

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2/29/16
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JOINT APPLICATION OF MID-ATLANTIC INTERSTATE TRANSMISSION, LLC
("MAIT"); METROPOLITAN EDISON COMPANY ("MET-ED") AND
PENNSYLVANIA ELECTRIC COMPANY ("PENELEC") FOR: (1) A CERTIFICATE
OF PUBLIC CONVENIENCE UNDER 66 PA.C.S. § 1102(A)(3) AUTHORIZING THE
TRANSFER OF CERTAIN TRANSMISSION ASSETS FROM MET-ED AND PENELEC
TO MAIT; (2) A CERTIFICATE OF PUBLIC CONVENIENCE CONFERRING UPON
MAIT THE STATUS OF A PENNSYLVANIA PUBLIC UTILITY UNDER 66 PA.C.S.
§ 102; AND (3) APPROVAL OF CERTAIN AFFILIATE INTEREST AGREEMENTS
UNDER 66 PA.C.S. § 2102

DOCKET NOS:

- ~~A-2015-2488903~~
- A-2015-2488904
- A-2015-2488905
- G-2015-2488906
- G-2015-2488907
- G-2015-2489542
- G-2015-2489543
- G-2015-2489544
- G-2015-2489545
- G-2015-2489547
- G-2015-2490801
- G-2015-2490802

Supplemental Direct Testimony
of
Steven R. Staub

List of Topics Addressed

Responding to Questions Set Forth in the Secretarial Letter Issued on August 10, 2015

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**SUPPLEMENTAL DIRECT TESTIMONY
OF
STEVEN R. STAUB**

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Please state your name and business address.**

3 A. My name is Steven R. Staub. My business address is 76 South Main Street, Akron, OH
4 44308.

5 **Q. Have you previously presented testimony in this proceeding?**

6 A. Yes, on June 19, 2015, my direct testimony, Joint Applicants' Statement No. 3 and the
7 accompanying Exhibits SRS-1 through SRS-3, were filed in this matter. My background
8 and qualifications are fully set forth in that statement.

9 **Q. What is the purpose of your supplemental direct testimony?**

10 A. On June 19, 2015, Mid-Atlantic Interstate Transmission, LLC ("MAIT"), Metropolitan
11 Edison Company ("Met-Ed") and Pennsylvania Electric Company ("Penelec")
12 (collectively, the "Joint Applicants") filed a Joint Application requesting that the
13 Pennsylvania Public Utility Commission ("PUC" or the "Commission") authorize the
14 transfer of certain transmission assets from Met-Ed and Penelec (each a "Company" and
15 collectively the "Companies") to MAIT, grant MAIT a certificate of public convenience
16 conferring upon it the status of a Pennsylvania public utility and approve certain affiliated
17 interest agreements. In support of their Joint Application, the Joint Applicants submitted
18 my direct testimony as well as the direct testimony of Charles V. Fullem (Joint
19 Applicants' Statement No. 1), Jeffrey J. Mackauer (Joint Applicants' Statement No. 2)

and K. Jon Taylor (Joint Applicants' Statement No. 4).

On August 10, 2015, the Commission issued a Secretarial Letter in which it set forth thirty-eight questions, divided into eight subject areas (Parts A-H), that it requested the parties to this proceeding to address on the record "in testimonial form (direct, supplemental direct, rebuttal) or as exhibits" (Secretarial Letter, p. 2). My supplemental direct testimony responds to the following questions in the Commission's Secretarial Letter:¹

Part E	Question	Nos.	1-8 and 14-17
Part G	Question	No.	3
Part H	Question	No.	1

II. RESPONSES TO THE COMMISSION'S DIRECTED QUESTIONS

Q. What subject is addressed by the questions in Part E of the Secretarial Letter?

A. Part E is titled "Financing Arrangements," and the Commission provided the following introduction to the questions it posed in that part:

The operating companies will make a one-time contribution of their existing transmission assets to MAIT through a tax-free transfer in exchange for Class B membership interest. The operating companies will have a 95% class B ownership interest in MAIT with no operational or managerial control authority except for limited "special rights." FE Transmission LLC (FET) will make a cash contribution to MAIT in return for a 5% Class A membership interest conferring ownership and control of MAIT. The FE operating companies will participate in the investment in MAIT in the following percentages: JCP&L (54.8%); Met-Ed (17%); Penelec (23%). The parties should address the following issues to the extent relevant to their respective positions: . .

¹ Mr. Fullem (Joint Applicants' Statement No. 1S), Mr. Mackauer (Joint Applicants' Statement No. 2S), and Mr. Taylor (Joint Applicants' Statement No. 4S) respond to the balance of the questions in the Secretarial Letter in their respective statements of supplemental direct testimony.

Q. Please respond to Part E, Question No. 1, which provides:

2 **During the transition period of two years, MAIT will have a**
3 **100% equity capital structure for accounting purposes but a**
4 **50/50 capital structure for ratemaking purposes. What**
5 **supports the value of the equity? Is it the combined value of**
6 **all contributed assets from the operating companies plus the**
7 **FET contribution? What will be the value of the equity**
8 **contribution? What will be the value of the debt issuance**
9 **following the creation of MAIT relative to the equity value**
10 **that results in the 50/50 capital structure?**

11 A. The equity value of MAIT will be the combined value of all contributed assets less
12 Accumulated Deferred Income Taxes (“ADIT”) plus the contribution from FirstEnergy
13 Transmission, LLC (“FET”). The value of the equity contribution has not yet been
14 determined because it will have to be determined as of the date of the asset transfer.
15 MAIT will issue debt that aligns to its capital spending and will continue to issue debt
16 until its capital structure is within the range of FERC-approved capital structures. Once
17 its capital structure is within such a range, MAIT will issue debt and FET will contribute
18 equity as necessary to maintain MAIT’s capital structure with that range.

19 Q. Please respond to Part E, Question No. 2, which provides:

20 **Operating companies are contributing equity but not debt.**
21 **What are the implications on operating company capital**
22 **structure to a transfer of equity associated with transmission**
23 **assets while transmission-related debt remains on the books of**
24 **the operating companies? How will this impact the capital**
25 **structure of the operating companies and the ability of the**
26 **operating companies to raise capital for future reliability**
27 **improvements?**

28 A. As I explained in my direct testimony (Joint Applicants’ Statement No. 3), beginning on page
29 8, line 18, the capital structure of each Company will remain unchanged as a result of the
30 consummation of the proposed transaction. Each Company will record an investment
31 equivalent to the value of transmission assets contributed to MAIT (including goodwill and

transmission-related regulatory assets and net of ADIT). As a result, the Companies do not anticipate any adverse impact on their ability to raise capital for future reliability improvements.

Q. Please respond to Part E, Question No. 3, which provides:

How will the concentration of equity, and not debt, impact the MAIT transmission rates after the expiration of the 2-year 50/50 capital structure commitment? What will be the costs and benefits of potentially lower debt costs, but a higher weighting of higher equity cost of capital?

A. The Companies have not determined the potential impact on MAIT's transmission rates of possible changes in the equity component after the expiration of the two-year commitment period nor has FERC authorized a future formula that would be used to establish MAIT's transmission rates.

Q. Please respond to Part E, Question No. 4, which provides:

How frequently will dividends be distributed to the operating companies and how will the dividends be accounted for on the books of the operating companies?

A. An anticipated dividend period has not been established at this time. As MAIT earns a return on its investment, the Companies' investment account will increase. When dividends are paid by MAIT, the account will be reduced by the amount of such dividends.

Q. Please respond to Part E, Question No. 5, which provides:

Will the 5/95 dividend distribution ratio change over time and under what circumstances?

A. The ratio of 5/95 referenced in the Commission's question reflects the relative percentages of the initial equity investment in MAIT by FET (5%) and by the companies contribution of their transmission assets to MAIT, which consist of Met-Ed, Penelec and

1 their affiliate, Jersey Central Power & Light Company (“JCP&L”), which provides
2 electric transmission and distribution service in New Jersey. The 5/95 ratio will not
3 change until FET contributes equity into MAIT.

4 **Q. Please respond to Part E, Question No. 6, which provides:**

5 **Members can make additional capital contributions to MAIT**
6 **under Section 3.3 of the Operating Agreement. What**
7 **circumstances are contemplated under this provision?**

8 A. Section 3.3 contemplates cash infusions from MAIT’s parent, FET, in the event such
9 infusions are required to maintain an acceptable capital structure. No additional equity
10 infusions from the Companies or JCP&L are contemplated at this time.

11 **Q. Please respond to Part E, Question Nos. 7 and 8, which provide:**

12 **Section 5.4 of the Operating Agreement provides for**
13 **assignment and transfer of ownership interest by Members.**
14 **What circumstances are contemplated under this provision?**

15 * * *

16 **Sections 5.5 and 5.6 of the Operating Agreement provide for**
17 **the addition and withdrawal of Members. What circumstances**
18 **are contemplated under this provision?**

19 A. Sections 5.4, 5.5 and 5.6 of the Operating Agreement are standard provisions found in
20 such agreements. There are no transactions involving the assignment or transfer of
21 ownership interests by the Members or the addition or withdrawal of Members
22 contemplated at this time.

1 Q. Please respond to Part E, Question Nos. 14, 15 and 16, which provide, respectively,
2 as follows:

3 Provide evidence of cost benefits to PA customers from the
4 transaction and whether these cost benefits are sufficient to
5 meet the standard contained in the *City of York* case that the
6 proposed transaction “will affirmatively promote the service,
7 accommodation, convenience and safety of the public.”

8 * * *

9 Provide evidence that the transfer of all existing transmission
10 assets of Penelec and Met-Ed to MAIT versus continued
11 retention as assets of the PA operating companies will be
12 sufficient to meet the *City of York* standard that such transfers
13 will produce affirmative benefits to the public with reference to
14 service, accommodation, convenience and safety? This issue
15 should be addressed by the parties with reference to whether
16 the PAPUC should or should not maintain jurisdiction over
17 MAIT under Section 1501 of the Public Utility Code and
18 Chapter 57 of its regulations regarding safety and reliability.

* * *

20 How will the investment in MAIT provide cost savings over the
21 same investment in the PA operating companies? The parties
22 should address their respective positions as to whether these
23 cost savings are justified to meet the *City of York* standard.

24 A. The benefits that will be created by the creation of MAIT and the Companies’
25 contribution of their transmission assets to MAIT are addressed at length in the Joint
26 Application and in the direct testimony that accompanied the filing of the Joint
27 Application, including a discussion of potential cost savings that are expected to be
28 achieved by future investments in transmission assets being made by MAIT. The Joint
29 Applicants explained in both their witnesses’ direct testimony and in the Joint
30 Application itself that the benefits that would accrue from the proposed transaction fully
31 satisfy the applicable legal standard for the Commission to grant its approval.

1 With specific reference to the portion of Question No. 15 asking whether the Commission
2 should “maintain jurisdiction over MAIT under Section 1501 of the Public Utility Code
3 and Chapter 57 of its regulations regarding safety and reliability,” I would note that
4 MAIT has requested that the Commission issue it a certificate of public convenience as a
5 Pennsylvania public utility. The Joint Applicants have acknowledged that, if the
6 Commission issues the requested certificate of public convenience to MAIT, the
7 Commission will continue to have the same jurisdiction over the transferred transmission
8 facilities that it currently has under Met-Ed and Penelec ownership.

9 **Q. Please respond to Part E, Question No. 17, which provides:**

10 **With reference to the testimony of Witness Staub at p. 8, line**
11 **13, MAIT indicates it will file an abbreviated securities**
12 **certificate with the PAPUC for authority to issue long-term**
13 **debt. What conditions does or should MAIT satisfy for this to**
14 **be an abbreviated securities certificate and not a regular**
15 **securities certificate?**

16 A. Counsel advises that the authority for MAIT to file abbreviated securities certificates is
17 52 Pa. Code § 3.602(a)(3)(ii) because MAIT will not have any gross operating revenues
18 from service rendered under tariffs filed with the Commission for intra-state service.

19 **Q. Please respond to Part G, Question No. 3, which provides:**

20 **The Petition alleges debt savings associated with the asset**
21 **transfer. What could be the impact on NITS costs as a result**
22 **of lifting of the 2-year transition period cap on the equity ratio**
23 **of MAIT?**

24 A. The Companies have not determined the impact on NITS costs after the two-year
25 transition period cap of the equity ratio (nor has FERC authorized a future formula that
26 would be used).

1
2 **Q. Please respond to Part H, Question No. 1, which asks: “What conditions, if any, should be imposed upon MAIT?”**

3 A. The Joint Applicants have set forth in detail in the Joint Application and their direct
4 testimony all of the reasons why the formation of MAIT and the consummation of the
5 proposed transaction will generate affirmative benefits to customers and is in the public
6 interest. No conditions, apart from those commitments that the Joint Applicants have
7 already made in their Joint Application and accompanying direct testimony, are necessary
8 to find that the proposed transaction is in the public interest and should be approved.

9 **III. CONCLUSION**

10 **Q. Does this conclude your supplemental direct testimony?**

11 A. Yes, it does.

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT APPLICATION OF MID-ATLANTIC INTERSTATE TRANSMISSION, LLC (“MAIT”); METROPOLITAN EDISON COMPANY (“MET-ED”) AND PENNSYLVANIA ELECTRIC COMPANY (“PENELEC”) FOR: (1) A CERTIFICATE OF PUBLIC CONVENIENCE UNDER 66 PA.C.S. § 1102(A)(3) AUTHORIZING THE TRANSFER OF CERTAIN TRANSMISSION ASSETS FROM MET-ED AND PENELEC TO MAIT; (2) A CERTIFICATE OF PUBLIC CONVENIENCE CONFERRING UPON MAIT THE STATUS OF A PENNSYLVANIA PUBLIC UTILITY UNDER 66 PA.C.S. § 102; AND (3) APPROVAL OF CERTAIN AFFILIATE INTEREST AGREEMENTS UNDER 66 PA.C.S. § 2102 :

Docket Nos.: A-2015-2488903, *et al.*

VERIFICATION

I, Steven R. Staub, hereby state that the facts set forth in the pre-marked statements and exhibits listed below are true and correct to the best of my knowledge, information and belief. I understand that this verification is made subject to the provisions and penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Joint Applicants’ Statement Nos. 3, 3S and 3-R.

Exhibit SRS-1	Amended and Restated Limited Liability Company Operating Agreement of Mid-Atlantic Interstate Transmission, LLC
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Exhibit SRS- 2	Chart (Bond Spreads Over U.S. Treasury Yields)
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Exhibit SRS- 3

Second Revised and Restated Utility Money Pool Agreement

Exhibit 1-Settlement

Responses to TUS Interrogatories (cosponsored)

Date: 2/25/2016

Steven R. Staub
Steven R. Staub