

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

Jersey Central Power & Light Co. | Docket No. ER20-227-000

**AFFIDAVIT OF DR. MARLON GRIFFING  
ON BEHALF OF NEW JERSEY DIVISION OF RATE COUNSEL**

1. My name is Marlon Griffing. I have prepared this Affidavit and related Exhibits, identified as Exhibits MFG-1 through MFG-12, on behalf of the New Jersey Division of Rate Counsel and in response to the testimony and exhibits submitted in this proceeding by Mr. Adrian McKenzie on behalf of Jersey Central Power and Light Company (“JCP&L”) (*see* Exhibit Nos. JCP-200 through JCP-208). Mr. McKenzie’s testimony is offered in support of JCP&L’s request for a 10.3% base return on equity (“ROE”).
2. I set forth below a brief statement of my experience, an overview of the methodologies I employed in conducting my analyses, and which form the bases for my determination of the proper ROE for JCP&L, and address the positions taken in by Mr. McKenzie in this testimony and exhibits. Based on my analysis, I have concluded that JCP&L’s requested ROE is excessive. A just and reasonable ROE for the Company would be 8.06%.
3. I hold bachelors, masters, and doctoral degrees in economics from the University of Nebraska-Lincoln. Utility regulation was one of my areas of concentration in my Ph.D program. I have 18 years’ experience as an expert witness and

consultant, primarily addressing the cost of capital and capital structure for electric, natural gas, and water utilities. I have also made appearances regarding rate design, competitive effect of mergers, reliability and supply adequacy, and oil-pipeline companies in certificate of need cases. In addition, I arbitrated a telecommunications dispute for the Nebraska Public Service Commission. I was the cost-of-capital witness for natural-gas cases for the advocacy unit of the Minnesota Department of Commerce for nearly 10 years before becoming a cost-of-capital consultant. I have appeared over 30 times in cost-of-capital dockets before the regulatory agencies of Arkansas, California, Hawaii, Maine, Maryland, Minnesota, Nebraska, New Jersey, New Mexico, North Dakota, Oklahoma, Pennsylvania, and South Dakota.

4. The analysis I performed to estimate JCP&L's current capital attraction cost of equity relies on recognized techniques that are consistent with that purpose. Further, I have considered the appropriate ROE for JCP&L using methodologies that are consistent with those proposed in recently-issued "briefing orders" issued by the Federal Energy Regulatory Commission ("FERC") in proceedings in both New England and the Midwest.
5. Specifically, in choosing my proxy group, I have applied screens consistent with my understanding of FERC precedent. In the process of using the FERC screens to identify companies with risk profiles similar to JCP&L, I have excluded companies with an ownership structure or planned generation plant closures that

affect their risk profiles negatively. This influence renders the risk profiles of the excluded companies insufficiently comparable to JCP&L.

6. My ROE analysis uses the two-step discounted cash flow (“DCF”) methodology recommended by FERC. I also apply the capital asset pricing model (“CAPM”), consistent with the FERC’s proposals in its briefing orders. In both these models, I use a general long-term gross domestic product (“GDP”) growth rate as well as short-term earnings per share (“EPS”) and dividend yields specific to the proxy group companies. By including the long-term growth rates, I recognize that utility companies cannot persistently grow their earnings faster than the growth rate of the economy.
7. I apply the FERC-proposed low-end and high-end outlier screens to my two-step DCF and CAPM results. The resulting ROE ranges and measures of central tendency are consistent with finding a cost of equity that fits with JCP&L’s risk profile.
8. I include a risk-premium analysis, recognizing that FERC has proposed to move away from its former reliance on the DCF model alone. My recommended ROE reflects the results of the two-step DCF, CAPM, and risk premium methodologies equally, also consistent with FERC’s proposed approach. It does not include use of proxy company E/B ratios, because I do not believe they indicate JCP&L’s capital attraction cost of equity.
9. I note that in his affidavit for this proceeding JCP&L witness Adrian McKenzie cites past testimony of mine in which I had applied the ECAPM method. Exh.

JCP-200 at 58 & n.117. In the testimony he cites, the difference between the ECAPM and straight CAPM methods did not materially affect my conclusions or recommendations. When I reconsidered the issue in subsequent testimony (in multiple cases prior to my testimony in this proceeding), I concluded that the ECAPM method was inferior to the CAPM method. The reason is my view is that making the ECAPM adjustment moved away from, rather than advanced toward, the goal of accurately advancing utilities' capital attraction cost of equity.

10. I find that using a well-constructed proxy group and the methodological techniques described here (including those in the Commission's briefing orders), the median DCF result is 7.16%; the median CAPM result is 7.56%; and the Risk Premium result is 9.45%. Thus, the median-based result of a reasonable application of those three cost-indicative methods is 8.06%, which is the base ROE that I currently recommend be adopted by the Commission in this proceeding.

**DECLARATION**

I, Marlon Griffing, am submitting the foregoing Affidavit in the above-captioned proceedings on behalf of the New Jersey Division of Rate Counsel. I declare under penalty of perjury that the contents of the Affidavit are true and correct to the best of my knowledge, information and belief.

Executed on November 20, 2019

*Marlon Griffing*

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Marlon Griffing