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November 13, 2024

Via electronic mail

Sherri L. Golden, Secretary
New Jersey Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
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Board.secretary@bpu.nj.gov

**Re : In the Matter of the Verified Petition of Jersey Central Power & Light Company for Approval to Extend Participation in a Subscription Agreement and Multi-Subscriber Addendum for Spare Transmission Equipment Services As Provided by an Affiliated Entity, Grid Assurance, LLC Pursuant to N.J.S.A. 48:3-71 and N.J.A.C. 14:4-3.1 *et seq.*,
Docket No. EM24010018**

Dear Secretary Golden:

Please accept this letter as the public comment of the New Jersey Division of Rate Counsel (“Rate Counsel”) with confidential material redacted regarding the Jersey Central Power & Light Company’s (the “Company” or “JCP&L”) petition requesting the New Jersey Board of Public Utilities (the “Board” or “BPU”) to extend its current subscription for its spare transmission equipment services program (“Grid Assurance”) for five years (2024-2029) and to allow the Company to automatically renew its subscription for an additional five years (2029-2034). Consistent with the Order issued by the Board in connection with ~~In~~ the Matter of the New Jersey Board of Public Utilities’ Response to the COVID-19 Pandemic for a Temporary

Waiver of Requirements for Certain Non-Essential Obligations, BPU Docket No. EO20030254.

These comments are being electronically filed with the Secretary of the Board, the Division of Law, and JCP&L. No paper copies will follow.

Please acknowledge receipt of these comments. Thank you for your consideration and attention to this matter.

Background

On February 27, 2019 the Board granted JCP&L's September 11, 2018 verified petition seeking approval of its participation in the Subscription Agreement ("Subscription Agreement" or "Subscription Service") for a spare transmission equipment services program with Grid Assurance LLC ("Grid Assurance"), for five years from March 1, 2019 to February 29, 2024.¹

On January 9, 2024, JCP&L filed this pending verified petition seeking extension of its participation in the Subscription Agreement for an additional five years to 2029, and an automatic renewal of the Subscription Agreement till 2034.

On March 20, 2024 the Board issued an order finding it "appropriate for the Company to maintain the Subscription Agreement approved in the February 2019 Order, ... including the modifications present in the May 2019 Notice, until the Board renders a final decision and Order disposing of the Petition granting JCP&L's request to continue to operate under the terms of the

¹ In the Matter of the Verified Petition of Jersey Central Power & Light Company for Approval to Enter Into a Subscription Agreement and Multi-Subscriber Addendum for Spare Transmission Equipment Services to be Provided by an Affiliated Entity, Grid Assurance LLC, BPU Docket No. EM18090985, Verified Petition Sept. 11, 2018. ("2018 Petition")

Subscription Agreement, temporarily, until the Board issues a final decision and Order disposing of the Petition.”²

Introduction

Rate Counsel understands that this petition updates the Company’s 2018 Petition that allowed the Company to enter into its current subscription service that allowed the Company to access spare transmission equipment inventory maintained by Grid Assurance upon the occurrence of specific events.³ Under such events, the subscription service enables JCP&L to acquire spare transmission equipment at Grid Assurance’s original cost. JC&L asserted that acquiring some of the spare equipment has long lead times, and the subscription service would help facilitate more cost effective and more rapid recovery of the Company’s system under specific events. The subscription service would also obviate the need for the Company to maintain inventory for transformer equipment required in low-likelihood and high-impact scenarios.

Discussion

JCP&L reports that the annual fees for the current subscription service from 2021 through 2023 have been [**Begin Confidential**] [REDACTED] [**End Confidential**].⁴

The Company reports that its average monthly subscription service fee for the last three years

² In The Matter of The Petition Of Jersey Central Power & Light Company for Approval to Extend Participation in a Subscription Agreement And Multi-subscriber Addendum for Spare Transmission Equipment Services as Provided by an Affiliated Entity, Grid Assurance, LLC Pursuant To N.J.S.A. 48:3-7.1 And N.J.A.C. 14:4-3.1 Et Seq., Docket No. EM24010018, Order Extending Subscription Agreement on an Interim Basis.

³ 2018 Petition.

⁴ S-JCPL-ENG-3 Confidential

has been [Begin Confidential] [REDACTED] [End Confidential].⁵ For the next five years, the Company indicated that the monthly subscription service fee would average [Begin Confidential] [REDACTED] [End Confidential].⁶ The Company anticipates that in 2024, the monthly subscription service fee would start at [Begin Confidential] [REDACTED] [End Confidential] and end in 2029 at a monthly average of [Begin Confidential] [REDACTED] [End Confidential].⁷ The increase in the monthly subscription service fee from 2024 through 2029 results in a compound annual growth rate of [Begin Confidential] [REDACTED] [End Confidential].⁸ For comparison, the Federal Reserve Bank of New York projects the current 5-year inflation rate to be 2.8% and the Federal Reserve Bank of Philadelphia to be 2.27%, which are both higher than the Company's subscription service escalation rate.⁹ The Company did not provide information on the escalation fees for the five years following 2029.

The Company asserts that it has access to \$17 million worth of transformer equipment.¹⁰ The breakdown of the equipment is a total of six transformers.¹¹ To date, JCPL has not needed to access any of the Grid Assurance equipment.¹²

The Company provided an analysis comparing the annual carrying cost of a self-supply option of three spare transformers (\$14 million) versus the current Grid Assurance program.¹³

⁵ Ibid.

⁶ S-JCPL-ENG-2 Confidential

⁷ Ibid.

⁸ Ibid.

⁹ Federal Reserve Bank of New York Inflation Expectations, Accessed September 2024. Available at: <https://www.newyorkfed.org/microeconomics/sce#/inflexp-4>; and Federal Reserve Bank of Philadelphia Inflation Expectations, p. 17, Accessed September 2024. Available at <https://www.philadelphiafed.org/-/media/frbp/assets/surveys-and-data/survey-of-professional-forecasters/2024/spfq224.pdf>

¹⁰ S-JCPL-ENG-4

¹¹ S-JCPL-ENG-8

¹² S-JCPL-ENG-9

¹³ RCR-ENG-2

The Company's analysis indicates that the annual carrying cost to customers of a self-supply option for three transformers is \$1.6 million versus the current Grid Assurance subscription service cost \$0.864 million for access to at least six transformers.¹⁴

The Company represents that the Grid Assurance subscription service is for high impact, low frequency events that benefits from an automatic renewal process without the need for renegotiation every five years.¹⁵ The Company also asserts that Grid Assurance program provides resource efficiencies since multiple utilities are pooled together.¹⁶ The program also provides the Company with the ability to purchase equipment through Qualifying and Discretionary sales.¹⁷ The Company's Grid Assurance agreement defines qualifying sales under specific events (war, terrorism, cyber-attack, Electromagnetic pulse, natural disasters). Under a Qualifying sale, the price of the equipment would be the original cost for Grid Assurance. Discretionary sales would be the replacement cost for Grid Assurance. The Company asserts that these cost certainties are the benefits of the program.¹⁸ The Company also asserts that outside the Grid Assurance program, it will continue to use competitive bids for purchasing transformers.¹⁹

The Company notes that Grid Assurance provides its members with updates on inventory²⁰ and that to date Grid Assurance has not had any instances of zero availability of equipment.²¹

¹⁴ Ibid.

¹⁵ S-JCPL-ENG-1

¹⁶ S-JCPL-ENG-7

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ S-JCPL-ENG-10

²⁰ RCR-ENG-6

The Company also requests that it be allowed to automatically renew its five-year subscription in 2029 without filing a petition with at the Board. Rate Counsel is concerned that if this request is granted no review will be conducted after five years to determine if the subscription service with Grid Assurance will remain cost effective for JCP&L ratepayers, and no review will be conducted to determine whether Grid Assurance will continue to provide the transformer equipment when required. Rate Counsel recommends that the Board undertake a review process prior to the expiration of the five-year contract to ensure that the subscription service would continue to be the most cost-effective solution for the Company and deny the Company's request for an automatic renewal.

Conclusion

Based on the provided information, Rate Counsel concludes that the Company's Grid Assurance program provides the Company access to transformer equipment needed under a low-likelihood and high impact scenario. Rate Counsel agrees that the proposed program removes the need for the Company to purchase and maintain inventory of transformer equipment. Rate Counsel concludes that so long as the carrying cost of the subscription service continues to be less than the self-supply option, and Grid Assurance maintains an adequate inventory, then the subscription service is reasonable and prudent to extend for the next five years. Rate Counsel recommends that the Company provide the Board and Rate Counsel with updated terms and costs for the five-year period starting in 2029 well in advance of the end of the contract period.

At this time, Rate Counsel does not agree it is in the best interest of JCP&L's ratepayers for the subscription service with Grid Assurance to be automatically renewed in 2029 without the

²¹ RCR-ENG-7

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opportunity to review the program and its costs. Rate Counsel recommends that the Board undertake a review process prior to 2029 to ensure that the Grid Assurance subscription program remains the most cost-effective solution for the Company and ratepayers to access spare transmission equipment when required.

Rate Counsel Rate Counsel thanks the Board for this opportunity to provide comments and looks forward to working with all parties throughout this proceeding.

Respectfully Submitted,

BRIAN O. LIPMAN, DIRECTOR
DIVISION OF RATE COUNSEL

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BRR/ac

c: Service List (attached)

**I/M/O JCP&L CO. FOR APPROVAL
TO EXTEND GRID ASSURANCE
AGREEMENT**

BPU DOCKET NO. EM24010018

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