Agenda Date: 5/8/19
Agenda Item: 2A

STATE OF NEW JERSEY
Board of Public Utilities
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ENERGY

IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES' CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017	)	DECISION AND ORDER APPROVING STIPULATION
	)	DOCKET NO. AX18010001
IN THE MATTER OF JERSEY CENTRAL POWER AND LIGHT COMPANY FOR APPROVAL OF REVISED RATES (EFFECTIVE ON AN INTERIM BASIS APRIL 1, 2018) TO REFLECT THE REDUCTION UNDER THE TAX CUTS AND JOBS ACT OF 2017	)	AND
	)	DOCKET NO. ER18030226

Parties of Record:

Greg Eisenstark, Esq., Cozen O'Connor, for Jersey Central Power and Light Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel
Steven S. Goldenberg, Esq., Giordano, Halleran & Ciesla, P.A., for New Jersey Large Energy Users Coalition

BY THE BOARD:

By this Decision and Order, the New Jersey Board of Public Utilities ("Board" or "BPU") considers a Stipulation of Settlement ("Stipulation") entered into by Jersey Central Power and Light Company ("JCP&L" or "Company"), the New Jersey Division of Rate Counsel ("Rate Counsel"), the New Jersey Large Energy Users Coalition ("NJLEUC") and Board Staff (collectively, "Parties") which seeks to resolve all issues related to this matter.

BACKGROUND

By Order[1] ("Generic TCJA Order") dated January 31, 2018, the Board directed affected utilities[2] to file petitions proposing new rates reflecting the impacts from the Federal Tax Cuts and Jobs Act (the "2017 Act") signed into law on December 22, 2017. The effective date of the 2017 Act was January 1, 2018. The 2017 Act set forth changes to the Federal Internal Revenue Tax

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[1] See In re the New Jersey Board of Public Utilities Consideration of the Tax Cuts and Jobs Act of 2017, BPU Docket No. AX18010001 (January 31, 2018).

[2] The affected utilities are investor-owned gas, electric, water and wastewater companies under the jurisdiction of the Board. In addition, affected utilities shall be those with 2017 revenues equal to or greater than $4.5 million.

Code ("Tax Code"), including a reduction in the maximum corporate tax rate from thirty-five percent ("35%") to twenty-one percent ("21%"). The Board is charged with the authority to ensure that the regulated utilities' rates charged to ratepayers are just and reasonable. When the Board sets rates in base rate cases and in certain annual/periodic clauses, utilities are permitted to gross up their revenue requirement as well as set other rate factors, including the accumulated deferred income tax, based on the then existing 35% corporate tax rate.

The Board issued the Generic TCJA Order which set all affected utility rates as interim and established a proceeding to consider the implications of the 2017 Act. Based upon the Board's review of the 2017 Act, the Board found in its Generic TCJA Order that the changes to the Tax Code will provide savings to the affected utilities and will result in an over-collection of tax revenue by the affected utilities that will not be paid in federal income taxes. The affected utilities were required to file amended tariffs reflecting a reduction in rates resulting from the reduction in the corporate tax rate effective April 1, 2018, as well as develop a plan to address other rate factors and to refund any over collection in rates.

JCP&L FILING

On March 2, 2018, the Company filed a petition pursuant to the Generic TCJA Order, which included proposed tariffs as well as a proposed plan. According to the petition, JCP&L recalculated its base rates to incorporate the impact of the mandatory reduction in the federal corporate income tax ("FIT") rate from 35% percent to 21%, effective January 1, 2018 in accordance with the 2017 Act and the Generic TCJA Order. JCP&L's proposed methodology and quantifications of the effects of the 2017 Act included the following: (1) a reduction in the FIT rate which would result in a base rate reduction of $28.6 million annually for the Company; (2) a deferral, as a regulatory liability, of $6.3 million on its books, with interest, for the impact of the reduction in the FIT rate on its tax gross-up between January 1, 2018 and March 31, 2018;[3] and (3) non-rate base (unprotected) Excess Deferred Income Taxes ("EDITs")[4] of $90.89 million[5] to be amortized over a ten-year period (levelized).

The Company indicated that other impacts as a result of the 2017 Tax Act included a $359.15 million[6] regulatory liability from the rate base. The Company indicated that further impacts as a result of the 2017 Act included a deferred regulatory liability of $6.83 million associated with excess deferred taxes for the period of January 1 through June 30, 2018, which the Company proposed to continue to defer until its next base rate case. JCP&L proposed a new rate clause called the Rider Tax Act Adjustment ("Rider TAA"), which would include the amortizations of the EDITs, including a gross-up to revenue requirement, to be effective July 1, 2018. The proposed Rider TAA would result in annual revenues being reduced by an additional $1.3 million, effective upon implementation of the rider. The rider would include a gross-up to revenue requirement and any true-up amounts from the base rate adjustment for the change in current taxes.

[3] The Company proposed to accrue interest at the interest rate applicable to the rate actually incurred on the Company's short-term debt (debt maturing in one year or less), or the rate on equivalent temporary cash investments if the Company has no short-term debt outstanding.
[4] The portion of JCP&L's jurisdictional Accumulated Deferred Income Taxes ("ADITs") that are in excess of its deferred tax liability, as a result of the reduced FIT rate under the 2017 Act.
[5] Generally related to riders, pension and Other Post-Employment Benefits ("OPEB") benefits, TMI-2 and Net Operating Losses ("NOLs").
[6] JCP&L proposed that the $359,153,314 of rate base-related EDITs be amortized using the Average Rate Assumption Method ("ARAM"), in accordance with the IRS normalization rules for protected EDITs.

According to the petition, the unamortized rate base-related EDIT balance would remain in rate base. Accordingly, interest on the unamortized rate base-related EDIT balance would accrue at the Company's approved, overall post-tax weighted average cost of capital ("WACC"), which is currently 7.47%. If the Company's WACC is set to a different level in another Board proceeding, the revised WACC would be applied to the unamortized rate base-related EDIT balance as of the effective date of the revised WACC. Interest on the non-rate base (unprotected) EDIT portion of the TAA unamortized balance would accrue at an interest rate equal to the rate on ten-year constant maturity Treasuries plus 60 basis points, as shown in the Federal Reserve Statistical Release on or closest to January 1 of each year and will be compounded annually in January. The Company proposed the ten-year Treasury rate (plus 60 basis points) because the unprotected EDITs would be amortized over a ten-year period.

In regard to the impact of the 2017 Act in rate clauses, JCP&L asserted that, effective January 1, 2018, the Company reduced the federal tax rate for accruals on deferrals for its rate clauses to 21%, so there is no deferred accounting necessary for that aspect of the tax rate change. The Company also stated in the petition that there is no tax "gross-up" for rate clause recovery, so no deferral of tax expense is required for the period of January 1, 2018 through March 31, 2018 or thereafter. JCP&L further stated that the reduced FIT would not have any impact on the Company's rate clauses except for: (1) The Non-utility Generation Charge ("NGC") related to Yards Creek, which recovery includes a return on rate base which is computed using a revenue requirement impacted by the lower FIT rate, effective January 1, 2018; and (2) The Market Transition Charge ("MTC") Tax, which would have a change in its federal income tax liability associated with BGS Deferred Transition Costs. JCP&L indicated that it would update its then-pending 2016 Rider NGC case (Docket No. ER17030306) to reflect the changes in these two clauses rather than making the changes in this petition.

The Company's proposed tariffs included an across-the-board rate reduction reflecting the reduction in the corporate tax rate from 35% to 21%. As a result, the typical residential electric customer using 9,212 kWh per year would receive an annual decrease of $15.12 or 1.1%.

By motion dated February 13, 2018, NJLEUC moved to intervene in this proceeding as well as for the admission pro hac vice of Paul F. Forshay, Esq. On March 16, 2018, the Company filed a response, indicating that it would not oppose the motion if NJLEUC identified its members that are currently JCP&L customers. On March 20, 2018 NJLEUC provided a list of its members that received electric distribution services from JCP&L, but reserved its right to object to the identification of some or all of its members in future proceedings.

By Order dated March 26, 2018, the Board directed the Company to implement its proposed base rate reduction on an interim basis, effective April 1, 2018. As a result of the March 26, 2018 Order, the typical residential electric customer using 9,212 kWh per year would see an annual decrease of $15.12 or 1.1%. The March 26, 2018 Order also granted the motion for intervention by NJLEUC and admitted Mr. Forshay to practice before the Board pro hac vice in this matter.

JCP&L UPDATED FILING

On August 1, 2018, the Company filed an update ("Update") to its petition upon a review of its deferred tax accounts relevant to this matter. JCP&L discovered that there were deferred taxes inadvertently attributed to the regulatory asset representing the future tax liability for its second securitization bonds, i.e., those related to the securitization of BGS transition costs.[7] The Company recovers the costs associated with the transition bonds and associated taxes through rate clauses in its tariff that are referred to as the DB-TBC and DB-MTC-TAX. Because JCP&L re-calculated its Deferred Balance MTC-Tax regulatory asset, reducing the asset by $11.13 million[8] to reflect the future income tax liability at the new lower 21% federal income tax rate, the Company stated that customers already realized the benefit of the federal income tax rate reduction through reduced securitization costs. Therefore, JCP&L asserted that it was necessary for the Company to remove the deferred tax liability totaling $11.13 million from its EDIT balances that are the subject of this filing, to avoid "double counting" the impact of the 2017 Act on this particular deferred income tax balance.

This Update also results in corresponding changes to JCP&L proposed Rider TAA rates. JCP&L stated that its revenues would be reduced by $0.7 million annually, in addition to the $28.6 million base rate reduction that took effect on April 1, 2018.

As a result of the updated petition, the typical residential electric customer using 9,212 kWh per year would see an additional annual decrease of $0.36 or 0.03%.

STIPULATION

Following a review of discovery and discussions, the Parties executed the Stipulation, which provides for the following:[9]

13. The Parties agree that the reduction in the federal income tax rate, before consideration of the EDITs results in a total annualized revenue requirement reduction of $28,647,891, excluding Sales and Use Tax. Rates reflecting this reduction were made effective April 1, 2018. This Stipulation assumes a May 15, 2019 rate effective date for the subsequent rate changes.

14. The Parties agree that JCP&L's property-related protected EDIT liability was $248,948,036 at December 31, 2017 and that this amount should be amortized over the remaining lives of the related assets using the ARAM. For the period January 1, 2018 through May 14, 2019, the estimated deferral for property-related EDIT ARAM amortization is $10,380,593. The actual amount at May 14, 2019 will be the "ARAM Stub Period Amount", which will be refunded over a five-year period.

15. The Parties agree that the property-related unprotected EDIT liability was $106,874,179 at December 31, 2017, and that this amount should be amortized over a five-year period.

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[7] By Order dated June 8, 2006, the BPU approved and issued a Bondable Stranded Costs Rate Order ("Deferred BGS Transition Costs Rate Order") (Docket No. ER03020133).

[8] ($102.04 million), the total unprotected EDITs in the updated petition less the unprotected EDITs amount of ($90.91 million). The latter amount was revised from ($90.89 million), the unprotected EDITs amount stated in the Company's initial petition, as a result of Discovery Response RCR-JCP&L-A-1.

[9] Although summarized in this Order, the detailed terms of the Stipulation are controlling, subject to the findings and conclusions of this Order. Paragraphs are numbered to coincide with the Stipulation.

16. The Parties agree that the non-property unprotected EDIT asset was $86,142,241 at December 31, 2017, and that this amount should be amortized over a five-year period.

17. The Parties agree that interest should not accrue on the outstanding net unprotected EDIT liability.

18. The Parties agree that it is appropriate to reduce JCP&L's EDIT net refund obligation through a recognition of the increase in rate base that will occur as a result of amortization of the $106,874,179 of property-related unprotected EDITs in rate base. This recognition will be equal to the return on the cumulative monthly change in rate base at the Company's post-tax weighted-average cost of capital, which is currently 7.47% and as it may change as a result of a future base rate case. *See* Schedule 1 attached to the Stipulation.

19. The Parties agree that base rates will be adjusted to reflect the amortization of the property-related protected EDIT asset using ARAM.

20. The Parties agree that Rider TAA will ensure that all benefits associated with the 2017 Act will be flowed through to customers. Rider TAA will include the amortization of: 1) the property-related unprotected EDIT liability; 2) the non-property unprotected EDIT asset; 3) the ARAM Stub Period Amount; 4) return on the cumulative monthly change in rate base; and 5) Other Amortization (as defined in the Stipulation). Rider TAA will expire after five years.

21. The Parties further agree that JCP&L will file a petition annually for the purpose of reviewing and reconciling its Rider TAA rates and revenues, and that the adjustment to base rates for ARAM amortization will be reconciled in future base rate cases.

22. The Parties agree that the Company's Initial Stub Period (i.e., the period of time between January l, 2018 and March 31, 2018) refund obligation is estimated to be $7,036,097 at May 14, 2019, including interest that will have accumulated. The Parties further agree that the actual amount at May 14, 2019, including interest, will be the actual Initial Stub Period refund obligation. The amount of the actual Initial Stub Period refund obligation will be refunded to customers through a one-time bill credit in the next billing cycle after the Board approves the Stipulation.

23. In the course of the review of this filing, it was determined that JCP&L should have protected a portion of the excess deferred tax asset related to Net Operating Losses ("NOLs"). Accordingly, JCP&L reclassified a portion of both the excess deferred tax asset of $15,217,625 and the accumulated deferred taxes ("ADITs") asset of $22,826,437 related to the NOLs. The Parties agree that, as a result of the Stipulation, the ADITs related to the NOLs are deemed to be included in rate base.

24. The Parties agree that, to resolve all other outstanding matters related to this filing, JCP&L shall debit the total annual excess deferred tax-related amortization

liability by $1,650,000 in each of the five (5) years of the amortization of the unprotected EDITs, which amount shall be referred to as Other Amortization.

25. The rate impact of the Stipulation will be as follows:

TCJA Rate Adjustments - Overall Class Average Per Customer

		ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019	ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019	ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019
	Current Monthly Bill (1)	Proposed Monthly Bill (2)	Proposed Monthly Bill (2)	Proposed Monthly Bill Reduction ($)	Proposed Monthly Bill Reduction ($)	Proposed Monthly Bill Reduction (%)	Proposed Monthly Bill Reduction (%)
Rate Class							
Residential (RS)	$110.36	$105.60	$109.73	-$4.76	-$0.63	-4.3%	-0.6%
Residential Time of Day (RT/RGT)	$158.93	$151.61	$158.06	-$7.32	-$0.87	-4.6%	-0.6%
General Service – Secondary (GS)	$596.36	$572.66	$593.18	-$23.70	-$3.18	-4.0%	-0.6%
General Service - Secondary Time of Day (GST)	$31,508.71	$30,491.58	$31,377.66	-$1,017.13	-$131.05	-3.2%	-0.4%
General Service – Primary (GP)	$39,416.59	$38,364.16	$39,275.71	-$1,052.43	-$140.88	-2.7%	-0.4%
General Service – Transmission (GT)	$103,033.06	$101,179.28	$102,783.38	-$1,853.78	-$249.68	-1.8%	-0.2%
Lighting (Average Per Fixture)	$10.67	$10.46	$10.49	-$0.21	-$0.18	-2.0%	-1.7%

Current: Rates Effective April 1, 2019
Includes 6.625% Sales and Use Tax
JCP&L will refund the one-time amount through the TAA from May 15 through June 14 based on a kWh credit for each customer class
RS Based on average monthly usage of 945 kWh during summer and 679 kWh during winter months

26. The Parties agree that the terms of the Stipulation shall be deemed to resolve all factual and legal issues relating to the instant matter in BPU Docket Nos. AX18010001 and ER18030226. However, the Parties also acknowledge that other regulatory agencies and governmental taxing authorities recognize that the excess deferred tax balances on the Company's books are subject to further adjustment and which associated amortizations and refunds are also subject to reconciliation to recognize further adjustments, including but not limited to adjustments to EDIT balances and actual ARAM amortization. Accordingly, the Parties recognize that JCP&L may have to address additional issues that arise as a result of the 2017 Act in future filings with the Board.

DISCUSSION AND FINDINGS

Staff, Rate Counsel, and NJLEUC have reviewed the Company's initial and updated filings, exchanged discovery and reached a resolution on all issues in this matter. The one-time refund of $4.13 is in addition to the annual decrease of $15.12 pursuant to the Board's March 26, 2018 Order. In addition, the typical residential customer using 9,212 annual kWh will see a $0.63 decrease in their monthly bill related to the balances being refunded through Rider TAA. The Stipulation addresses the effects of the 2017 Act on JCP&L's rate base, including protected and unprotected deferred income taxes. Finally, the Stipulation appropriately provides that an additional review of any related refunds and rates may occur, as necessary, in future proceedings.

The Board has reviewed the record in this proceeding, including the initial filing, updated filing and the Stipulation. The Board **HEREBY FINDS** the Stipulation to be reasonable, in the public interest, and in accordance with the law. Therefore, the Board **HEREBY ADOPTS** the Stipulation in its entirety, and **HEREBY INCORPORATES** its terms and conditions as though fully set forth herein.

The Board **HEREBY APPROVES** the interim rates set forth in the Board's March 26, 2018 Order in this docket as final, effective May 15, 2019.

JCP&L is **HEREBY DIRECTED** to file the appropriate tariff sheets conforming to the terms and conditions of this Order prior to May 15, 2019.

The Company's costs remain subject to audit by the Board. This Decision and Order shall not preclude or prohibit the Board from taking any actions determined to be appropriate as a result of any such audit.

This Order shall be effective May 9, 2019.

DATED: 5\8\19

BOARD OF PUBLIC UTILITIES
BY:

JOSEPH L. FIORDALISO
PRESIDENT

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ROBERT M. GORDON
COMMISSIONER

ATTEST: Aida Camacho Welch
AIDA CAMACHO-WELCH
SECRETARY

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

IN THE MATTER OF THE NEW JERSEY BOARD OF PUBLIC UTILILITES' CONSIDERATION OF THE TAX CUTS AND JOBS ACT OF 2017
DOCKET NO. AX18010001

IN THE MATTER OF JERSEY CENTRAL POWER & LIGHT COMPANY FOR APPROVAL OF REVISED RATES (EFFECTIVE ON AN INTERIM BASIS APRIL 1, 2018) TO REFLECT THE REDUCTION UNDER THE TAX CUTS AND JOBS ACT OF 2017
DOCKET NO. ER18030226

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April 24, 2019

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VIA E-MAIL AND FED EX OVERNIGHT

Aida Camacho-Welch, Secretary
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Re: In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017 (Jersey Central Power & Light Company) BPU Docket Nos. AX18010001 and ER18030226

Dear Secretary Camacho-Welch:

Enclosed for filing is a Stipulation of Settlement in the above-referenced matter that has been executed by all parties.

Thank you for your consideration in this regard.

Respectfully submitted,

COZEN O'CONNOR

Gregory Eisenstark

By: Gregory Eisenstark

GE:emmc

cc: Service List (*via email only*)

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In the Matter of the New Jersey Board of Public Utilities'
Consideration of the Tax Cuts and Jobs Act of 2017
BPU Docket No. AX18010001 & ER18030226
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STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017 (Jersey Central Power & Light Company)	:	**STIPULATION OF SETTLEMENT** BPU Docket Nos. AX18010001 and ER18030226

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

APPEARANCES:

Gregory Eisenstark, Esq. (Cozen O'Connor) for the Petitioner, Jersey Central Power & Light Company

Ami Morita, Esq., Deputy Rate Counsel, and **Diane Schulze, Esq.**, Assistant Deputy Rate Counsel, Division of Rate Counsel (**Stefanie A. Brand, Esq.**, Director)

Renee Greenberg, Deputy Attorney General, for the Staff of the New Jersey Board of Public Utilities (**Gurbir S. Grewal,** Attorney General of New Jersey)

Steven S. Goldenberg, Esq. (Giordano, Halleran & Ciesla, P.C.) for the New Jersey Large Energy Users Coalition

This Stipulation of Settlement (the "Stipulation") is hereby made and executed as of the dates indicated below, by and among the Petitioner, Jersey Central Power & Light Company ("JCP&L" or the "Company"), the Staff of the New Jersey Board of Public Utilities ("Staff"), the New Jersey Division of Rate Counsel ("Rate Counsel"), and the New Jersey Large Energy Users Coalition ("NJLEUC"), (collectively, the "Parties").

The Parties do hereby join in recommending that the New Jersey Board of Public Utilities ("Board") issue an Order approving the Stipulation without modification, based upon the following terms:

Background

1. On December 22, 2017, the federal Tax Cuts and Jobs Act ("2017 Act") was signed into law, with an effective date of January 1, 2018. The 2017 Act set forth changes to the Federal Internal Revenue Tax Code ("Tax Code"). One significant change is the reduction in the maximum corporate tax rate from 35% to 21%, which took effect on January 1, 2018. On January 31, 2018, the Board issued an Order ("Generic TCJA Order") commencing this proceeding. Based on the Board's review of the 2017 Act, changes to the Tax Code will provide savings to New Jersey public utilities and result in an over-collection of tax revenue by the public utilities that will not be utilized for federal income taxes. The Board stated: "To ensure that ratepayers receive the appropriate benefit from the reduction in taxes collected in rates that will no longer be paid, it is necessary for rates to be adjusted so that utility rates reflect the effective federal corporate tax rate." The Board went on to state that: "First, the new tax rate will have a direct impact on the grossing up of the revenue requirement established and approved by the Board in setting rates. In addition, the change in the tax rate may have an impact on other rate factors, including the accumulated deferred income tax." According to Generic TCJA Order, the purpose of this proceeding is "to examine the impact resulting from the 2017 Act on the utilities and the current rates under the Board's jurisdiction to determine the appropriate level and mechanism by which rates must be adjusted to reflect the benefits resulting from the 2017 Act as well as the interest rate calculation on the deferred account."

2. The Board directed each utility (with revenues in excess of $4.5 million annually) impacted by the 2017 Act to: (1) defer on its books [with interest at the utility's approved overall weighted average cost of capital ("WACC")] the effects of the 2017 Act on its accumulated deferred incomes taxes ("ADIT"), effective January 1, 2018; and (2) defer on its books the impact of the 2017 Act on the "gross-up" of the utility's revenue requirement

(reflecting the reduction in the federal income tax rate from 35% to 21%), also effective as of January 1, 2018.

3. Similarly, the Board ordered the utilities to file a petition by March 2, 2018 that proposed revised rates (effective on an interim basis April 1, 2018) to reflect the reduction in the "gross-up" under the 2017 Act. The Board also specified that the utility petition should propose a mechanism to return the excess deferred income taxes ("EDIT") to customers, with a target effective date of July 1, 2018. *Generic TCJA Order* at pp. 2 – 5.

4. On March 2, 2018, JCP&L filed a Verified Petition with supporting schedules in compliance with the Board's Generic TCJA Order ("Petition"). In its Petition, JCP&L quantified the impact of the 2017 Act on the Company's base rates. The impact of the reduction in the federal income tax ("FIT") rate results in a revenue requirement reduction of $28.6 million annually for JCP&L. *See* Schedule 1 to the Petition. Accordingly, JCP&L filed proposed tariff sheets to implement an interim base rate reduction of $28.6 million annually, effective April 1, 2018. In an Order dated March 26, 2018, the Board approved the interim rate reduction for service rendered on and after April 1, 2018.

5. In the Petition, JCP&L also quantified the deferrals that resulted from the 2017 Act. First, JCP&L deferred on its books, with interest, the impact of the reduction in the FIT rate on its tax gross-up between January 1, 2018 and March 31, 2018. In the Petition, JCP&L forecast that, as of March 31, 2018, this deferral would be $6.3 million, including interest. JCP&L proposed to accrue interest at the interest rate applicable to the rate actually incurred on the Company's short-term debt (debt maturing in one year or less), or the rate on equivalent temporary cash investments if the Company has no short-term debt outstanding. Similarly, because the reduction associated with the impact on ADIT would not become effective until July 1, 2018, there will be a deferred regulatory liability associated with excess deferred taxes for the period of

January 1, 2018 through June 30, 2018. *See* Schedule 4 to the Petition. The regulatory liability associated with these deferrals amounts to $6.83 million. *See* Petition, ¶ 15. JCP&L proposed to defer this regulatory liability on its books until the Company's next base rate case. *Id.*

6. In the Petition, JCP&L also quantified the amount of EDITs that resulted from the 2017 Act. JCP&L calculated that the change in the ADIT balance respective to distribution rate base was $359,153,314 as of December 31, 2017. *See* Schedule 3 to the Petition. JCP&L proposed that the $359,153,314 of rate base-related EDITs[1] be amortized using the Average Rate Assumption Method ("ARAM"[2]), in accord with the IRS normalization rules for protected EDITs.

7. In the Petition, JCP&L also quantified the amount of unprotected EDITs that result from the 2017 Act. Unprotected EDITs are those EDITs that are not subject to IRS Normalization Rules and are otherwise not included in the balance identified as related to rate base. JCP&L's unprotected EDIT asset totaled $90,891,333 as of December 21, 2017, and are generally related to riders, pension and Other Post-Employment Benefits ("OPEB"), TMI-2 and Net Operating Losses. The Company proposed that non-rate base (unprotected) EDITs be amortized over a ten-year period (levelized).

8. JCP&L also proposed a new rate clause called the Rider Tax Act Adjustment or Rider TAA, which would include the amortizations of the EDITs, both protected and unprotected, including a gross-up to revenue requirement, and will also include any true-up amounts from the base rate adjustment for the change in current taxes. JCP&L proposed that Rider TAA become effective for service rendered on and after July 1, 2018. As a result of the

[1] Excess deferred income taxes associated with depreciation timing differences are commonly referred to as "protected" excess deferred taxes and must be depreciated in accordance with IRS Normalization Rules.

[2] ARAM is the method under which the excess in the reserve for deferred taxes is reduced over the remaining lives of the property as used in the books of account that gave rise to the reserve for deferred taxes.

implementation of Rider TAA, JCP&L's annual revenues would be reduced by an additional $1.3 million annually, effective July 1, 2018. *See* Petition, ¶¶ 13-14.

9. In regard to carrying costs during the amortization of the EDITs, the Company proposed that the unamortized rate base-related EDIT balance remain in rate base. Accordingly, interest on the unamortized rate base-related EDIT balance would accrue at the Company's approved, overall post-tax WACC, which is currently 7.47%. If the Company's WACC is set to a different level in another Board proceeding, the revised WACC would be applied to the unamortized rate base-related EDIT balance as of the effective date of the revised WACC. Interest on the non-property unprotected EDIT portion of the TAA unamortized balance would accrue at an interest rate equal to the rate on ten-year constant maturity Treasuries plus 60 basis points, as shown in the Federal Reserve Statistical Release on or closest to January 1 of each year and will be compounded annually in January. The Company proposed the ten-year Treasury rate (plus 60 basis points) because the unprotected EDITs will be amortized over a ten-year period.

10. In regard to the impact of the 2017 Act in rate clauses, JCP&L explained that, effective January 1, 2018, the Company reduced the federal tax rate for accruals on deferrals for its rate clauses to 21%, so there is no deferred accounting necessary for that aspect of the tax rate change. The Company also explained in the Petition that there is no tax "gross-up" for rate clause recovery, so no deferral of tax expense is required for the period of January 1, 2018 through March 31, 2018 or thereafter, with two exceptions for the components of JCP&L's Non-utility Generation Charge ("NGC") related to Yards Creek and the MTC-Tax. The Company proposed that any additional adjustments related to Yards Creek and the MTC-Tax be handled within an NGC petition.

11. On August 1, 2018, the Company filed an update to its Petition ("Update"). The primary reason for the Update was that JCP&L determined that, in the original Petition, there

were deferred taxes inadvertently attributed to the regulatory asset representing the future tax liability for its second securitization bonds, *i.e.*, those related to the securitization of Basic Generation Service ("BGS") transition costs. The Company recovers the costs associated with the transition bonds and associated taxes through rate clauses in its tariff that are referred to as the DB-TBC and DB-MTC-TAX. Because JCP&L has re-measured the DB-MTC-Tax regulatory asset, reducing the asset by $11,127,729 to reflect the future income tax liability at the new, lower 21% federal income tax rate, customers already realized the benefit of the federal income tax rate reduction through reduced securitization costs. Therefore, it was necessary for JCP&L to remove deferred tax liability totaling $11,127,729 from its EDIT balances that are the subject of this filing, to avoid "double counting" the impact of the 2017 Act on this particular deferred income tax balance. As a result of making this accounting adjustment on its books, JCP&L also had to adjust the amount of non-property (unprotected) EDITs in the tax filing. This adjustment resulted in the Company's non-property (unprotected) EDIT asset to total $102,041,924 rather than the $90,891,333 amount identified in the Petition, which was revised to $90,914,195 in response to Discovery Request RCR-JCP&L-A-1. As a result of the Update, upon the implementation of Rider TAA, JCP&L's revenues would be reduced by $0.7 million annually, in addition to the $28.6 million base rate reduction that took effect on April 1, 2018.

12. Following the filing of the Petition and the Update, the Parties engaged in discovery and exchanged additional information during discussions and settlement meetings. Based thereon, the Parties have determined to resolve this matter in accordance with the terms set forth below.

Stipulation

13. The Parties agree that the reduction in the federal income tax rate, before consideration of the EDITs results in a total annualized revenue requirement reduction of $28,647,891, excluding Sales and Use Tax. Rates reflecting this reduction were made effective April 1, 2018. This Stipulation assumes a May 15, 2019 rate effective date for the subsequent rate changes.

14. The Parties agree that JCP&L's property-related protected EDIT liability was $248,948,036 at December 31, 2017 and that this amount should be amortized over the remaining lives of the related assets using the ARAM. For the period January 1, 2018 through May 14, 2019, the estimated deferral for property-related EDIT ARAM amortization is $10,380,593. The actual amount at May 14, 2019 will be the "ARAM Stub Period Amount", which will be refunded over a five-year period.

15. The Parties agree that the property-related unprotected EDIT liability was $106,874,179 at December 31, 2017, and that this amount should be amortized over a five-year period.

16. The Parties agree that the non-property unprotected EDIT asset was $86,142,241 at December 31, 2017, and that this amount should be amortized over a five-year period.

17. The Parties agree that interest should not accrue on the outstanding net unprotected EDIT liability.

18. The Parties agree that it is appropriate to reduce JCP&L's EDIT net refund obligation through a recognition of the increase in rate base that will occur as a result of amortization of the $106,874,179 of property-related unprotected EDITs in rate base. This recognition will be equal to the return on the cumulative monthly change in rate base at the

Company's post-tax weighted-average cost of capital, which is currently 7.47% and as it may change as a result of a future base rate case. *See* Schedule 1 attached hereto.

19. The Parties agree that base rates will be adjusted to reflect the amortization of the property-related protected EDIT asset using ARAM.

20. The Parties agree that Rider TAA will ensure that all benefits associated with the 2017 Act will be flowed through to customers. Rider TAA will include the amortization of: 1) the property-related unprotected EDIT liability; 2) the non-property unprotected EDIT asset; 3) the ARAM Stub Period Amount; 4) return on the cumulative monthly change in rate base; and 5) Other Amortization (as defined herein below). Rider TAA will expire after five years.

21. The Parties further agree that JCP&L will file a Petition annually for the purpose of reviewing and reconciling its Rider TAA rates and revenues, and that the adjustment to base rates for ARAM amortization will be reconciled in future base rate cases.

22. The Parties agree that the Company's Initial Stub Period (i.e., the period of time between January l, 2018 and March 31, 2018) refund obligation is estimated to be $7,036,097 at May 14, 2019, including interest that will have accumulated. The Parties further agree that the actual amount at May 14, 2019, including interest, will be the actual Initial Stub Period refund obligation. The amount of the actual Initial Stub Period refund obligation will be refunded to customers through a one-time bill credit in the next billing cycle after the Board approves this Stipulation.

23. In the course of the review of this filing, it was determined that JCP&L should have protected a portion of the excess deferred tax asset related to Net Operating Losses ("NOLs"). Accordingly, JCP&L reclassified a portion of both the excess deferred tax asset of $15,217,625 and the accumulated deferred taxes ("ADITs") asset of $22,826,437 related to the NOLs. The

Parties agree that, as a result of this Stipulation, the ADITs related to the NOLs are deemed to be included in rate base.

24. The Parties agree that, to resolve all other outstanding matters related to this filing, JCP&L shall debit the total annual excess deferred tax-related amortization liability by $1,650,000 in each of the five (5) years of the amortization of the unprotected EDITs, which amount shall be referred to as Other Amortization.

25. The rate impact of the Stipulation will be as follows:

TCJA Rate Adjustments - Overall Class Average Per Customer

		ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019	ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019	ARAM+TAA +One Time Credit Eff. May 15, 2019	ARAM+TAA Eff. June 15, 2019
	Current Monthly Bill (1)	Proposed Monthly Bill (2)	Proposed Monthly Bill (2)	Proposed Monthly Bill Reduction ($)	Proposed Monthly Bill Reduction ($)	Proposed Monthly Bill Reduction (%)	Proposed Monthly Bill Reduction (%)
Rate Class							
Residential (RS)	$110.36	$105.60	$109.73	-$4.76	-$0.63	-4.3%	-0.6%
Residential Time of Day (RT/RGT)	$158.93	$151.61	$158.06	-$7.32	-$0.87	-4.6%	-0.6%
General Service – Secondary (GS)	$596.36	$572.66	$593.18	-$23.70	-$3.18	-4.0%	-0.6%
General Service - Secondary Time of Day (GST)	$31,508.71	$30,491.58	$31,377.66	-$1,017.13	-$131.05	-3.2%	-0.4%
General Service – Primary (GP)	$39,416.59	$38,364.16	$39,275.71	-$1,052.43	-$140.88	-2.7%	-0.4%
General Service – Transmission (GT)	$103,033.06	$101,179.28	$102,783.38	-$1,853.78	-$249.68	-1.8%	-0.2%
Lighting (Average Per Fixture)	$10.67	$10.46	$10.49	-$0.21	-$0.18	-2.0%	-1.7%

Current: Rates Effective April 1, 2019
Includes 6.625% Sales and Use Tax
JCP&L will refund the one-time amount through the TAA from May 15 through June 14 based on a kWh credit for each customer class
RS Based on average monthly usage of 945 kWh during summer and 679 kWh during winter months

26. The Parties agree that the terms of this Stipulation shall be deemed to resolve all factual and legal issues relating to the instant matter in BPU Docket Nos. AX18010001 and ER18030226. However, the Parties also acknowledge that other regulatory agencies and governmental taxing authorities recognize that the excess deferred tax balances on the Company's books are subject to further adjustment and which associated amortizations and refunds are also subject to reconciliation to recognize further adjustments, including but not limited to adjustments

to EDIT balances and actual ARAM amortization. Accordingly, the Parties recognize that JCP&L may have to address additional issues that arise as a result of the 2017 Act in future filings with the Board.

27. The Parties agree that this Stipulation contains mutual balancing and interdependent clauses and is intended to be accepted and approved in its entirety. In the event any particular provision of this Stipulation is not accepted and approved in its entirety by the Board, or is modified by a court of competent jurisdiction, then any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right, upon written notice to be provided to all other Parties within ten (10) days after receipt of any such adverse decision, to litigate all issues addressed herein to a conclusion. More particularly, in the event this Stipulation is not adopted in its entirety by the Board in an appropriate Order, or is modified by a court of competent jurisdiction, then any Party hereto is free, upon the timely provision of such written notice, to pursue its then available legal remedies with respect to all issues addressed in this Stipulation, as though this Stipulation had not been signed.

28. The Parties agree that this Stipulation shall be binding on them for all purposes herein.

29. It is specifically understood and agreed that this Stipulation represents a negotiated agreement and, except as otherwise expressly provided for herein:

a. By executing this Stipulation, no Party waives any rights it possesses under any prior Stipulation, except where the terms of this Stipulation supersede such prior Stipulation.

b. The contents of this Stipulation shall not in any way be considered, cited or used by any of the undersigned Parties as an indication of any Party's position on any related or other issue litigated in any other proceeding or forum, except to enforce the terms of this Stipulation.

30. This Stipulation may be executed in any number of counterparts, each of which shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each of the Parties.

WHEREFORE, the Parties hereto have duly executed and do respectfully submit this Stipulation to the Board, and recommend that the Board issue a Final Decision and Order adopting and approving this Stipulation in its entirety and without modification in accordance with the terms hereof. The Parties further acknowledge that a Board Order approving this Stipulation will become effective upon the service of said Board Order, or upon such date after the service thereof as the Board may specify, in accordance with N.J.S.A. 48:2-40.

Jersey Central Power & Light Company By: Greg Eisenstark Gregory Eisenstark, Esq. Cozen O'Connor Dated: 4-24-2019	Gurbir S. Grewal Attorney General of New Jersey Attorney for **Staff of the Board of Public Utilities** By: Renee Greenberg Renee Greenberg Deputy Attorney General Dated: 4/24/19
Stefanie A. Brand, Esq. Director, **Division of Rate Counsel** By: Brian O. Lipman Brian O. Lipman, Esq. Litigation Manager Dated: 4/24/2019	**New Jersey Large Energy Users Coalition** By: Steven S. Goldenberg Giordano, Halleran & Ciesla, P.C. Dated: 4/24/19

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Estimated Rate Base Recognition of Amortization of Property-Related Unprotected EDITS

$106,874,179	2019	F	M	A	M	J	J	A	S	O	N	D
Amortization					$890,618	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236
Cumul Change in RB					$890,618	$2,671,854	$4,453,091	$6,234,327	$8,015,563	$9,796,800	$11,578,036	$13,359,272
Revenue Requirement					$3,399	$20,395	$33,992	$47,589	$61,185	$74,782	$88,379	$101,976
Income Tax					($627)	($3,761)	($6,268)	($8,776)	($11,283)	($13,790)	($16,298)	($18,805)
Post-Tax Return					$2,772	$16,634	$27,724	$38,813	$49,902	$60,992	$72,081	$83,171
Return on Change in Rate Base					7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%

	2020	F	M	A	M	J	J	A	S	O	N	D
Amortization	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236
Cumul Change in RB	$15,140,509	$16,921,745	$18,702,981	$20,484,218	$22,265,454	$24,046,690	$25,827,927	$27,609,163	$29,390,399	$31,171,636	$32,952,872	$34,734,108
Revenue Requirement	$115,573	$129,169	$142,766	$156,363	$169,960	$183,556	$197,153	$210,750	$224,347	$237,943	$251,540	$265,137
Income Tax	($21,313)	($23,820)	($26,327)	($28,835)	($31,342)	($33,849)	($36,357)	($38,864)	($41,371)	($43,879)	($46,386)	($48,893)
Post-Tax Return	$94,260	$105,349	$116,439	$127,528	$138,618	$149,707	$160,796	$171,886	$182,975	$194,065	$205,154	$216,244
Return on Change in Rate Base	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%

	2021	F	M	A	M	J	J	A	S	O	N	D
Amortization	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236
Cumul Change in RB	$36,515,344	$38,296,581	$40,077,817	$41,859,053	$43,640,290	$45,421,526	$47,202,762	$48,983,999	$50,765,235	$52,546,471	$54,327,708	$56,108,944
Revenue Requirement	$278,734	$292,331	$305,927	$319,524	$333,121	$346,718	$360,314	$373,911	$387,508	$401,105	$414,702	$428,298
Income Tax	($51,401)	($53,908)	($56,416)	($58,923)	($61,430)	($63,938)	($66,445)	($68,952)	($71,460)	($73,967)	($76,474)	($78,982)
Post-Tax Return	$227,333	$238,422	$249,512	$260,601	$271,691	$282,780	$293,869	$304,959	$316,048	$327,138	$338,227	$349,316
Return on Change in Rate Base	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%

	2022	F	M	A	M	J	J	A	S	O	N	D
Amortization	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236
Cumul Change in RB	$57,890,180	$59,671,417	$61,452,653	$63,233,889	$65,015,126	$66,796,362	$68,577,598	$70,358,835	$72,140,071	$73,921,307	$75,702,543	$77,483,780
Revenue Requirement	$441,895	$455,492	$469,089	$482,685	$496,282	$509,879	$523,476	$537,072	$550,669	$564,266	$577,863	$591,460
Income Tax	($81,489)	($83,997)	($86,504)	($89,011)	($91,519)	($94,026)	($96,533)	($99,041)	($101,548)	($104,055)	($106,563)	($109,070)
Post-Tax Return	$360,406	$371,495	$382,585	$393,674	$404,764	$415,853	$426,942	$438,032	$449,121	$460,211	$471,300	$482,389
Return on Change in Rate Base	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%

	2023	F	M	A	M	J	J	A	S	O	N	D
Amortization	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$1,781,236
Cumul Change in RB	$79,265,016	$81,046,252	$82,827,489	$84,608,725	$86,389,961	$88,171,198	$89,952,434	$91,733,670	$93,514,907	$95,296,143	$97,077,379	$98,858,616
Revenue Requirement	$605,056	$618,653	$632,250	$645,847	$659,443	$673,040	$686,637	$700,234	$713,830	$727,427	$741,024	$754,621
Income Tax	($111,577)	($114,085)	($116,592)	($119,100)	($121,607)	($124,114)	($126,622)	($129,129)	($131,636)	($134,144)	($136,651)	($139,158)
Post-Tax Return	$493,479	$504,568	$515,658	$526,747	$537,836	$548,926	$560,015	$571,105	$582,194	$593,284	$604,373	$615,462
Return on Change in Rate Base	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%	7.47%

	2024	F	M	A	M
Amortization	$1,781,236	$1,781,236	$1,781,236	$1,781,236	$890,618
Cumul Change in RB	$100,639,852	$102,421,088	$104,202,325	$105,983,561	$106,874,179
Revenue Requirement	$768,218	$781,814	$795,411	$809,008	$407,903
Income Tax	($141,666)	($144,173)	($146,680)	($149,188)	($75,221)
Post-Tax Return	$626,552	$637,641	$648,731	$659,820	$332,682
Return on Change in Rate Base	7.47%	7.47%	7.47%	7.47%	7.47%

Equity Return	9.60%
Pre-Tax ROR	9.16%
Equity Ratio	45%
Comp IT Rate	28.11%
Tax Factor	1.39

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

In the Matter of the New Jersey Board of Public Utilities' Consideration of the Tax Cuts and Jobs Act of 2017	**VERIFIED PETITION** DOCKET NOS. AX18010001/ ER18030226

TO THE HONORABLE BOARD OF PUBLIC UTILITIES:

Jersey Central Power & Light Company (the "Petitioner," the "Company" or "JCP&L"), an electric public utility company of the State of New Jersey subject to the regulatory jurisdiction of the Board of Public Utilities (the "Board"), and maintaining offices at 300 Madison Avenue, Morristown, New Jersey 07962-1911, in support of its above-captioned Verified Petition, respectfully shows:

1. JCP&L is a New Jersey electric public utility primarily engaged in the purchase, transmission, distribution and sale of electric energy and related utility services to more than 1,000,000 residential, commercial and industrial customers located within 13 counties and 236 municipalities of the State of New Jersey.

2. Copies of all correspondence and other communications relating to this proceeding should be addressed to:

Gregory Eisenstark, Esq.
Windels, Marx, Lane & Mittendorf, LLP
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New Brunswick, New Jersey 08901

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