additional LEAC increase above the provisional level of \$7.0 million. By terminating the Crown/Vista PPAs, the Company estimates ratepayers will save approximately \$700 million in nominal dollars, or about \$250 million on a net present value (NPV) basis, over the 20-year terms of the PPAs;
- o recovery of Freehold buyout costs, including third party termination payments to Nestle Beverage Co. and New Jersey Natural Gas Co. when known, of up to \$130 million, and 50% of buyout costs in excess of \$130 million up to a maximum of \$135 million, through the LEAC over 7 years without carrying costs. Initial LEAC recovery will be \$5.0 million, achieved by reallocating revenue for the recovery of other energy costs. The Company estimates that terminating the Freehold PPA will save ratepayers over \$1 billion in nominal dollars, or approximately \$300 million on an NPV basis, net of contract termination costs, over its 20-year term;
- o base rate reductions aggregating \$12.0 million to settle the Phase 1 "double recovery" of NUG capacity costs issue before the OAL (\$5.0 million), to recognize cost reductions potentially achievable over the term of the settlement (\$4.2 million), partial implementation of the proposed base tariff changes for residential customers (\$1.4 million), and an additional reduction of \$1.4 million to adjust for the delay in implementing these reductions;

- o Company agreement to not seek increases in its LEAC/DSF/RAC and base rates during the term of the Settlement except under limited circumstances (a combined balance of deferred LEAC/DSF/RAC costs, exclusive of unamortized buyout costs, in excess of \$40.0 million, a financial emergency or downgrading of the Company's bonds to less than investment grade, or a major change in the regulatory environment, such as the allowance of retail wheeling);
- o "excess" equity return, if any, is to be used to reduce rates and accelerate the recovery of stranded costs (regulatory assets) currently included in rates. If after deducting DSM and nuclear performance incentives the Company's rate of return on common equity as booked exceeds its last allowed return of 12.2%, but is less than 12.7%, 25% of the excess is to be used to reduce customer base rates and 75% to write down stranded costs. If equity return exceeds 12.7%, 50% of the excess is to be used to reduce rates and 50% to write down stranded costs;
- o nuclear depreciation is to be increased by \$16.8 million annually and offset by a decrease in T&D depreciation of \$11.5 million, with no current rate recovery of the \$5.3 million difference;
- o effective January 1, 1998, previously-deferred post-employment benefits other than pensions (PBOPS) are to be amortized over 15 years, and together with the ongoing annual accrual and amortization of the transition obligation, are to be deemed recovered by current rates. The resultant increase in booked expense of approximately \$13 million per year in the years 1998 and 1999 is to be absorbed by the Company without any rate adjustment;
- o based on site-specific estimates, the Company's provision for nuclear decommissioning costs is to be increased by approximately \$11 million per year effective January 1, 1998, with the increase absorbed by the Company without any rate adjustment;

- o when implemented, the stranded cost recovery mechanism developed in Phase 2 of New Jersey's Energy Master Plan is to be adopted by the Company in lieu of the stranded cost treatment provided for in the Settlement;
- o the Company agrees to increase its funding of the Project Helping Hand program to \$150,000 annually, and to explore with other appropriate organizations the implementation of a comprehensive, state-wide low income energy assistance fund program;
- o the Settlement does not limit the Board's authority to assure just and reasonable rates under Title 48.

The net effect of the Global Settlement as amended on rates is a reduction of approximately \$5.0 million (a \$7.0 million LEAC increase offset by an aggregate base rate reduction of \$12.0 million), or 0.3%, and if approved, would reduce the average monthly bill of the typical residential customer using 500 kwh per month from \$61.67 to \$61.33, or by \$0.34 per month, representing a decrease of approximately 0.5%.

On July 8, 1996, additional public notice and opportunity for comment was given on those aspects of the Global Settlement not previously noticed for the public hearings held in February and May 1996. In July and August of 1996, comments were submitted to the Board by intervenors Nestle and New Jersey Natural Gas Company ("NJNG"), as well as Nabisco, Inc., a large commercial customer of the Company's, and the Coalition for Fair Competition ("CFC"). On September 5, 1996, the Board voted to remand the proceeding to the OAL for the sole purpose of conducting a limited, expedited evidentiary hearing on Freehold buyout issues raised by Nestle. A hearing was held at the OAL on October 30, 1996, and a second Initial Decision, i.e., on remand, was issued by ALJ Gural on December 10, 1996.

In his Initial Decision on Remand, among other findings, Judge Gural found that the sworn testimony of JCP&L's witnesses supports approval of the Global Settlement, including recovery of the costs attendant to the buyout agreement, as provided for in the Settlement. In so finding, however, Judge Gural notes the potential impact of statements made by Freehold in separate civil litigation, introduced in the record in this matter, which appear to raise questions as to whether the project meets the Board's viability criteria established for rate recovery of buyout costs, as set forth in the Board's Order I/M/O the Joint Petition of Public

Service Electric & Gas Company and Towner Electric I, L.P. for Approval of a Second Amendment to Power Purchase and Interconnection Agreement (the Board's "Towner" Order issued in Docket No. EM91040844 on April 12, 1993). In brief, in addition to the expectation of significant energy cost savings from terminating the PPA, this Order requires a showing with regard to the viability of the NUG project in the absence of a buyout. Accordingly, while recommending approval of the Global Settlement, the ALJ notes that Staff or the Ratepayer Advocate may bring a motion for revocation or modification of the Initial Decision if further information comes to light (if Freehold's assertions are upheld) at the conclusion of that civil litigation.

Exceptions to the Initial Decision were submitted on January 7 and 8, 1997 by the Company, Staff, the Advocate, Nestle, NJNG and Nabisco. Replies to exceptions were submitted later in January by JCP&L, Nestle and Nabisco. The Board and the OAL granted two 45 day extensions in the effective date of the Initial Decision, to May 1, 1997.

Further, on March 20, 1997, Nestle filed a motion with the Board requesting that the record in this matter be reopened to introduce a March 7, 1997 ruling by the Honorable E. Benn Micheletti, the judge hearing Nestle's complaint filed against Freehold and Jersey Central in the Law Division of the Superior Court of New Jersey, Monmouth County on October 7, 1996. Judge Micheletti's ruling addresses an alleged conflict of interest on the part of counsel jointly representing both Jersey Central and Freehold in that proceeding, in view of the respective positions on the viability of the Freehold project taken by JCP&L in the instant proceeding and by Freehold in the Monmouth County litigation (previously, now-stayed litigation in the Circuit Court for Baltimore County, Maryland).

After carefully considering all of the information before us in this matter, subject to the modifications set forth below, we ACCEPT the Initial Decision on Remand and HEREBY APPROVE the amended Stipulation of Final Settlement as modified hereinbelow. Approval and implementation of the Settlement will result in a net decrease in rates of approximately \$5 million and other benefits, as noted above.

While the testimony offered by Jersey Central's witnesses in this matter supports the decision by JCP&L to buyout the Freehold PPA, and indicates that there will be substantial benefits therefrom, statements made in the Monmouth County litigation (as well as statements made by Freehold in litigation with Heller Financial, Inc. in Illinois) appear to contradict the testimony in this proceeding. Accordingly, the Board believes further proceedings are necessary to resolve these potentially conflicting statements before giving its final approval on the rate recovery of Freehold buyout costs. We therefore HEREBY MODIFY the Initial Decision on Remand solely and

specifically as it pertains to the recovery of costs related to the Freehold buyout agreement, and HEREBY FIND that the terms of the Stipulation of Final Settlement addressing the treatment of Freehold buyout costs, specifically paragraphs 13 (a) and (b) on pages 16 through 18, are approved on an interim basis only at this time, subject to refund with interest, pending further review.

The Board will conduct a further review of the circumstances and conflicting positions taken by Jersey Central and Freehold with respect to the viability of the Freehold project on or about the time the buyout agreement was executed, for the purpose of making a final determination as to whether the Freehold buyout meets the Board's Towner criteria. Such a review may require and include the calling of representatives of Freehold and/or other relevant witnesses, by subpoena if necessary.

We hereby authorize the advising Deputy Attorney General in this matter to develop, on an expedited basis, the specific procedures and timing for this review for our further approval.

We address one additional issue herein pertaining to JCP&L's request in its April 3, 1996 filing for rate recovery of Freehold buyout costs. Section 3 (a) ("Purchase Price") of the buyout agreement between Jersey Central and Freehold executed on April 2, 1996, provides as follows:

As consideration for the purchase of the Power Purchase Agreement, JCP&L shall pay to Freehold an aggregate of \$125,000,000 (the "Purchase Price"). Payment of Purchase Price shall be made as follows:

- (i) \$65,000,000 on the Effective Date [April 2, 1996];

and, subject to receipt of any required order of the NJBPU as described below,

- (ii) \$15,000,000, payable on or before March 28, 1997; and
- (iii) \$15,000,000, payable on or before March 27, 1998; and
- (iv) \$30,000,000, payable on or before March 26, 1999.

Promptly following the Effective Date, JCP&L shall file a petition with the NJBPU seeking an order authorizing deferred payment

of the Purchase Price as provided above. In the event the NJPBU fails to issue such an order on or before March 25, 1997, then the entire remaining balance of the Purchase Price shall become due and payable on March 26, 1997.

Accordingly, while asserting that it did not believe the obligation to make the deferred payments, as provided above, should be considered evidence of indebtedness within the meaning of N.J.S.A. 48:3-9, the Company, in paragraph 15 on page 8 of its April 3, 1996 petition, requested such authorization, as follows:

JCP&L does not believe that the three-year payout by JCP&L of the balance of the Buyout Costs, as contemplated by the [buyout] Agreement, should properly be considered "evidence of indebtedness payable more than 12 months after the date or dates thereof" within the meaning of N.J.S.A. 48:3-9. JCP&L will not be issuing "any bonds, notes or other evidence of indebtedness" evidencing its contractual obligation to Freehold, nor is JCP&L paying Freehold any interest with respect to these amounts. Moreover, in accordance with the FERC's Uniform System of Accounts, JCP&L will be recording these unpaid amounts on its balance sheet as "Other Deferred Credits" under A/C 253, and not as Long Term Debt under A/C 224. Nevertheless, since the matter may not be wholly free from doubt, JCP&L hereby requests the Board's specific authorization and approval, pursuant to N.J.S.A. 48:3-9, to make the payments to Freehold over the three-year period contemplated by the Agreement.

N.J.S.A. 48:3-9 provides, in pertinent part, as follows:

No public utility shall, unless it shall have have first obtained authority from the board so to do:

(a) Issue any stocks, or any bonds, notes or other evidence of indebtedness payable more than 12 months after the date or dates thereof, or extend or renew any bond, note or any other evidence of indebtedness so that any extension

or renewal thereof shall be payable later than 12 months after the date of the original instrument, or

(b) Permit any demand note to remain unpaid for a period of more than 12 months after the date thereof.

The Board shall approve any such proposed issue, with or without hearing at its discretion, when satisfied that such issue is to be made in accordance with law and the purpose thereof is approved by the Board.

Based on its review of the Company's petition and the relevant statute, and for the reasons advanced by the Company, the Board HEREBY FINDS that the subject transactions do not fall within the ambit of N.J.S.A 48:3-9. In making this determination, the Board also notes that it has no objection to and will authorize the Company to make the installment payments, as indicated above, in lieu of paying the full remaining balance of the PPA purchase price on March 26, 1997. However, we emphasize that nothing in this Order shall constitute Board approval of the buyout agreement or Jersey Central's prudence in entering into this agreement, or the ratemaking treatment to be accorded the buyout payments, which, as indicated above, will be subject to further review and addressed in a subsequent Order of the Board.

By letter dated January 10, 1997, Jersey Central moved to strike Nabisco's exceptions to Judge Gural's Initial Decision on Remand on the basis that the filing of exceptions by Nabisco was not authorized by the ALJ's Order granting Nabisco participant status. By letter dated January 14, 1997, in response to Jersey Central's motion to strike, Nabisco petitioned the Board for full intervenor status, or, in the alternative, to allow its exceptions to stand. Jersey Central's motion is HEREBY DENIED, allowing Nabisco's exceptions to stand.

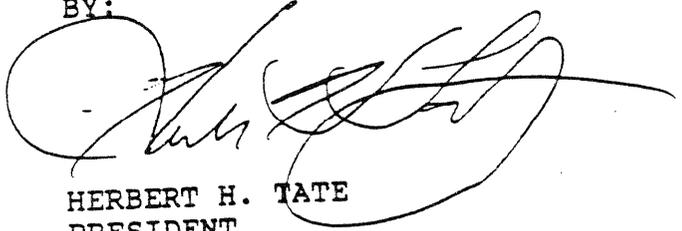
By letter dated March 20, 1997, Nestle moved to enter Judge Micheletti's March 7, 1997 decision in the Monmouth County litigation in the evidentiary record of this proceeding. Such submission, while objected to with respect to the inferences drawn by Nestle, was not opposed by Jersey Central in its response dated March 21, 1997. We HEREBY APPROVE Nestle's motion that the subject decision be entered into the record of this proceeding.

Finally we recognize that our decision in this matter, specifically with regard to the interim recovery of the Freehold buyout costs, represents a modification to certain terms of the stipulation of Final Settlement. Accordingly, we will provide the

parties to the Stipulation fifteen business days from the date of this Order to indicate, in writing, whether they accept these modified terms or whether, pursuant to their rights as preserved in the Stipulation, they opt to withdraw from the Stipulation of Final Settlement.

DATED: March 24, 1997

BOARD OF PUBLIC UTILITIES
BY:



HERBERT H. TATE
PRESIDENT

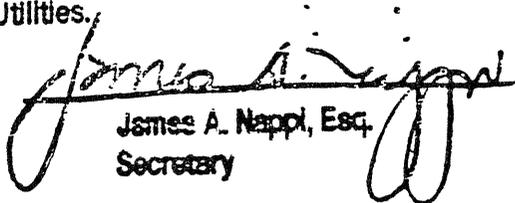


CARMEN J. ARMENTI
COMMISSIONER

ATTEST:


JAMES A. NAPPI, ESQ.
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities.


James A. Nappi, Esq.
Secretary

ATTACHMENT A

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For An Annual Review
and Revision of Its Tariff Rates
For the Levelized Energy
Adjustment Clause ("LEAC") and
Demand Side Factor ("DSF"), and
For Approval of Other Tariff
Revisions (1996 LEAC/DSF)

- and -

In the Matter of the Verified
Amended Petition of Jersey Central
Power & Light Company For Approval
of Issuance and Proposed
Ratemaking Treatment of Its
Settlement and Buyout Payment to
Terminate the Power Purchase
Agreement with Freehold
Cogeneration Associates, L.P.

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For Approval To
Amend Its Tariff For Electric
Service To Adopt and Implement a
Manufactured Gas Plant Remediation
Adjustment Clause ("1996 RAC")

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For Approval of
Proposed Ratemaking Treatment of
Its Settlement and Buyout of Power
Purchase Agreements with Crown
Energy, L.P. and Vista Energy,
L.P.

BPU Docket No. ER95120633
OAL Docket No. PUCRA12423-95N

BPU Docket No. ER95120634
OAL Docket No. PUCRA12423-95N

BPU Docket No. EM95110532
OAL Docket No. PUCRA12423-95N

In the Matter of the Board of
Public Utilities Generic
Proceeding Regarding Recovery of
Capacity Costs Associated with
Electric Utility Power Purchases
from Cogenerators and Small Power
Producers

BPU Docket No. EX93060255
CAL Docket No. PUC9673-94

In the Matter of the Petition of
Jersey Central Power & Light
Company For Approval of Changes to
its Rates of Depreciation on
Certain Classifications of its
Utility Property Pursuant to
N.J.S.A. 48:2-18 and N.J.A.C.
14:11-1.12

BPU Docket No. EO95030098

**STIPULATION OF
FINAL SETTLEMENT**

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

This Stipulation of Final Settlement (the "Stipulation") is hereby made and executed as of the 27th day of June, 1996, by and among the Petitioner, Jersey Central Power & Light Company ("JCP&L"), the Staff of the Board of Public Utilities ("Staff"; the "Board") and the Division of the Ratepayer Advocate (the "Advocate") (collectively, the "Parties"), in full and final resolution of all factual, legal and policy issues pertaining to JCP&L in connection with each and all of the above-captioned proceedings, and all such other matters pertaining to JCP&L as are specifically addressed herein.

The Parties do hereby join in recommending that the Board issue a Final Decision and Order approving the terms hereof, based upon the following stipulations:

negative charge per kWh in accordance with Tariff Rider UPC - Use of Proceeds Credit, a copy of which is annexed hereto.

(e) The Parties anticipate that JCP&L will have opportunities to reduce its costs of service during the period of this Stipulation. The Parties, therefore, agree that, effective as of the date of the Board's written Order approving this Stipulation, and continuing in effect thereafter until the conclusion of JCP&L's next full base rate proceeding (whether under traditional cost-of-service or through alternative ratemaking methodologies), JCP&L will further voluntarily reduce its current base rates by \$4.25 million in annual revenues, which decrease shall be allocated across-the-board to all customer classifications (except GTX, GTX-A and OTR) on a per-kWh basis based upon the forecasted sales for the 1996 LEAC Recovery Year.

(f) JCP&L shall file with the Board, with a copy to be provided to the Advocate, a yearly report, due by the 30th day of the month following the end of the first calendar quarter, detailing its calculations and accounting pursuant to this section of this Stipulation.

Depreciation Rates

17. JCP&L's pending Depreciation Rates filing, made by Verified Petition on March 3, 1995 under BPU Docket No. EO95030098, shall be settled in accordance with the separate Stipulation of Settlement of even date herewith which the Parties hereto have executed and are submitting to the Board for final approval, a copy of which is annexed hereto. In addition, the Parties further agree

that, effective January 1, 2000, JCP&L shall change its method of depreciation to remaining life depreciation, updated annually and booked in accordance with such annual updates commencing January 1, 2000.

GE Settlement Proceeds

18. Consistent with the Board's 1988 Order in Docket Nos. 8411-1220 and ER8701-44, the first \$5 million of proceeds derived by JCP&L from the General Electric Company ("GE") settlement relating to Oyster Creek will be applied to reduce the back-end of the unamortized balance of deferred replacement power costs which are currently being amortized through the LEAC at the rate of \$2.5 million per year. JCP&L previously agreed in the Stipulation of Settlement of its 1995 LEAC proceeding (dated April 24, 1995 in BPU Docket No. ER94120577) that any GE settlement proceeds received in excess of the first \$5 million would be booked and accumulated in a separate deferral account to be held for the benefit of ratepayers, with all ratemaking aspects of this deferral account to be decided in a future proceeding. To accomplish that agreement, the Parties agree that, except as provided below with respect to the fuel bundle discounts, JCP&L will apply the balance of such proceeds, as and when received, from the GE settlement in excess of the first \$5 million to write down, pro rata based on the prior year-end balances, the remaining regulatory assets which are included in the Strandable Cost Pool, a copy of which is annexed hereto as Attachment A. In addition, as part of the GE settlement, GE will provide a discount of \$1 million on the fuel bundle

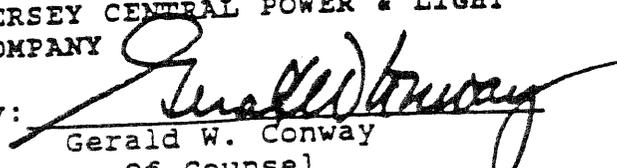
Conclusion

27. Based upon all the foregoing terms and conditions, the Parties hereby join in urging the approval and recommendation of this Stipulation by the Administrative Law Judge in this proceeding, and the final approval thereof by the Board.

IN WITNESS WHEREOF, each of the Parties have caused this Stipulation of Final Settlement to be duly executed on its behalf by its duly authorized counsel or other representative, as of the date set forth above.

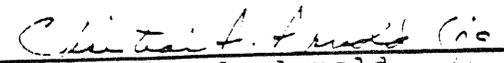
JERSEY CENTRAL POWER & LIGHT
COMPANY

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By:


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¹ The Division of the Ratepayer Advocate notes that for purposes of Paragraph No. 13, Freehold Cogen Buyout, and with regard to all issues in this Stipulation concerning the Freehold Cogen Settlement Agreement and Buyout Costs, Ratepayer Advocate Blossom Peretz recused herself from consideration of this matter and delegated all authority to negotiate on behalf of and to bind the Division of the Ratepayer Advocate to Deputy Ratepayer Advocate Menasha J. Tausner.

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the Petition of
Jersey Central Power & Light
Company For Approval of Changes to
its Rates of Depreciation on
Certain Classifications of its
Utility Property Pursuant to
N.J.S.A. 48:2-18 and N.J.A.C.
14:11-1.12

:
: BPU Docket No. EO95030098
:

:
: STIPULATION OF
: SETTLEMENT
: OF
: DEPRECIATION RATES
:
:

This Stipulation of Settlement, dated as of the 27th day of June, 1996, is hereby made and entered into by and among the Petitioner, Jersey Central Power & Light Company ("JCP&L"), the Staff of the Board of Public Utilities ("Staff"; the "Board") and the Division of the Ratepayer Advocate (the "Advocate") (collectively, the "Parties"), in full and final settlement of all issues in connection with the above-captioned proceeding.

The Parties do hereby join in recommending that the Board issue a Final Decision and Order approving the terms of this Stipulation of Settlement and fixing, pursuant to N.J.S.A. 48:2-18, proper and adequate rates of depreciation in accordance herewith for JCP&L to adopt and implement on the classifications of utility property which are more specifically described below and in the Verified Petition filed in this docket, to become effective for accounting purposes on JCP&L's books of account commencing

January 1, 1996, subject to and in accordance with the terms and conditions set forth hereinbelow, to wit:

1. JCP&L filed its Verified Petition in this proceeding on March 3, 1995, seeking authorization and approval of the Board, pursuant to N.J.S.A. 48:2-18 and N.J.A.C. 14:11-1.12, of certain changes to JCP&L's existing rates of depreciation on certain classifications of its utility property, as more fully set forth in the Verified Petition and the Exhibits attached thereto. JCP&L had initially proposed that the revised depreciation rates would be made effective as of June 1, 1995, in compliance with N.J.A.C. 14:11-1.2.

2. In summary, JCP&L's Verified Petition sought (a) a decrease in annual depreciation accruals for transmission and distribution plant ("T&D") of \$8.6 million, (b) a decrease in the general plant ("General") depreciation accrual of approximately \$0.2 million based on a change in accounting methodology previously approved by the Federal Energy Regulatory Commission ("FERC"), and (c) an increase in nuclear plant ("Nuclear") depreciation accrual of \$10.2 million to reflect actual and projected capital additions subsequent to JCP&L's last base rate case. The net effect of these changes would have resulted in an increase of \$1.4 million in JCP&L's overall annual depreciation accrual expense.

3. In its Verified Petition, JCP&L confirmed that it was not, at this time, seeking any increase in its customer rates to cover the proposed higher net amount of current depreciation expense resulting from the proposed changes in depreciation rates

and accruals, but would reserve the right to do so prospectively as part of its next base rate case.

4. Both Staff and the Advocate served extensive data requests on JCP&L, to which written responses were provided. In addition, a technical conference was held on August 15, 1995 among all Parties and their consultants to review the Company's filing and supporting data, and a settlement conference was held on January 22, 1996 to review all issues.

5. In light of the passage of time, JCP&L agreed to update its filing to reflect net plant balances for all affected accounts as of December 31, 1995, and to make certain further adjustments to reflect some of the recommendations of the Advocate's consultant with which all Parties have agreed.

6. Based thereon, the following changes to JCP&L's depreciation rates, to become effective as of January 1, 1996, have been stipulated to be proper and adequate for purposes of this proceeding:

(A) T & D PLANT

An analysis of the service lives for T&D plant accounts has revealed that there has in fact been a lengthening in asset lives for virtually all of the T&D functional accounts. The increased lives are based primarily on the increased average age and life expectancy of the assets and the effect of better technology in the more current asset vintages. The effects of these increased service lives are only partially being offset by an increase in net negative

salvage costs which are driven primarily by larger increases in the cost of removal than in associated salvage recoveries. Based upon such analysis, and in response to certain of the recommendations of the Advocate's consultant, the Parties have stipulated to a decrease, effective January 1, 1996, in the accrual rates to T&D plant accounts. The revised T&D composite accrual rates are 2.02% for Transmission plant and 3.49% for Distribution plant. The effect of such changes in the T&D plant depreciation accruals is a decrease in annual expense of \$11.3 million.

(B) GENERAL

JCP&L also requested a change in the methodology used in accounting for certain mass accounts for General plant which is depreciated on a vintage year basis. Currently, the Company uses the straight line method, vintage group procedure, remaining life technique of depreciation for such accounts, with retirements recorded as they occur. Under the proposed change in methodology to the whole life technique, retirements of such plant would be recorded only when a vintage year has been fully depreciated, based on the currently approved composite average service lives and depreciation rates. When fully depreciated, the entire original cost of the vintages would then be retired from plant in service and no early retirements would be recorded. This change in methodology has been approved by the Federal Energy

Regulatory Commission ("FERC") in Docket No. AD94-131-000. The accounts in question currently have book reserves which are \$3.1 million in excess of calculated reserves at December 31, 1993. The Company proposes to amortize this excess over the remaining lives of the underlying assets which would result in a \$0.2 million decrease in the functional annual depreciation accrual. The Parties have stipulated that this change in accounting methodology is proper and should be adopted and made effective as of January 1, 1996.

(C) NUCLEAR

JCP&L has a net investment in the Oyster Creek and Three Mile Island Unit 1 ("TMI-1") nuclear generating stations of \$691.6 million and \$138.6 million, respectively, at December 31, 1995. These plants are scheduled to be retired from service at the license expiration dates of 2009 and 2014, respectively. The currently approved accrual rates of 4.50% and 3.37%, respectively, are not sufficient to fully depreciate the net plant investment at December 31, 1995, over the remaining service lives. The Parties have therefore stipulated to an increase effective January 1, 1996 in the accrual rates for both Oyster Creek and TMI-1. Forecasted additions and curve-predicted retirements for both Oyster Creek and TMI-1 through June 30, 2000 are included in the proposed accrual rates, in order to allow a better allocation of the plants' known and anticipated

costs over their remaining periods of service. The revised accrual rates for Nuclear plant are 6.01% for Oyster Creek and 4.29% for TMI-1. The effect of these changes to the Nuclear plant depreciation accruals is an increase in annual expense of \$16.8 million. Based upon Generally Accepted Accounting Principles (GAAP) as interpreted by the Federal Energy Regulatory Commission (FERC), the Company may record the portion of the \$16.8 million related to future planned additions in an expense account other than Account 403 DEPRECIATION EXPENSE, with the offsetting credit charged to an account other than Account 108 ACCUMULATED PROVISION FOR DEPRECIATION. The Company may record such annual "depreciation" increase related to these costs by charging Account 407.3 REGULATORY DEBITS with the offsetting credit being charged to Account 254 OTHER REGULATORY LIABILITIES.

7. Based upon the foregoing stipulated changes and adjustments, the effect will be a net increase in JCP&L's overall annual depreciation accrual expense per books of \$5.3 million, effective as of January 1, 1996.

8. JCP&L further confirms and agrees, as stated in its Verified Petition in this proceeding, that it will not seek any increase in its retail base rates to recover the proposed net increase of \$5.3 million in annual depreciation expense until its next base rate proceeding, and then only on a prospective basis.

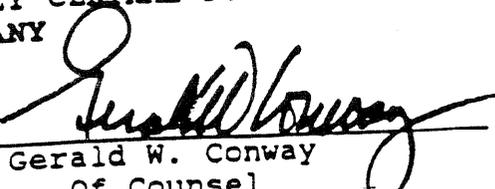
9. It is further stipulated and agreed that this Stipulation of Settlement, fixing proper and adequate current rates

of depreciation on the affected classifications of JCP&L's utility property, shall be without prejudice to the rights and positions of any of the Parties hereto with respect to the ratemaking treatment to be afforded to the resulting depreciation expenses in connection with any future base rate proceeding involving JCP&L. JCP&L further agrees that it shall continue to bear its required burden of proof to establish the reasonableness and prudence of all its costs of service, including depreciation expenses, as and to the extent it is required to do so by and in accordance with the legal and regulatory principles and policies applicable at the time of such future base rate proceeding.

WHEREFORE, the Parties hereto have caused this Stipulation of Settlement to be duly executed, as of the date set forth above.

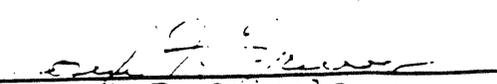
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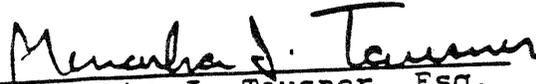
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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES
OFFICE OF ADMINISTRATIVE LAW

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For An Annual Review
and Revision of Its Tariff Rates
For the Levelized Energy
Adjustment Clause ("LEAC") and
Demand Side Factor ("DSF"), and
For Approval of Other Tariff
Revisions (1996 LEAC/DSF)

- and -

In the Matter of the Verified
Amended Petition of Jersey Central
Power & Light Company For Approval
of Issuance and Proposed
Ratemaking Treatment of Its
Settlement and Buyout Payment to
Terminate the Power Purchase
Agreement with Freehold
Cogeneration Associates, L.P.

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For Approval To
Amend Its Tariff For Electric
Service To Adopt and Implement a
Manufactured Gas Plant Remediation
Adjustment Clause ("1996 RAC")

In the Matter of the Verified
Petition of Jersey Central Power &
Light Company For Approval of
Proposed Ratemaking Treatment of
Its Settlement and Buyout of Power
Purchase Agreements with Crown
Energy, L.P. and Vista Energy,
L.P.

BPU Docket No. ER95120633
OAL Docket No. PUCRA12423-95N

BPU Docket No. ER95120634
OAL Docket No. PUCRA12423-95N

BPU Docket No. EM95110532
OAL Docket No. PUCRA12423-95N

In the Matter of the Board of
Public Utilities Generic
Proceeding Regarding Recovery of
Capacity Costs Associated with
Electric Utility Power Purchases
from Cogenerators and Small Power
Producers

BPU Docket No. EX93060255

OAL Docket No. PUC9673-94

In the Matter of the Petition of
Jersey Central Power & Light
Company For Approval of Changes to
its Rates of Depreciation on
Certain Classifications of its
Utility Property Pursuant to
N.J.S.A. 48:2-18 and N.J.A.C.
14:11-1.12

BPU Docket No. E095030098

ADDENDUM TO
STIPULATION OF
FINAL SETTLEMENT

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

This ADDENDUM (the "Addendum") is hereby made and executed as of the 31st day of December, 1996, by and among the Petitioner, Jersey Central Power & Light Company ("JCP&L"), the Staff of the Board of Public Utilities ("Staff"; the "Board") and the Division of the Ratepayer Advocate (the "Advocate") (collectively, the "Parties"), as an Addendum to the Stipulation of Final Settlement (the "Stipulation") which was made and executed by the Parties as of the 27th day of June, 1996.

Without prejudice to the respective positions of the Parties with respect to the resolution of the issues previously raised at the Remand Hearing and in the Initial Decision on Remand issued by ALJ William Gural in connection with the ratemaking treatment of the Freehold Cogen Buyout Costs (the "Freehold

Issues"), the Parties do hereby join in recommending that the Board issue a Final Decision and Order approving the terms of the Stipulation, as modified by this Addendum, based upon the following additional stipulations:

MODIFICATIONS TO THE STIPULATION

1. The Stipulation contemplated and agreed (in Paragraph 25 thereof) that the Parties would use their best efforts "to ensure that the Board issues a written Order adopting this Stipulation no later than July 17, 1996". Based on that expectation, certain provisions of the Stipulation were calculated on a retrospective basis, as follows:

a. With respect to the final adjustment of JCP&L's Levelized Energy Adjustment Clause ("LEAC") of an additional \$7 million increase on an annualized basis, the Parties agreed in Paragraph 7 of the Stipulation that there would be "a compression adjustment thereon from June 5, 1996 to account for a portion of the delay in the effective date of such additional increase as compared to the commencement of the 1996 LEAC Recovery Year on March 1, 1996";

b. Under Paragraph 14(a) of the Stipulation, regarding the resolution of all issues relating to the subject of NUG Capacity Cost Recovery, JCP&L agreed to reduce its base rates by \$5 million in annualized revenues. Under Paragraph 16(e), JCP&L agreed to an additional reduction in base rates of

\$4.25 million in annualized revenues to reflect potential future cost savings. In Paragraph 8 of the Stipulation, the Parties reiterated and confirmed their agreement, which had been set forth in the Provisional Settlement dated May 31, 1996 (the "Provisional Settlement"), that JCP&L would apply a "LEAC credit to its deferred energy balance as set forth therein to account for the effect of the delay from May 23, 1996 in the implementation of the base rate decreases discussed in Paragraphs 14(a) and 16(e) hereof", as an equitable offset to the LEAC compression adjustment; and

c. In Paragraph 17 of the Stipulation, regarding Depreciation Rates, the Parties made reference to the separate Stipulation of Settlement of Depreciation Rates (the "Depreciation Stipulation"), which was also dated June 27, 1996, with respect to certain agreed-upon adjustments to JCP&L's book depreciation rates. In Paragraph 6 of the Depreciation Stipulation, the Parties agreed to certain adjustments to JCP&L's book depreciation rates which were "to become effective as of January 1, 1996".

2. Due to intervening events and further proceedings, the Parties now recognize that the Stipulation will not be submitted for final Board approval until sometime in January 1997, at the earliest.

3. Assuming an effective date of January 1, 1997 for calculational purposes, the effect of the agreed-upon LEAC compression adjustment would require an additional LEAC increase of \$4,028,000 applicable for the two remaining months (January and February, 1997) of the 1996-97 LEAC Recovery Year (see Attachment A-1). When coupled with the annual LEAC increase of \$7 million as called for in the Stipulation, the total LEAC increase effective for the winter months of January and February 1997 would be \$29.3 million on an annualized basis (see Attachment A-2). Such an increase, of course, even though temporary, would have a dramatic impact on residential customers, and particularly those who need to use electricity for water and space heating. Even when offset by the base rate decreases contemplated by the Stipulation (\$5 million related to NUG Capacity Cost Recovery, \$4.25 million related to potential future cost savings and an additional \$1.4 million to offset the Other Tariff Revisions as set forth in Paragraph 10(a) thereof), JCP&L's customers would still see a net overall rate increase, effective January 1, 1997, of nearly \$18.7 million on an annualized basis, and then a sharp swing of an annualized decrease in rates of approximately \$23.8 million (including the elimination of the current Compression Adjustment Factor) to become effective as of March 1, 1997 (see Attachment A-2). Worksheets setting forth the basis for the foregoing calculations are attached hereto as Attachments A-1 and A-2.

4. The Parties recognize that the sharp swings of increases and decreases in customer rates which would now flow from the application of the original terms of the Stipulation, because

of the delay in the approval thereof, are not in the best interests of JCP&L's customers and should be avoided if at all possible. Accordingly, the Parties are in agreement that the best way to maintain rate stability and to preserve the fundamental benefits of the Stipulation to both JCP&L and its customers is to waive and remove essentially all retrospective aspects of the Stipulation and to coordinate the implementation of all required rate changes on a contemporaneous basis insofar as possible and practical. More specifically, the Parties HEREBY AGREE that the Stipulation be modified, as follows:

a. The \$7 million annualized increase in JCP&L's 1996 LEAC, as provided by the Stipulation, shall become effective prospectively upon the Board's final approval of the Stipulation and this Addendum, without any compression or other adjustments which would have compensated JCP&L for carrying costs or lost income foregone (present valued at \$.9 million) as a result of the delay in implementing this 1996 LEAC increase (see Attachment B-1).

b. The total amount of approximately \$10.6 million of base rate decrease, as provided by and in accordance with the terms of the Stipulation, shall be increased by \$1.4 million, to a new total of \$12.0 million of base rate decrease, which decrease shall become effective prospectively upon the Board's final approval of the Stipulation and

this Addendum and contemporaneously with the \$7 million LEAC increase. This additional base rate decrease of \$1.4 million has a net present value to customers of approximately \$4.0 million for the period from January 1, 1997 through July, 2000, which is approximately equal to the present value of the LEAC credit which had been contemplated by Paragraph 8 of the Stipulation (see Attachment B-2). Thus, the effect of this Addendum is to preserve the net present value of this benefit to customers.

c. The existing Compression Adjustment Factor ("CAF"), which was approved by the Board as part of the Provisional Settlement, shall be terminated effective upon the Board's final approval of the Stipulation and this Addendum (but not later than March 1, 1997), thereby reducing customer rates by approximately \$1.5 million on an annualized basis.

d. Except to the extent required by the application of Generally Accepted Accounting Principles ("GAAP"), the agreed-upon adjustments to JCP&L's approved book depreciation rates, as provided in the Depreciation Stipulation, shall become effective prospectively as of January 1, 1997. In addition, the depreciation accrual rates on Nuclear plant shall be further increased for the

years 1997, 1998 and 1999, so as to accrue an additional \$9.1 million of book depreciation expense on such Nuclear plant balances over those three years, following which the Nuclear plant depreciation rates shall be reduced to the rates set forth in the Depreciation Stipulation, beginning in the year 2000. This adjustment is intended to preserve for JCP&L's customers the equivalent benefits of the Depreciation Stipulation with respect to the value of the increased Nuclear depreciation expense that would have been booked in 1996 thereunder.

5. The overall effect of all the foregoing changes will result in an annualized net rate reduction to JCP&L's customers of approximately \$6.5 million, as shown in Attachment C.

6. It is further agreed by the Parties and recommended to the Board that all the foregoing tariff rate adjustments, as provided above, should be made effective on a contemporaneous basis as of the effective date of the Board's Order approving the Stipulation and this Addendum and the filing and acceptance by the Board of JCP&L's compliance tariffs relating thereto.

7. Subject to the modifications set forth hereinabove, and without prejudice to the respective positions of the Parties regarding the Freehold Issues, the Parties reaffirm their joint approval and recommendation to the Board that the Stipulation and this Addendum be approved.

IN WITNESS WHEREOF, each of the Parties have caused this Addendum to be duly executed on its behalf by its duly authorized counsel or other representative, as of the date set forth above.

JERSEY CENTRAL POWER & LIGHT
COMPANY

By: _____


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DIVISION OF THE RATEPAYER ADVOCATE

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DEC 31 '96 13:49 FR RATEPAYER ADVOCATE 201 624 1047 10 6483879 P.02/02
SENT BY: Berlack Israels & Liberman 12-31-96 12:13PM ; BERLACK ISRAELS - 201 624 1047:811

IN WITNESS WHEREOF, each of the Parties have caused this
Addendum to be duly executed on its behalf by its duly authorized
counsel or other representative, as of the date set forth above.

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